

# Save now and be secure later

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**S**OUTH Africans' poor level of savings is paving the way for a social disaster as people continue to opt for greater levels of unsecured debt.

Last week's decision by the Reserve Bank governor to leave interest rates unchanged should not be an excuse to go on a spending spree, warn experts in the financial and banking industry.

According to figures recently released by the SA Savings Institute (Sasi), a shocking 72 percent of working adults in South Africa have no savings at all.

Most South Africans, especially in the low and middle income groups, are finding it difficult to save for short-term emergencies or even retirement.

In addition, household debt as a proportion of disposable income, which peaked at more than 81 percent in 2008, has fallen only marginally to about 78 percent.

Gavin Came, chairman of the Financial Planning Committee at the Financial Intermediaries Association of Southern Africa (FIA), says a common problem among consumers is that they refuse

to acknowledge and deal with their financial problems.

"Most people realise the importance of having savings in place but are unable, or unwilling, to defer short-term consumption, such as buying new clothes or a new car or paying for an annual holiday. As a result, their immediate wants or needs tend to take priority over provision for the future," says Came.

He warns that people who are not saving enough for retirement are prone to making rash decisions later in life when they realise they do not have sufficient funds to meet their needs.

"We often see that the victims of get-rich-quick schemes are pensioners who realise they have not saved enough during their working life and are seeking a quick-fix solution to fund their retirement. These are the very people who can least afford to take such a huge risk and the outcome is often disastrous."

He says it is crucial that consumers start to make themselves aware of their true savings requirements to avoid such a consequence.

"It is important that people take their financial commitments seriously and have an overall financial plan in place that addresses both their short- and long-

term needs. If they don't do this, then what may be classed as poor savings habits now can prove to be disastrous a few years down the line. The task of providing for a comfortable future is much easier and financially painless if you start early."

He advises people to employ the services of a reputable financial adviser, who can make recommendations based on personal circumstances. "Financial planners can help people to devise a plan, and make sure that clients not only adhere to that plan but also help them to get back on track if they do deviate. While it is tempting to ignore the demands of the future and concentrate purely on their short-term needs, by engaging the services of a qualified and professional financial planner early enough, consumers can plan for a comfortable retirement without being forced to make significant compromises to their current lifestyle."

Absa retail bank chief executive Gavin Opperman says the decision by the SA Reserve Bank's Monetary Policy Committee (MPC) to leave interest rates unchanged comes as a relief to financially distressed consumers.

He says people are already feeling

the impact of rising inflation, driven by higher transport costs and housing operational costs, such as municipal rates, taxes and other levies.

He warns consumers against over-committing on new debt. "Consumers should concentrate on using any excess income to consolidate existing debt and start saving. Although consumer confidence will be buoyed by the decision to leave rates unchanged, the number of consumers with impaired credit records still remains relatively high," said Opperman.

He adds that if rates are kept stable, homeowners with mortgage loans will not be affected in terms of monthly repayments, which will give them some breathing space. Monthly repayments on vehicle loans will also remain unchanged.

Opperman advises customers to opt for vehicle finance contracts that they can comfortably afford, and to avoid over-committing on loans that are beyond their means.

"Consumers should realise that extending the finance period slows the redemption of capital, resulting in consumers accruing relatively more interest on their vehicle finance loans over a longer repayment term," says Opperman.

He explains that a customer

paying off a vehicle finance contract worth R300 000 at an interest rate of 12 percent over 48 months, will make repayments totalling R379 200 over the full term. This means R79 200 would go towards interest.

Another customer paying off the same amount at a similar rate, but over a 60-month term, will be faced with total repayments worth R400 380 over the full term (with an interest portion amounting to R100 380).

"In essence, while the customer with the 60-month vehicle finance contract will pay a lesser monthly repayment of R6 673, as opposed to R7 900 if the loan had been over a 48-month term, the long-term benefits are clear with the latter realising R21 180 worth of total savings in interest."

Opperman provides the following savings tips:

- Households should have a budget of income and expenses.
- People should avoid spending on unnecessary and luxury items.
- Pay cash for consumer goods and services where possible.
- Have specific savings goals for retirement, education and big-ticket household items such as homes, vehicles, household appliances and furniture.



**MONEY MATTERS:** While savings and loan clubs, or stokvels, have worked for generations, today a shocking 72 percent of working adults in South Africa have no savings at all. PICTURE: AP