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SA consumers should reassess their savings habits - Van Deventer

National Savings Months, which is aimed at educating South African consumers about saving wisely, has come at a critical time, considering rising costs such as the petrol price which affect South Africans' budgets.

Henry van Deventer

According to Henry van Deventer, head of Business Development at financial advisory company Acsis, given the current tough economic environment, consumers urgently need to reassess their savings habits, as well as their financial plans, in order to ensure that the amount they are saving is in fact sufficient: "With some costs rising higher than inflation, many consumers are faced with the reality that their monthly salary is no longer stretching as far as it used to, which ultimately results in consumers cutting back on their savings in order to afford essential expenses, such as fuel and household necessities."

A high national debt-to-income ratio

Van Deventer says that another harsh reality is consumers increasingly turning to debt in order to pay day-to-day bills and utilities, as well as to fund their lifestyle: "This has resulted in consumers saving significantly less towards retirement as well as medium-term savings goals. The country's exceptionally low savings rate of 16% is only hampering the situation."

He points to the recent South African Reserve Bank figures, which reveal that the ratio of household debt to disposable income is 75.8%. "Due to rising costs, more consumers are taking on debt in order to keep financially afloat. This high debt-to-income ratio has a terrible, and often lasting, knock-on effect on consumers' finances, such as not having sufficient money for a comfortable retirement," he says.

He says that it is vital for consumers to develop the habit of saving and investing at least 15% of everything he or she earns before retirement, as this will allow them the best chance of retiring comfortably in the future: "It is often very tempting for consumers to save less when they incur debt for those 'big ticket' items like a new home without considering the long term impact of this."

Practical scenarios

Van Deventer provides a practical example with different scenarios for a household earning a disposable income of R20,000 per month: "In the first scenario, 65% of this amount (R13,000) is spent on debt and 10% of it (R2000) is saved from age 30 to 65, escalating with inflation. At a growth rate of 6% above inflation, the household would have saved R2.85 million (after inflation) by age 65.

"In the second scenario, 50% is spent on debt (R10,000) and the R3000 'saving' is added to the other R2000 monthly savings amount, giving the household a monthly savings amount of R5000. At the same growth rate as the first scenario, this household would have saved an after-inflation amount of just under R7.125 million by age 65. This is two-and-a-half times more than scenario one.

"This example illustrates the long-term benefits of saving first and spending second."

As many consumers are finding themselves relating to the first scenario, Van Deventer says that in order to improve savings, and minimise debt, consumers need to be more aware of their financial wellbeing.

Savings tips

Van Deventer offers advice on how consumers can improve their own personal savings rate:

- Set a maximum debt limit, for example a third of your disposable income, and stick to it;
- Set a minimum savings limit, for example 15% of your gross income, and never go under it;
- Have an active debt repayment strategy that goes beyond meeting the minimum required repayments;
- Implement a 'windfall strategy' for unforeseen incomes such as bonuses or tax refunds. An example would be to spend a third on personal needs, a third on paying off debt and a third on investing for the long term;
- Make sure that the first monthly 'expense' paid is investments and debt repayments. Spend only what is left after these payments that have been made;
- Make sure the investment strategy in place comfortably beats inflation.

"After all of the financial challenges consumers have had to battle recently, the idea of saving money doesn't feel very realistic. Short of winning the lottery, there are no secrets to building wealth. By drafting and/or making a couple of adjustments to a financial plan, saving might not be as tough as originally expected," concludes Van Deventer.

For more information, go to www.acsis.co.za.