Save more tomorrow

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We all want to save more, but in these tough economic times it is difficult to find that extra money to invest. A painless way to kick-start your savings plan is to commit to a goal in five years time, without having to cut your income.

Commit to a goal

Rather than trying to reach your savings target immediately, set a realistic five years goal that will see your savings increase to 10% without having to adjust your lifestyle. Being human we find it easier to commit to a goal over a longer period of time rather than trying to do it immediately. Psychologically and emotionally an incremental approach will not have such an immediate impact on your lifestyle.

The '*save more tomorrow scheme'* is described in the book *Nudge* where a person commits to increase their savings slowly over time. If your target is to reach 10% of your salary, you achieve this every year over 5 years by shaving 2% off your annual salary **increase**.

Richard Thaler and Cass Sustein, the authors of Nudge, introduced this scheme in Australia and after 4 years 78% of people remained committed to the plan. The average investor had increased their level of savings from 3.5% to 13.6% within those four years.

The plan

For example, if this year you received a 7% salary increase, sign a debit order immediately to put 2% of your additional income into a savings account. Every year commit to increasing that debit order by a further 2% of your salary. Within five years you will be saving 10% of your salary without having to cut back on your spending. Another way to achieve this would be to commit to saving an amount that increases by a few percent ahead of inflation each year - for example a 9% escalation on your monthly savings plan.

One way to make sure you stick to this goal is to make a commitment to your financial adviser that you will increase your savings each year. It helps to have someone reminding you of the promises you made to yourself.

The key to success however, is to first make sure that you are living within your means before your salary increase so that you are not relying on the increase to meet your expenses.