

## **What's holding millennials back from reaching financial freedom?**

Results of the 2017/2018 Old Mutual Millennial survey shows that better educated, tech-savvy and optimistic millennials – South Africans born between 1982 and 2000 – are more likely to seek financial independence and personal fulfilment, compared to older generations. This is according to Elize Botha, Managing Director of Old Mutual Unit Trusts.

The Old Mutual Millennial survey was commissioned to better understand the financial behaviour of employed Millennials, versus older generations surveyed in the 2017 Old Mutual Saving and Investment Monitor.

It showed that 24% of millennials are currently invested in a unit trust – versus only 2% among older generations – with 57% of millennials saying they invested in a unit trust with the purpose of increasing their net worth (1st) and 47% saying they looked to invest to reach financial freedom (2nd). However, the survey also revealed that 35% of millennials – the first generation to reap the fruits of democracy – were saving money to pay back debt – this number was 13% for older South Africans.

Speaking at the same event, Mapalo Makhu, Personal Finance Coach and founder of financial coaching firm Woman & Finance, said that millennials are facing unique financial challenges that make them susceptible to debt. “Many first-generation middle-class South Africans, millennials are playing ‘asset catch up’ - purchasing appliances and motors vehicles on credit - while caring for financially dependent relatives (other than their children) which creates a tension between the expectations of family and dreams millennials have for their own financial future.”

Research also showed that millennials are more likely to save money – in order of priority – towards travel (37% versus 10%), their education (31% versus 4%), a motor car (32% versus 11%) or starting their own business (23% versus 3%) – than older generations.

“This shift in priorities speaks to the bigger differences in the way millennials and older generations view money and the unique challenges they face,” says Botha. “Complete financial freedom – and the flexibility it offers us to travel, or to be our own boss – comes when the income from your assets exceeds your expenses. Only by reducing debt in tandem with investing in investment vehicles which offer growth assets and returns can millennials hope to reach this goal.”

Makhu agrees and says that unless millennials address their high levels of debt, they’ll struggle to reach their goal of financial freedom and independence. “Whilst not everyone aspires to building financial wealth, becoming financially free is achievable for most people by applying simple principles in a disciplined approach.”

Botha explains the four pitfalls millennials face on their journey to reach financial freedom:

### **1. HIGH LEVELS OF DEBT**

Debt, typically in the form of personal loans, is often used to buy things that will be consumed – like appliances, clothes, or items that tend to depreciate over time. The survey revealed that 64% of millennials – compared to 14% among older generations – had a personal loan and 35% (versus 13%) of their income was spent on servicing the interest on debt.

“A rule of thumb is never to spend more than you earn,” says Botha. The first step in achieving financial freedom is to eliminate debt by applying the basic 50-30-20 rule of budgeting. Botha explains, “Use 50% of your salary to cover your essential expenses. Allocate 20% of your salary towards your investments and personal goals – it’s recommended to put away 15% of your salary towards your retirement savings. Lastly, use the remaining 30% of your income for flexible spending. However, if you’re currently in debt, use this money to pay off your debt as soon as possible.

## **2. SAVING, RATHER THAN INVESTING**

According to the research, an alarming 47% of millennials – nearly half – did not know what a unit trust was. Others, who said that they could further define the collective scheme investment vehicle, tended to have difficulty in articulating their understanding of it. However, almost 61% of millennials in the survey were saving money in a bank account, suggesting that millennials do not understand the difference between saving and investing.

“Unlike saving – which is setting money aside with the intention of spending tomorrow – the second step to reach financial freedom is rather to invest and build wealth by creating a second source of income to supplement your salary,” says Botha. “Bank accounts are seldom able to deliver real growth required to beat inflation, whereas, equity-based investment vehicles can protect the buying power of your money over the long-term.”

## **3. KEEPING UP WITH THE KARDASHIANS**

The third pitfall is overspending – often utilising expensive credit – to buy the things we absolutely ‘need’ to appear successful. “What people don’t realise is that the real secret to financial freedom is to keep your living expenses as low as possible,” says Botha. “Constantly increasing your credit limit as your income increases to keep up with the expectations of friends and family only serves to keep you further away from reaching your goal.”

## **4. NOT DEFINING YOUR VALUES**

“Without a clear goal most people will find themselves spending rather than saving,” says Botha. “Every person is unique, and our relationship with money is often complex. An understanding of your intrinsic values is also essential to find the resolve to achieve financial freedom. When we’re working towards something that’s important to us, we’re often more willing to work harder to reach our goal.”

“Investing enough money to be financially free may feel like a ‘long shot,’ but the first step is always the hardest. Don’t be intimidated by your goal, start small, and once you’ve achieved a milestone, you’ll be more motivated to reach the next, and bigger goals won’t seem so unattainable anymore – start today,” concludes Botha.