LIBERTY
Own your life

Balancing debt and savings

People tend to separate their debt obligations from their savings without realising the impact debt has on their ability to save. Getting rid of short-term debt is an important start to any savings plan but make sure you look after your long-term savings, too.

Use short-term savings to pay off short-term debt:

This example shows how you can save by clearing your short-term debt	SAVINGS	DEBT
	R20 000: Money Market Account 6% a year interest earned	**R15 000**: Credit Card 25% a year interest owed

By using the money market savings to pay off the debt, you would effectively have a 19% return on your money: you would have saved 25% (paid to the bank) but lost out on the 6% interest on your savings. 19% is the best return you could hope to have on a short-term investment. You can then use the money you would have paid on your monthly credit card payments to top up your money market account.

Increase your monthly short-term debt payments:

This example shows how you can save by increasing your short-term debt repayments	SAVINGS	DEBT
	R600 a month: Bank Account	**R800** a month: Personal Loan (Minimum instalment, 24 months)

By using the additional R600 to pay off the loan within just one year, you would have saved R2 000 in interest and have R1 400 (savings and debt repayment) to kick-start your savings plan the next year.

Cut five years off your bond

By increasing your bond repayments by 10%, you will pay off your home loan five years earlier. On a R1 million home loan you would save yourself around R420 000 in interest. And when interest rates go up, you will already be paying the higher new minimum repayment amount so you won't have to change your budget to accommodate the increase.

But...don't put all your money into your home loan

It is not a good idea to invest all your savings into your home loan. Your house is not a retirement asset but a life asset that needs to be paid off over time. If you save all your money into your home loan you may be debt free but you will have no retirement savings to meet your daily expenses.

It is also a high-risk strategy as you are betting all your savings on your home; you need to diversify your savings into other asset classes like equities (shares).

Diversify your savings

After making your bond repayments and investing 15% of your monthly salary towards your retirement, you need to decide what to do with your extra cash: reduce your bond or increase your retirement savings. Your choice will depend on interest rates, investment markets and tax.

If you need help balancing your debt and savings, speak to your financial adviser or call us on **0860 456 789.**