

Forming healthy financial habits for later years

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Parents want the best for children and make every effort to give them a strong foundation to lead successful lives once they become adults. Yet, many neglect detailed discussions around money matters. This subject also gets scant attention in schools, which leaves many uninformed and ill-prepared to make decisions about money once they start earning an income.

In an international study of 30 countries by the OECD, South Africa performed the worst in terms of financial competency, with the average level of literacy sitting at just 30%. There is also a prevailing misconception that only wealthy people can save. By adopting simple money rules and making managing money a habit, anyone can save and accumulate wealth.

But where to start and what are the key lessons to be shared?

To celebrate Youth Month, financial advisor Leslie Greyling provides guidance for young people and children about money.

Taking the time to learn a few critical financial rules can help young people, even children, to build a healthy financial future. This easy Budget Rule is a good place to start for children receiving pocket money or an allowance and for those who start earning their own income:

The 50/30/20 Budget Rule

50%: **NEEDS** – rent, food, utilities, transport,



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medical.

30%: **WANTS** – clothes, entertainment, gifts, take-aways.

20%: **SAVINGS** – emergency fund, savings account, investments/retirement savings.

The above is the perfect foundation for students, young adults with a part-time job, and young people entering full-time employment.

Tips about money for young people:

- Learn self-control

Delaying gratification, in other words, instead of buying an expensive pair of jeans on credit, only buy it if you have the money available,

or wait until you have saved enough to buy it. Interest on credit is high and you will pay much more for the item in the long run.

- Build a good credit rating

Have a credit card or store account, buy a small item, and settle the card/account in full at the end of the month. This helps to build a good credit rating. However, be careful with debt. Store cards, credit cards, and buying a bigger car than you can actually afford can quickly become a nightmare when your income situation changes.

- Know where your money goes

Make sure that your expenses do not exceed your income. Keeping your monthly expenses as low as possible can save you significant money over time. Take the time to draw up a budget or simply make notes of how much and on what money is spent.

- Start an emergency fund

No matter how low the income (allowance, payment for part-time work or salary) is, put any small amount away in an emergency fund every month. Get into the habit of saving money as a monthly expense, it will soon build up to an emergency fund.

- Start saving for your retirement in your 20s

Because of the way compound interest works, the sooner you start saving the better.

If you start saving R100 per month for 40 years you will have 5 times more money at retirement than your friend that saves R1 000 per month for 30 years.

There are many ways to save money; various types of bank accounts or traditional savings/investment products such as Unit trusts and

Retirement Annuities and a tax-free savings account or tax-free investment.

Be careful of online investment “apps” which could be scams; use reputable companies and research the product and company beforehand.

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