# Why we don't save

*South Africa's lack of savings has left us especially vulnerable during this economic downturn. We can blame our economic cycle or take control of our finances.*

In July, FinMark Trust released a survey which tested the financial vulnerability of South African consumers. The results of the Consumer Vulnerability index showed that South Africans are at risk financially with a score of 5.17. The higher the score, the more financially vulnerable we are. For example consumers in European countries score far lower with Sweden at 0.4, Norway 0.9, Denmark 1.3, Great Britain 3.1 and Ireland 3.4.

## Fear over savings

What was most interesting about the research is that the worst scores related to vulnerability around savings – a score of 5.74. As South Africans we feel particularly vulnerable because we do not have significant savings which could see us through more difficult economic times.

As we read about retrenchments or experience them in our own companies, the fact that we have very little saved, makes us feel more vulnerable. Statistics show that most South Africans live one pay cheque away from economic distress.
While we worry about our lack of savings, we do very little about it. About 35% of respondents said the reason they did not save was that they simply could not afford to.

## Culture of consumption

While this may be true of very low income earners, this complaint often came from higher income earners. Unlike global trends where higher income earners tend to increase their savings in line with increasing incomes, South Africans tend to not increase savings as they increase their income.

As South Africans we tend to spend far more on consumption than people in other countries. Professor Carel van Aardt, Research Director at the Bureau of Market Research at Unisa, who under took the study for FinMark Trust, says the research shows that higher income households tend to buy a new car every two years and upgrade to new homes every 5 to 10 years, rather than reducing their debt. What is perhaps most concerning is that South Africans find themselves deeply indebted in their 40's and 50's – a time when they should be debt free and saving their additional income for retirement.

Some economists argue that this high level of consumption is a natural cycle of an emerging economy. As a large portion of any population becomes more economically active, it will spend more money on consumption. While a household in a developed economy will be debating whether to upgrade to a new television or save the extra income, an emerging middle class family will be debating on whether to have a television in the first place. It is only once a significant portion of the population has acquired the goods and services that a more developed economy would have, will we see a stabilisation in consumption.

## Importance of budgeting

History aside, Professor van Aardt argues that it is the lack of budgeting that prevents people from savings. Despite being educated, Van Aardt says higher income earners are surprisingly financially illiterate when it comes to managing their day to day personal finances. Budgeting and calculating the real cost of taking on debt is not something the average high income earner considers before making a purchase.

Part of this is a psychological response. People feel that if they need to talk about money or have to budget for items, they have failed to provide for their family. Yet it is virtually impossible to live within one's means without a budget. How can you know what you can afford if you do not know how much money is coming in and out of your account? A business would not survive long if it did not manage its finances with a good understanding of its cash flow and costs.

## How to budget for savings

The mistake many people when creating a budget is to start with all their monthly expenses and then calculate what is left to save – which is why so many people say they cannot afford to save.

- It is just as important to pay your future self as it is to pay for current expenses
- First deduct your savings from your available income. What is left is the "real" amount of money you have for expenses.
- If you do not already save enough, you may find that the first few months will be tight financially but you will adjust to living on the new income.
- Your priorities will change and you may find that knowing you are living within your means will provide greater satisfaction than buying a new pair of shoes or plasma screen TV.
- What the Consumer Vulnerability Index shows us is that the more savings we have the less vulnerable we feel - which can surely only add to our long term happiness.