Can you live your best life and save for the long term?

By Allan Gray's Noluyolo Betela, client relationship manager

Here's something you don't hear often about millennials: We are better savers than our elders, but does that translate into long-term wealth?

Several studies have shown that when compared to the older generation, millennials (currently aged between 18 and 34) are good savers. According to the 2018 Old Mutual Savings and Investment Monitor, 24% of millennials are invested in a unit trust versus only 2% of their elders. In addition, 69% of millennials have money saved in a bank account.

But when it comes to long-term investing towards retirement, we are not doing so great, with only 44% saving for retirement via an employer pension or provident fund. This is a sobering finding when you consider that approximately only 6% of South Africans, who are currently employed, will be able to retire comfortably. The rest will likely have to keep working past retirement age or rely on a meagre government pension.

If we are not putting away money to create long-term wealth, then what are we saving for? The most common goals are travel, our education, a deposit for a car, and starting a business. Don't get us wrong – saving for these goals is the right approach as you are not relying on credit that will cost you more in the long run. However, if you are not prioritising long-term investing, especially to create wealth, then there is a real risk that over time your hard-earned money will lose its buying power as it fails to keep up with inflation.

Also, by not taking a long-term saving approach, you miss out on the beauty of compound interest. Described as "the eighth wonder of the world" by Albert Einstein, compounding is when the interest earned on a sum of money is added to the original amount so that the interest also earns interest, dramatically multiplying the value of your investment.

Why aren't we investing?

There are several reasons why many find it challenging to save, including low starting salaries, debt (student and retail), asset deficit, black tax and, yes, our conspicuous lifestyles. Add a skyrocketing cost of living to the mix, and salary increases that aren't catching up to inflation, then it becomes difficult – although not impossible – to prioritise investing.

With careful planning and small sacrifices, you can develop a lifestyle of saving that will make a big difference. Here's how to tackle your biggest excuses:

1. **"I don't have enough money to save."**
   Saving has nothing to do with how much you earn, but everything to do with the percentage of your income that you spend. Whether you make R4 000 or R40 000 a month, the only way to save is to spend less than that amount.

Many of us adopt the somewhat optimistic approach that we will save whatever is left over at the end of the month. A better idea is to do your monthly saving upfront, along with your other expenses, and then use the remainder of your disposable income to “live your best life”. Even more effective is to take the monthly decision out of your hands by setting up a debit order. If spending is your problem, you should find a strategy to help you bring it under control.

2. **“I have too many expenses.”**
   Many South African millennials are first generation middle class in their families, and a large portion of their expenses goes towards playing asset catch-up: Buying cars, homes and even household appliances that are already in place or are handed down in established middle-class families. The reality is that many end up in debt as a result.

   There is no easy way to get around this: You will have to buy a fridge, bed, microwave, etc. when you start. If you can, consider staying at home a little longer while you accumulate everything you need for your own home. If you are fortunate to have access to safe and affordable public transport, you should also consider holding off on buying a car and instead save towards one, or at least to put down a substantial deposit that will lower your monthly repayments.

   Exercising patience for the things you want will help you to avoid the tyranny of credit. In the same way that compound interest can do wonders for your investments, it can also dramatically increase the amount of money you end up owing the bank or a financial provider when you take out credit.

3. **“I have to take care of my family.”**
   Research has found that as many as 70% of South Africans working in the major cities are supporting family members or believe they will have to in future. For many, this is because their families and communities made considerable sacrifices to give them an education and a chance at a good life, and therefore they feel an emotional responsibility to also help others.

   With careful planning you can structure your finances in such a way that you are still able to support yourself and others. Sit down with your financial dependants and give them a clear picture of your finances. This will set clear boundaries and help you to manage their expectations – and your budget.

4. **“I don’t have access to a pension or provident fund.”**
   Here’s the good news: You don’t have to rely on an employer to save towards retirement. If you are an entrepreneur or a freelancer, you can use a retirement annuity (RA) to save on your terms. An RA is held in your name and invests in your choice of unit trusts. It also “moves” with you throughout your working life, meaning you can continue to contribute to the investment if you start working full-time for a company. Depending on your financial provider, you can also start, pause or stop contributions at any time.

5. **“I can start later.”**
   As with most things in life, procrastinating can seriously derail your goals and plans. Say you wanted to have R100 000 in 10 years, and you began saving

today, you could achieve this with R500 a month. If you delay for five years, then you would have to put away R1 300 per month to achieve your goal in time. This is because the earlier you start, the better, as you let compounding do most of the heavy lifting to reach your financial goals.

Getting into the habit of investing will require you to adjust your attitude towards saving and spending – but it's a step that will pay dividends (*excuse the pun*) in the long run.

Allan Gray will be presenting at the Allan Gray Investment Summit in Johannesburg and Cape Town in July 2019. To book tickets, visit www.investmentsummit.co.za