

■ RECESSION HAS A POSITIVE SIDE

Young adults are becoming more money-savvy



South Africans are not saving nearly as much as they should be, but a recent survey indicates that young working people are aware of the importance of managing their finances more responsibly, writes Neesa Moodley-Isaacs.



WHAT YOUNG PEOPLE OWE

A shocking 46 percent, or one in two young people, said that credit was a part of their lives because they would not be able to make ends meet without it.

According to the National Credit Regulator, close to 8.5 million consumers have impaired credit records, although it is unclear how many of these fall in the 18 – 30 age bracket.

“What is clear is that South Africans need to learn to manage their finances from a young age,” Gavin Opperman, the chief executive of Absa retail bank, says.

If you are overindebted, this means your expenses exceed your income – this is likely to result in your having a bad credit profile, which in turn can leave you unable to apply for finance for assets, such as a car or a house, and even being denied a good job.

“The consequences of being overindebted are all challenges our youth may be faced with, if they do not learn to manage their finances early enough,” Opperman says.

He says financial literacy is an investment in your personal financial management.

TYPES OF DEBT

The Old Mutual survey shows that young people are not only relying heavily on credit but are using the most expensive credit most often.

Young people most commonly get into debt through the use of: store cards (61 percent), credit cards (29 percent), car finance (16 percent) and personal loans (14 percent).

Lynette Nicholson, the head of research at Old Mutual, says these figures are worrying because store cards typically have the highest interest rates.

When you take on debt, you are offered an interest rate that may vary depending on your credit profile. “Slow payers” are likely to be offered a higher rate than someone with a clean profile.

Currently, the interest rates you may be offered are:

- ◆ Store cards – 22.1 percent;
- ◆ Credit cards – between 13 percent and 22.1 percent;
- ◆ Vehicle finance – prime less one (eight percent) to prime plus eight (17 percent); and
- ◆ Personal loans – between 13 percent and 32.1 percent.

Working people between the ages of 18 and 30 appear to be aware of the need to count their pennies, tighten up on their spending habits and save more, but a large majority are still battling to find their way out of debt after spending wildly before the recession, according to the Old Mutual Savings Monitor for July 2011.

Launched at the height of the global financial crisis in 2009, the bi-annual Savings Monitor is based on a study of 1 000 urban working households in Cape Town, Johannesburg, Pretoria, Durban, Bloemfontein and Port Elizabeth.

The two surveys conducted in 2010 showed a general improvement in South Africans’ attitude towards saving, says Lynette Nicholson, the head of research at Old Mutual. She says South Africans in 2010 were buffered to a large extent from the global financial crisis. Local interest rates were dropping, inflation was within target and the general euphoria of the Soccer World Cup seemed to boost people’s financial optimism.

“The study this year clearly shows more negative sentiment in 2011. Interest rates are at their lowest, but they are steady, there are strong rumours of interest rate hikes, and the costs of petrol, electricity and food have increased dramatically. All these factors are making South Africans more conscious

‘We must take saving seriously’

South Africa continues to lag behind other countries such as Brazil and India in terms of domestic savings and, unfortunately, the picture looks disturbing for the next few years, Prem Govender, the chairwoman of the South African Savings Institute (Sasi), says.

According to the Reserve Bank’s quarterly bulletin for March 2011, South African households save only 1.5 percent of gross domestic product (GDP).

“National Savings Month in July comes on the back of a gradual and painful recovery from the recent global economic meltdown, and South Africans need to start taking saving more seriously,” she says.

Govender says the dynamics behind the trend towards low savings range from substantial increases in the oil price to economic problems such as unemployment.

“The benefits of a high savings

of the need to curb their spending and manage their finances better,” Nicholson says.

She says this has translated into young working people reducing what they spend on entertainment, shopping around for low prices,

rate in any economy cannot be disputed. These include a reduction in external dependency and the improved financial health of citizens both now and during retirement. Indeed, a low savings rate, especially at household level, has negative spill-over effects leading to an increased burden on the state to provide safety nets,” Govender says.

“The objectives of the Sasi campaign this year, as it celebrates its 10th anniversary, are to promote debate on key aspects of saving, raise awareness of the benefits of financial planning, and complement the messaging being generated through the social security and retirement reform process,” she says.

For the current tax year you can earn up to R22 800 in interest before you are taxed on the interest you earn, if you are younger than 65, and this threshold increases to R33 000 if you are 65 and older.

buying in bulk at wholesalers to maximise the amount they can save, and keeping their cars for longer before replacing them.

The Savings Monitor shows that 42 percent of consumers in the 18 – 30 age group are planning their

You can manage your finances and enhance your savings by cultivating simple financial habits, Gavin Opperman, the chief executive of Absa retail bank, says. These include:

- ◆ **Live within your means.** Don’t be caught in the trap of living beyond your means due to peer pressure – for example, by buying expensive branded items because other people have them. Make a clear distinction between purchases you want and purchases you need.

finances five to 10 years in advance and 75 percent are trying to avoid debt wherever they can, even though many have a high debt level.

Some of the key findings that apply to the 18 – 30 age group are:

- ◆ 26 percent are saving more than they were last year; 30 percent are saving less than last year and 44 percent are saving the same as a year ago;
- ◆ The recession has had an influence on the way that 75 percent of the young people surveyed are handling their finances;
- ◆ About 70 percent of the consumers in this age group are not sure they have done enough to save for their retirement;
- ◆ There is a definite interest in and need for financial information – 73 percent of the young consumers

MANAGING YOUR MONEY

- ◆ **Know your credit terms.** Before you enter into a credit agreement, ask yourself some questions. How much will your monthly repayment be and what percentage of your monthly income will that be? How long is the repayment term? What is the total cost

of the credit, including interest and service fees?

- ◆ **Budget.** Draw up a budget to help keep track of your income and expenses. Include a section to keep track of what you actually spend.
- ◆ **Develop the habit of saving.** Set up a debit order for savings to be deducted from your bank account. If you did not do this when you started working, set it up when you receive your next raise – you will not miss the additional money this way.

Despite becoming more cautious about their finances, young consumers still have a lot to learn about improving their financial management skills. Saving is important, but where you put your savings is just as important, and should be determined by your savings goal (see “There are different ways to save, depending on your goals”, below).

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either bank savings or transmission accounts, while 40 percent have savings in money market bank accounts or bank fixed deposit accounts. In sharp contrast, only three percent invest in unit trusts and only four percent invest in listed shares.

Pieter Hugo, the managing director of Old Mutual Unit Trusts, says your choice of savings vehicle affects how much interest you earn and how much money you will have saved eventually. “If, for example, you are earning only four percent interest on your savings, you are not really saving money. That is lower than inflation, which is currently 4.6 percent, which means your capital is being eroded,” he says.