

## The psychology behind good saving habits

**Cape Town: 18 February 2021:** You have the best intentions to get fit yet find yourself hitting “next” on Netflix instead of getting off the couch. We’ve all been there, and most of us know how easily our immediate needs and desires can side-track us from reaching longer term goals - whether it’s getting fit, eating healthy or saving money. According to Behavioural Economist Erik Vermeulen, the best way to set ourselves up for success is to establish a specific long-term goal with built-in intermediate success measures to make our goal more achievable, and more rewarding.

This principle undoubtedly applies to money management and, while it is important to instil good habits from a young age, the next best time to start is today. Busisiwe Maswanganyi, Product Consultant at Sanlam, explains that our relationship with money at a young age will influence the way we save throughout our lives.

“Some of us may remember a role model in our childhood who modelled good money habits. I remember my grandmother putting money aside for priorities such as rent, food and transport. It was interesting to see how she prioritised saving, because when unexpected expenses emerged, she could tap into her well-hidden savings chest. This taught me to start saving with what I have available today and to prepare for tomorrow. I still apply this grounding lesson by challenging myself to prioritise saving for the future.”

When setting a savings goals, Vermeulen suggests keeping the following criteria in mind to help focus our efforts and avoid getting side-tracked by impulsive spending.

1. Our goal must create SECURITY

Since loss-aversion is a powerful behavioural driver, goals that promote a sense of security are powerful motivators.

2. Our goal must be MEASURABLE

This can be done by deciding on the precise amount of money you want to save, a timeframe to do this as well as short/ medium-term milestones. This will help you measure your progress.

3. Our goal must have AUTONOMY

The more control we feel we have over the outcome of an action, the more likely we are to continue taking the action.

4. Our goal must be RELEVANT

Make it relevant and make it personal. If you are saving for something that is not important to you, you will probably lose interest very quickly.

5. Our goal must be EXCITING

Keep yourself motivated by creating excitement in both the processes of saving and its outcome. This helps to address the mind's seeking system and trigger the dopamine release which is a key hormone in regulating joyful behaviours.

If I am a spender at heart, how do I curb my natural tendencies?

Having a future focus is the primary key to successful savings. The successful saver understands the joy and positive emotions they will feel when they achieve their goal, but they are also excellent at creating dopamine hits as they progress towards their goal. They see saving as effortless, and they have learnt to not associate feelings of loss with avoiding impulse buying.

Vermeulen explains that if you are naturally a spender, you need to understand that the instant gratification you get from an impulse purchase is short-lived. He suggests finding ways to make spending more difficult and to create constant reminders – both visual and emotional - about the things you are saving for. It also helps to have an accountability partner to keep you on track and celebrate your progress.

The best way to learn saving habits is by not making big, unsustainable changes to your behaviours and lifestyle. Big changes take a lot of effort and constant choices and because of this, they are often easiest to default on. You could do this by saving small amounts regularly (like the money you get back when transacting), or by asking your employer to take your increase and place that directly into a savings vehicle. "Doing that removes the temptation and negates the feeling of loss," concludes Vermeulen.

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