



Prudential Investment Managers

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## Help! My savings are behind

It's not an easy moment when you realise that your savings have fallen behind and your financial goals seem out of reach. But having this realisation is actually good news: now you can face up to the challenge and find solutions. By taking action sooner rather than later you can get back on the right track. Below are five tips to help get you started.

### **Tip 1: Scale back on spending**

Start by differentiating between essential expenses and discretionary spending. Write down what you spend money on, including monthly, recurring, and once-off expenses. Now consider each item and decide if it is truly essential and fixed (e.g. rent or medical aid) or if there is some room for cutting back.

### **Tip 2: Get your spending allocations right**

Financial planning experts often use the 50-15-5 rule as a simple guideline for allocating how your salary should be spent. The rule

states that 50% of your monthly salary should go towards essential expenses, which include rent, utilities, medical aid, food, transport, educational costs, and paying off debt. The next 15% should go towards long-term savings, such as your retirement fund, and another 5% should be dedicated to short-term savings, such as an emergency savings fund that will cover unexpected expenses. The remaining 30% should go towards “luxury” spending, such as clothing, entertainment, holidays, gifts and other “nice-to-haves”. If you have fallen behind on your savings, this 30% is the obvious place to divert spending from to help you catch up.

### **Tip 3: Make saving automatic**

Many people aim to save whatever they have at the end of the month, only to find there’s nothing left. This strategy is doomed to fail since it is human nature for people to want the best for their families and themselves. Tips 1 and 2 will help you find some areas where you can cut back. Now clarify what that savings amount is and set up a debit order every month so that this money is put aside automatically. You could allocate 30% of this amount towards your emergency savings fund, and 70% to your retirement savings. If you’re looking for guidance as to which fund is best suited for you, our [Fund Selector Tool](#) may be helpful. And if you’re wondering about the minimum investment amounts, setting up a debit order investment with Prudential starts from as little as R500 per month, and can be done [online](#) in under 10 minutes, making it both affordable and easy to get started.

### **Tip 4: Stay committed through the ups and downs**

In order to keep up with inflation over time, it makes sense for a big portion of your long-term savings to be invested in shares (also referred to as stocks or equities). And with an investment in shares, it is important to be prepared for volatility in your portfolio. Share prices go up over long periods of time, but in the short term, they often go down, too. Unexpected events (e.g. the Covid-19 pandemic) can have a big and sudden impact on the stock market, but generally these ‘bumps’ are smoothed out over time. Keeping a level head and avoiding impulsive decisions during difficult times is what sets successful investors apart from the rest. Over the last

year, many people opted to halt their monthly debit order investments and wait out the Covid-19 storm. But they missed out on a great opportunity to buy more shares at exceptionally low prices and benefit from the subsequent market recovery. Since the start of the pandemic, the [Prudential Equity Fund](#) has delivered an annualised return of 45.6% and the [Prudential Dividend Maximiser Fund](#) 34.2% for the 12 months ending April 2021. Investors who withdrew their investments or stopped their monthly contributions during this time would have missed out on this exceptional performance.

If you are serious about catching up on your savings, the best thing you can be is consistent – regardless of what is happening in the market.

## **Last tip: Put any extra income to use**

Putting your annual bonus or any other unexpected windfalls towards your savings catch-up plan will help you achieve your goal sooner. Once your savings are caught up, you may wish to tweak your monthly budget to allow more room for those “nice-to-haves” - which you’ll be able to enjoy with the peace of mind of knowing that your financial plan is on track.

To sum up, finding out that you’re behind on your savings can be incredibly daunting at first, and you may very well be tempted to simply give up and hope that the situation remedies itself. But without taking proactive action, it’s unlikely that your financial position will ever improve. The best thing to do is to tackle it head-on and look for ways to be more structured with your finances. Hopefully, these five tips have provided you with a good place to start.

Prudential offers [a range of savings and investment solutions](#) that can help you catch up on savings and achieve your financial goals. For more information, please feel free to contact our Client Services Team on 0860 105 775 or email us at [query@prudential.co.za](mailto:query@prudential.co.za).