#Women's Month: Personal finance mistakes to avoid in your 20s

August is Women's Month in South Africa, a time to both celebrate women and to confront the many issues that women face. One of these is financial freedom. To help other young women become more financially independent from an early age, Nomi Bodlani, head of strategic markets at Allan Gray, reflects on common personal finance and investment mistakes she made in her 20s. If you can avoid these, you can better position yourself for financial success in your 30s and beyond.

12 August 2020: I remember looking at my first payslip and being completely shocked that the take-home salary had been whittled down by nearly 30% due to what a kind colleague in the human resources department later explained were "benefits". But how are they really benefits if I'm in fact paying for them? This was my first introduction to the cost of tax, medical aid and pension contributions. That first payslip became a crash course in adulthood; along with the sweet taste of my first earnings came the realisation that, like so many facets of life, decisions we make in the present have an impact on our financial future.

If I could offer my 20-something-year-old self some advice, these are the money mistakes I would tell her to avoid:

Mistake 1: Believing that you're too young to concern yourself with retirement-related matters

When I was in my 20s, the idea of retirement felt abstract and it was only until I made it real for myself that I understood the actions I needed to take. One way of making it real is to truly understand exactly how much you need to be saving for retirement and how the age at which you start saving impacts this.

While your working life lasts approximately 40 years, the income you earn in those 40 years must provide for your needs, not only during the 40-year period but also, for a further 20 or so years that you could live as a pensioner. Therefore, the more you delay saving for retirement, the larger the proportion of your present-day income you need to put away for this eventuality.

Mistake 2: Not preserving your retirement savings when you change jobs

Whenever you resign from your job, or in the unfortunate case that you are retrenched, you will typically have an opportunity to access the retirement funds that you had saved through your employer's retirement or pension fund; try not to do it.

If you do not preserve these funds in a retirement product, you essentially start saving for retirement all over again. I did, and I found myself in the very uncomfortable position of having to find a way to put away 20% of my income for retirement. The older you are when you start, the more money you will have to put away. Imagine having to save 40% to 60% of your income for retirement at a time in your life when your children are attending high school or completing tertiary studies? That is how much you would need to save if you started between 40 and 45 years of age!

However, if you find yourself in a position where you need to make use of some of the retirement funds available after you leave your job, withdraw only as much as you need and avoid the temptation to take as much as you can. This will also help avoid being heavily taxed if you exceed SARS's tax-free withdrawal thresholds.

Mistake 3: Relying too much on debt to meet present day needs

Debt isn't necessarily a bad thing, if used appropriately, but the cost of servicing debt can eat away at our ability to build wealth over the long term.

Debt can be useful, but it is important to understand your options and plan ahead, so that you can leverage time to your advantage and earn interest rather than pay interest. When taking on debt, make sure it is for an investment and something that will actually give you benefits over time. I've used debt to go on holiday and it cost me more than if I had saved. Unlike a property investment for example, a holiday doesn't give you much benefit over time.

Debt allows you to borrow, at a cost, from the future to meet a present need, while investing allows you to borrow from the present to meet future needs and build wealth over time.

Mistake 4: Not talking to your family about money

Like many South Africans who were "raised by a village", I understand the significant sacrifices that were made to educate me, so when I started working I felt, quite naturally and without resentment, a huge sense of responsibility to join the village elders and do some raising myself.

Providing financial support to relatives can put a lot of pressure on young professionals and this is why I suggest setting realistic expectations about the level of financial support you are able to provide. In my 20s, I didn't know how to do this and often found myself overwhelmed and taking on financial responsibilities that, in retrospect, I couldn't afford.

Open conversations with your loved ones about financial circumstances (yours and their own) will ensure that everyone is on the same page and that you all understand the plan. This will also minimise the financial strain of unbudgeted costs that tend to arise.

Mistake 5: Going at it alone

I completely messed up my taxes at one point while working as an independent contractor and thinking I could figure it out on my own. It was only after seeking professional advice that I could resolve them. A good independent financial adviser is not only going to help you set your financial goals, but also put a plan in place to achieve them.

If I could relive my 20s, I would make sure I understood just how valuable time is to long-term financial goals and that in the context of investing, time, if you have it, is free. The earlier you start saving for your retirement, the less you need to save from your current income.

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