

**Consumer Education Media Release
Association for Savings and Investment South Africa (ASISA)
20 July 2011**

Start saving today if you want to own your tomorrow

Books, examinations and your parents' rules are finally a thing of the past. You have proven yourself by completing your education and landing that job, and you are finally earning money. Saving some of it is probably the last thing on your mind, unless you were taught the importance of budgeting and saving at an early age.

Peter Dempsey, deputy CEO of the Association for Savings and Investment South Africa (ASISA), says there is nothing wrong with recklessly spending your first salary just because you can. However, unless you change your attitude from the second salary onwards, you will almost certainly start falling into the debt trap at some stage of your life.

Dempsey explains that it will not take long before your financial needs start exceeding your earnings. "You have just started working and if you are lucky your parents set you up with a flat, some furniture and a car. But there will soon come a time when you would like to buy a house and start a family, go on an overseas holiday and maybe swop the student car for something better suited to your new status as a salary earner."

Typically, at this point, you start taking on debt and suddenly your expenses start exceeding your income. If you have not learnt to save at this stage, you are likely to spend your life earning to repay debt with little or no chance of building up cash reserves for big ticket items like your children's education or your retirement.

Dempsey says the immediate, visible benefit of saving money is your own financial security. However, a strong savings culture is also crucial to a strong economy, job creation, and ultimately lower interest rates and inflation.

"South Africa's savings rate is one of the worst in the world. This is partly to blame on unemployment, but a poor savings culture also plays a very big role."

Dempsey says since it is unlikely that older generations will suddenly change their spending habits, it is up to the new earners of today to understand the power of saving more and spending less.

But why should you? Surely it is your right to spend your money as you please? Also, retirement is a lifetime away, so why worry now? Because, says Dempsey, if you save today, you own your tomorrow.

"The choices you make as a new income earner, will determine whether you become a master of money or a slave to money," explains Dempsey.

How to start a viable savings plan

So you spent your first salary and you felt good about it. But you have also come to realise that it is in your interest to put a savings plan into place. Where do you start? Dempsey says the following guidelines will put you on the right path:

1. **Attitude.** The golden rule is to save first and to spend what is left. If you spend first, you will find that there is little or no spare cash left to save.

2. **Budget.** The “save first” approach requires a budget. You need to understand how much you earn and how much you spend before your savings plan becomes sustainable.
3. **Spending habits.** A budget will encourage you to take a closer look at your spending habits. Do you really need a wardrobe overhaul every month? Do your car repayments together with the insurance premium swallow most of your earnings every month?
4. **Cover risks.** The fact that you are young does not mean that you do not need life, disability and medical aid cover.
 - a. If you buy life cover in your early twenties and opt for level premiums, you get to keep these lower premiums for as long as your life policy is valid. You are also healthy and therefore insurable at competitive rates. Having sufficient life cover in place will enable you to cover debt such as a car or housing loan and later it will protect your family financially should you die.
 - b. The younger you are when you become disabled, the higher the disability benefit that you require to survive financially. Young people are at greater risk of having accidents and suffering disability. You therefore need this cover to protect you from the loss of income should you no longer be able to work.
 - c. If you cannot afford comprehensive medical aid cover at least ensure that you have a hospital plan. Without this you will be at the mercy of public health care facilities should you have an accident.
5. **Strategise.** Once your budgeting process is complete and you have identified a portion of your monthly earnings for savings, you need a strategy. First, save enough money to cover you for at least three months in case you suddenly find yourself unemployed. And then save some more to cover unexpected expenses such as car repairs.
6. **Invest.** Once your emergency fund is in place, you should start investing. You are young and you can afford to invest in products such as general equity unit trust funds, which offer higher returns than cash if you commit your money for longer terms such as 10 years.
7. **Get advice.** Your age does not disqualify you from receiving financial advice. The reality is that there is a bewildering choice of unit trust funds in addition to many other investment vehicles like endowment funds and retirement annuity fund policies. Most advisers are paid commission by the product provider and you will not have to pay a fee. It is best to use a financial adviser who is trusted by your family.
8. **Save.** When it comes to savings, no amount is ever too small. There is a savings or investment vehicle for every need, every budget and every risk profile. So if you do not have enough for a monthly unit trust contribution, then consider building up a lump sum in a fixed term savings account.
9. **Rewards.** If the choice is between a more expensive car or a unit trust investment, the latter should win. Consider this: the difference in monthly repayments for a popular brand new entry level car and the top of the range version of that brand is around R2 600. Why not invest R2 000 every month and use the remaining R600 for risk cover?

If you had invested R2 000 every month into the average Domestic Equity General fund for 10 years to the end of June this year (a total of R240 000), your investment would have grown to R562 613. This represents an annual growth of 16.73% over the 10 years.

You may not get the ego boost of driving a smart car if you invest this money, but some 10 years later you could have at your disposal a significant sum of money. Also, don't forget a cheaper car equals lower maintenance costs and lower insurance premiums.

10. **Communicate.** You and your friends are probably communicating most frequently via social media such as Twitter and Facebook. Use these media to share experiences and exchange savings and investment tips. If you search #savingstip on Twitter, you will find some good ideas already. As you work through the tips above, why not share your experiences under #savingstip.

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ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies. ASISA was formed in 2008 by members of the Association of Collective Investments (ACI), the Investment Management Association of South Africa (IMASA), the Linked Investment Service Providers Association (LISPA) and the Life Offices' Association (LOA).