CHANGING MINDSETS FROM A YOUNG AGE

We have all been through the phase where we have just graduated from our tertiary studies and we enter into the workplace. We feel like the world is at our feet and can achieve anything.

However, we need to bear one important factor in mind. South Africa is one of the countries in the world with the poorest savings rate. In fact, it may be safe to say that our savings culture is close to non-existent. In order to overcome this, the right financial decisions need to be made at a young age. A recent study by PPS identified some of the poor decisions that young professionals make.

The youth mindset paradigm

There are certain mindsets young people fall into that may affect the way in which they work with money. The first of these is that they do not earn enough money when they start at a job to save efficiently. While this may seem the case, compound interest is an effective way to save money and should therefore be encouraged among the youth. John Marsden, National Sales Director at PPS says that, “before you pay anyone else, you should pay yourself; within reason that is.”

Marsden points out that advisers possibly need to remind students to calculate exactly how much money comes in and where it is spent to determine a realistic amount to save each month.

The next thought pattern is that young people think they do not need a medical scheme. However, life may take a turn for the worst and something can happen very quickly.

Marsden points out that it does not matter how young or healthy people are, if they are involved in an accident and become permanently disabled it could be the end of their career before it has really started. In the same instance, if they are badly injured their medical costs could end up placing them under severe financial strain. “Taking out appropriate cover can make a big difference in the quality of one’s life following a major incident. It will also prevent placing a massive financial burden on those whom they become dependent on.”

Unhealthy procrastination

The term YOLO (You Only Live Once) has become a significant rallying call for the youth of the world. It is an expression of defiance that youth must live in the moment, here and now and not worry too much about the future.

While it is true that retirement is for old people, it needs to be funded by young people. How often have we heard government and industry professionals urge the youth to begin retirement saving as soon as possible?

In an ideal world, learners leave school and further their studies at a tertiary institution. They then enter into the job market at the age of 23 or 24. Alternatively, they leave school and start working, furthering their studies on a part time basis. Professionals will probably only reach maximum earning potential between the ages of 35 and 40 once they have significant industry experience behind them. Saving for retirement then gives a saving window period of 25 years. However, if a worker starts saving from the time they enter the job market, they can have a window period of between 35 and 40 years. Saving from a younger age allows workers to save without the added burden of providing for a dependent.

Some students are lucky enough to have their studies paid for by their parents or through bursaries. However, there are a large number of students who have to rely on student loans to fund their tertiary education. Paying off this loan as soon as possible is imperative to avoid interest.