

# Successful saving

At some time in their lives, most people lament the fact that they're not saving enough. In fact, the incidence of regular saving in Australian households has dropped dramatically over recent years. Over the last 20 years, Australia's household saving ratio has dropped from around 10% in the early 1980s to its lowest recorded level of just 1% in 2001/02.

## So why should you save?

A regular savings plan offers a variety of benefits.

- ✧ Savings can help to make you feel more secure about meeting your needs, such as rent or mortgage payments, bills and living expenses.
- ✧ A savings plan can help make it possible to achieve some of your wants, such as a holiday, new car or increased retirement savings.

In the short term (day-to-day), a savings 'safety net' frees you up from the stress of living from one payday to another. Similarly, in tough financial times or when unplanned expenses arise, you can access savings instead of potentially higher interest options such as credit cards or cash advances.

In the medium term, a regular savings routine establishes a financial track record, which is essential when applying for anything from a credit card to a car or home loan. A medium-term savings plan can also make it easier for you to achieve previously unreachable goals such as a holiday or new car.

In the longer term, a savings plan can assist in increasing your quality of life. For example, savings can help to supplement your superannuation (super) when you retire. In addition, a portion of your savings can fund other longer-term investments such as shares or managed funds.

## Developing your savings plan

The key to future financial security is budgeting and establishing a regular savings plan. By working to a budget and savings plan, you're able to monitor your progress and 'tweak' any areas that may need to be altered. Perhaps you're saving on lunches but your travel costs have increased. Starting to save and seeing your savings build up helps to create a feeling of success and satisfaction, knowing that you're getting closer to your financial goals. So how do you start?

## Where am I now?

Establish your current financial position – what you earn (income); how much you spend (expenses – fixed as well as discretionary\*); and what's left over, indicating how much you could save. Most financial institutions, such as banks and credit unions, have budget planners and calculators you can use in order to record your income and expenses.

\*Discretionary expenses relate to wants – things you buy as extras or to maintain your lifestyle, but don't need to survive.

## Where do I want to be?

Identify your financial goals – saving for a specific goal is far more satisfying than saving simply because you think you should.

Remember your short, medium and long-term goals and if you haven't saved before, start off slowly! Set yourself a short-term goal (three months) that requires only a small amount of saving. Then design a budget and savings plan to set aside enough income from each pay to reach your savings goal within the set (three month) period.

Once you've established the discipline needed to save successfully, you'll find it easier to save slightly more over a longer period of time.

## When is the best time to start?

Most of us agree we should save some of our money, however, it never seems the right time to start. But the earlier you start, the less you'll need to put aside each week.

Another bonus of starting early is the effect of compound interest. Compounding is when you reinvest the interest you earn on an investment. Over the years, if you don't withdraw the interest that grows on your savings, the money will attract even more interest for you. While the idea sounds simple, it's incredibly powerful and forms one of the most basic 'building blocks' for wealth creation. See graph on the following page to see how effective compounding interest can be.

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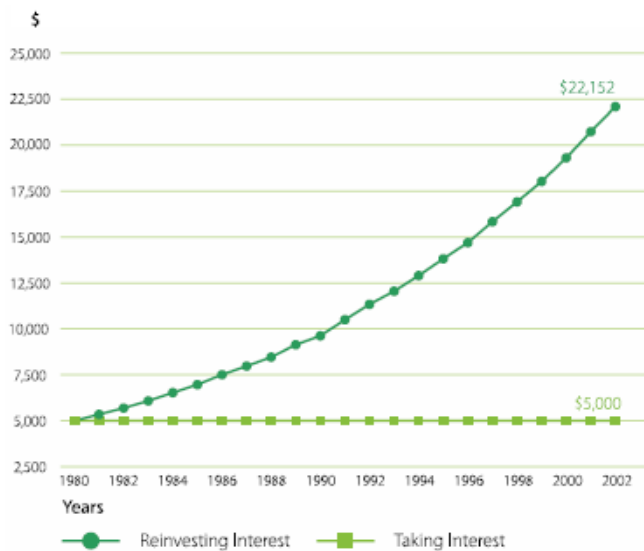
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## Take a look at the power of compounding



Example assumes initial cash investment of \$5,000. Investment period between January 1980 to January 2002. Seven per cent annual return after tax, no fees or charges payable. This graph is for illustrative purposes only.

As you can see, if you invested \$5,000 in a cash-type investment (with no capital growth) in 1980 and reinvested the interest earned, you'd have over \$22,000 in 2002. That's an increase of over 300 per cent on your initial investment! Over the same period, investors who withdrew interest and therefore didn't take advantage of compounding interest, would end up with \$5,000 – the same amount they invested in 1980!

## Some final words on budgeting and saving

- ⌘ Don't make your budget so tight that it's impossible to keep. Setting unrealistic savings goals places unnecessary pressure on you, and constant 'failure' to meet the budget could cause you to give up on the budgeting process altogether. It's important to remember a budget is set to help, not hinder. A successful budget is one that's flexible in difficult times but rewarding when finances are good.
- ⌘ If you 'blow' your budget one month, try to make up for lost finances in areas that are more flexible.
- ⌘ Revisit your budget regularly, say every three months, to see if there are any areas you can tighten up to improve your savings potential.
- ⌘ Saving is great but investing is even better. By investing your hard-earned savings, you're making your money work for you, particularly if you're investing in assets that grow in value over the medium to long term, e.g. shares.

Establishing a successful savings pattern now can help to ensure your financial security in the future. And the sooner you start, the better.

A financial adviser will help you to make the most of your financial situation – now and in the future. Take the first steps towards successful saving and contact a qualified financial adviser today.