Use the power of YOUTH

SIMEKA

member of Sanlam group

to enhance your retirement planning

Sometimes, age is an advantage – it brings wisdom, maturity, and experience. But this June, in honour of Youth Month, we'd like to focus on the younger generation. When it comes to planning for the long term, the younger you are, the better your chances of success.

Why is this?

Simply because you have more time:

- To reach your goals,
- To leave your investments to grow,
- To save and reap the rewards of compound interest.

But this only works if you leave your savings alone. **Patience** is a virtue you cannot afford to be without.

As a younger person, financial independence and freedom are likely some of your highest priorities. In order to achieve this freedom, you need to make good financial decisions at every milestone of your working life.

Some examples of good decisions:

- Living within your means and using debt wisely.
- Saving as much as you can, as often as you can, early in your career.
- Investing according to a long-term plan, with the help of an accredited financial advisor.
- Making good decisions when you reach crossroads in your life, like changing jobs.

Everybody has some debt. In fact, 72% of income in South Africa is used to finance household debt. Of course, that is a very high percentage, and it means that many of us are going into debt for things we don't really need.

Your debt might be a student loan, a car repayment or a home loan. You might have a credit card or a store card too, and if you use these responsibly, that's fine. Debt does not necessarily mean you do not have financial freedom. But you must balance your current debt and lifestyle with your long-term needs and goals. Let's see how you can go about making good choices.

#01 Good vs Bad debt and living within your means

GOOD

Good debt is debt that leads to a return:

- A home loan is debt on an asset that will grow in value.
- A student loan is debt on a skill that will help you to earn a better salary.

BAD

Bad debt increases financial stress, and doesn't really lead to a return:

- A loan on an expensive car, when you only need a basic car.
- A clothing account at a designer store.

Living a sustainable, affordable lifestyle is one of the key ingredients for financial freedom. Remember that there will always be someone who earns more than you and someone who earns less than you. Trying to keep up with others or feeling pressured to spend more than you can afford is a guaranteed road to massive debt and high levels of stress.

Start by keeping a monthly budget and tracking your expenses:

- How much of your income you are spending,
- What you are spending your money on,
- What you can live without, in order to save more.

#01

#02 Maximising your contributions

So, you know how much you can afford to save, thanks to your monthly budget. What should you be looking at next?

As a condition of employment, you most likely belong to a retirement fund, to which you contribute monthly. You probably have the opportunity to change your contribution rate at a specified date annually. One of the easiest ways to save more is to increase your fund contributions. The money will be deducted automatically on your behalf. If you prefer, and your retirement fund allows it, you can make monthly additional voluntary contributions (AVCs) or make an extra lump sum contribution when you get a bonus or a tax rebate.

Did you know that you receive a **tax deduction** on your contributions towards all retirement funding up to 27.5% per annum. This means that increasing your monthly contributions results in less of your monthly income being taxed!

If you're avoiding 'bad' debt, and you are tracking a monthly budget, and you've maximised your fund contributions, well done! But now we get to the 'higher grade' side of financial planning:
INVESTING FOR THE FUTURE.

#03 Investing according to your age

It is important to match your investment needs to your investment objectives at different stages of your working life. Your investment choices today will have a huge impact on your future financial security.

As a young employee, you have time on your side. Research has shown that in your youth, investing in an aggressive investment strategy may benefit you more, earning higher long-term returns over time. You need not be too worried about negative returns over the short-term – your focus should be on long-term capital accumulation and growth.

As we mentioned, we are into the 'higher grade' part of this crash course. That's why you are encouraged to consult an accredited financial advisor to assist you with your long-term investment plan. And once you have a plan in place, stick to it!

We're nearly there... What is the last thing you need to check off your financial freedom 'to do' list?

P.S.
Remember to continuously review your investment strategy as you age and approach retirement.

#04 Make good decisions when you change jobs

If you stop working at your current employer, PRESERVE your retirement savings. You can choose to leave the money you have already accumulated in your current retirement fund even though you resign, or you can transfer your retirement savings to your new employer's retirement fund or a preservation fund.

If you withdraw your retirement savings at this point, you could be taxed by as much as 36%! Not only would you be giving the taxman more than a third of your hard-earned nest egg; you will also have to start saving all over again. And you will have less time to reach your goals. Don't do that to your future self – choose not to use your retirement money until you retire.