

## **PRACTICAL ADVICE ON HOW TO SAVE**

The starting point to becoming wealthy is that you have to spend less than you earn. More importantly you have to do this every month of every year so that you are accumulating capital on a yearly basis. It seems rather obvious and is definitely common sense but it is very difficult for most people to do this over their lifetimes. That is why so few people are able to retire in a comfortable financial position. Here are some real-world tips on how to save your money from people who have succeeded in retiring well.

### **Shopping**

People who earn a good salary and still find themselves in financial difficulty every month usually struggle with their shopping habits. More to the point, they struggle to control the impulse to buy items that they can't afford. If you are serious about saving, you need to plan your shopping in a very structured way and resist the urge to splurge.

Plan your shopping so that you buy non-perishable items in bulk and try to shop for these items every six months. Goods such as detergents and toiletries are much cheaper when bought in bulk. By buying in bulk you will save money and also reduce the number of trips to the shops per year, this reduces your opportunities to spend.

Unless you inherited money or have a wealthy life-partner, it is not possible to be a disciplined saver and a fashion victim at the same time. South Africans love to show off, we buy the most expensive cars and wear the biggest brands – all with money we don't have. No wonder the luxury brands love our market, we are addicted to conspicuous consumption. If you want to be financially free, you have to break this habit. When you shop for clothes, buy them out of season. For instance, buy your summer clothes at the end of summer (or even better, in autumn) as all the stores have big sales. Try to avoid buying branded goods, they are always over-priced and are often of equal quality to the unbranded clothes that are much cheaper.

### **Debt**

If you are funding your lifestyle with debt, you are making the shareholders of banks wealthy and limiting your chances of becoming financially independent. This is especially true if you have credit card debt, personal loans or overdrafts. In order to break this debt cycle, you need to eliminate this debt. Start by listing all your debts with the percentage interest you pay on each. Pay off your most expensive debt first and then move on to the next most expensive debt. In future try to avoid all bad types of debt. These include store cards, overdrafts, personal loans & credit card debt.

### **Bank charges**

Review your bank charges annually to see if you have the most cost effective pricing package at your bank. Like cell phone contracts, you can buy service "bundles" from banks, so make sure that you are using the best bundle to suit your banking habits. You should also shop around at different banks every year to see that your bank is offering you the best deal.

### **Food**

Try to cook bulk meals on the weekends that can be frozen in meal sized containers. This saves on takeaways and restaurant costs. Also bulk shopping for food is much cheaper than buying for single meals only. It takes a bit of effort and planning but you can reduce your food costs substantially, especially if you currently live on fast foods.

### **Vehicles**

Unless you are already wealthy or travel for a living, there is no need to buy a new car...ever. Most cars are so well constructed that they will last five to eight years without a problem. Buying a one year old vehicle will save you nearly 30% of the cost of a new car.

### **Insurances**

If you drive a car, you need vehicle insurance to protect you financially. I realise that this is not going to help you become financially independent but it could prevent a financial disaster. Here are some ways to save on insurance costs. Increase the excess on your insurances as this will reduce your premiums significantly. Normally when you have a claim, the insurance company will ask you to pay the first part of the loss, this is called an excess. If you increase this above the minimum required amount, it indicates to the insurer that you are willing to accept a bigger part of the risk. It also means you are less likely to claim for small items so they will reduce your premiums substantially. If you pay your vehicle and household insurance annually, you will also get a discount on your premiums.

### **BUDGETING TIPS**

If you are struggling to budget properly, consider starting with an annual budget rather than a monthly one. It is often easier to find gaps in your budget if you plan over a full year. Once you have a proper annual budget, you can break it into 12 monthly budgets that take into account your large, infrequent expenses like holidays. Here are some pointers to help:

- Plan your savings first, aim for 15% of your total salary to savings
- Plan for your major expenses through the year
- Necessities must not be ignored – you might be able to scale them down e.g. cars
- Make use of personal budgeting tools. These can be found online and via some banks – my favourite is [www.22seven.co.za](http://www.22seven.co.za)