Media Release
Actuarial Society of South Africa
28 June 2017

How that daily cappuccino is blocking your path to wealth

To kick off Savings Month this July, investment actuary Hildegard Wilson has crunched the numbers to demonstrate how cutting out just one guilty pleasure a day could put substantial wealth within your grasp.

Her calculations show that by simply giving up a daily cappuccino, you could save nearly R40 000 within five years, and over R90 000 in a decade.

Wilson, a member of the Actuarial Society of South Africa's Investment Committee, notes that with rising costs of living, increasing your savings can often seem like a pipe dream.

"The numbers prove however that there is hope, and that you can reach your goals without compromising your overall standard of living," she says.

"With the power of compounding, where growth on your investment earns additional growth, these kinds of small breadcrumb savings can turn into large amounts over time."

She points out that with a R40 000 lump sum, you could make a serious dent in repaying your short-term debts, or top up your rainy day fund, your children's education fund or your retirement nest-egg.

"You could even use a portion of your savings to fund an overseas holiday for you and your partner as a reward for sticking to your savings plan."

To motivate you to take a hard look your spending habits during Savings Month, Wilson analysed two scenarios to show the impact that cutting just one small expense from your budget could have.

Scenario 1: Cutting out the daily cappuccinos

If you were to buy a medium daily cappuccino every weekday at a cost of R24.90 each, your caffeine habit would be costing you R498 a month.

Say you now decide to give up the cappuccinos, scrounge around for another R2 in your monthly budget, and commit to investing R500 in a South African Multi Asset High Equity unit trust portfolio* every month instead.

SA Multi Asset High Equity portfolios delivered average annual returns of 8.2% in the 10 years to the end of March 2017.

While this figure is historic and offers no guarantee of future performance, if your investment were to achieve an average 8.2% annual return, you would have just over R37 180 after five years and a whopping R93 130 after 10 years.

Scenario 2: Quitting smoking

In this scenario, if you were a conservative smoker who smokes just three packs of cigarettes a week at a cost of R38.50 each, this means that you would be spending R462 on cigarettes every month.

Say you now decided to take the plunge and quit smoking. To avoid the temptation to spend your cigarette money elsewhere, you invest the R462 you would have spent in a separate savings account at the beginning of every month.

You stay committed to your goal, and after a year you have a total of R5 544 saved. Since you have not smoked in the past 12 months, you next approach your life insurer to adjust your life insurance premiums to non-smoking rates based on your healthier lifestyle.

If you had purchased R2 million life cover as a young healthy female who smoked, your monthly premiums may cost R380. As a non-smoker, your new monthly premium could be as little as R190, saving you an additional R190 every month. This would bring your total monthly savings to R652.

You then invest your lump-sum and the additional monthly savings in a SA Multi Asset High Equity unit trust portfolio, which delivers the same 8.2% average annual returns. This means that you would have R56 820 saved after five years, and after 10 years you would have more than double the amount saved with a princely R134 000.

By contrast, if you were a young, healthy male who smoked, also with R2 million life cover, your life insurance premiums may cost you R592 every month. After submitting to a blood test to prove that you have quit smoking, your monthly premiums could be reduced to R294, saving you R298 every month.

You also invest your R5 544 lump sum in a SA Multi Asset High Equity unit trust portfolio, and top your investment up with the monthly R760 that you are saving in cigarettes and life insurance premiums.

If your investment achieved the same return as above, this means that you would have R64 860 after five years and an overwhelming R154 110 after a decade.

Wilson notes that while quitting smoking may represent a much bigger lifestyle change than giving up take-away coffees, this kind of financial motivator will make it far easier to remain committed to your goals.

"As the saying goes, 'If I can clearly see the benefit, I will gladly pay the price,'" she says.

More tips to power-up your savings

Wilson emphasises that you do not need large amounts to begin saving towards your financial goals.

"And once you have implemented some small savings habits and seen how your money grows, it will be easier to keep finding ways to save more," she says.

She offers the following tips for you to apply as you continue on your savings journey:

1. **Draw up a detailed budget:** The real reason you may not be saving is that you may not be aware of how much you are actually spending. A detailed budget will help you understand where your money is going, and identify areas you could cut back.

2. **Record your savings goals – and be specific:** Think about the reasons you would like to save, and set yourself clear goals as a motivator to stay focussed on your savings path. Quantify the amounts you would need, and be realistic about how much you must save to reach your goals.

3. **Set yourself small challenges:** Look for one area where you feel you are overspending. For example, research suggests that households may underestimate their grocery spending by as much as 20%. Set yourself a challenge to reduce your spending in this one area, one step at a time. Then rather than spending this money elsewhere, invest the money instead. Once you have conquered this challenge, look for the next place to reduce your spending.

4. **Turn your hobby into extra income:** With salaries already stretched, consider increasing your savings by turning hobbies such as baking and photography into an extra source of income.

5. **Consult your financial adviser:** A trusted financial adviser will be able to help you set measurable financial goals, and implement a comprehensive financial strategy to reach your goals. They will also be able to help you ensure that you are adequately protected against unexpected life events such as death or disability.

*A Multi Asset High Equity unit trust fund is a collective investment scheme that invests across a range of asset classes, namely equities, bonds, cash and property. These types of portfolios aim to deliver inflation-beating returns over the long-term, while offering protection against market volatility through diversification. Historic performance figures were sourced from I-Net Bridge.

Ends

To set up interviews please contact:
Lucienne Fild

Independent Communications Consultant
082 567 1533
lucienne@fild.co

Issued on behalf of:
Hildegard Wilson
Actuarial Society of South Africa

The Actuarial Society of South Africa is the professional organisation for actuaries and actuarial students in South Africa. The vision of the Actuarial Society is an actuarial profession of substance and stature, serving, and valued by, our communities as a primary source of authoritative advice and thought leadership in the understanding, modelling and management of financial and other measurable risks.