



Paul Clitheroe

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the importance of saving

The government has handed down its latest Budget, and despite key changes to super contributions, the official age for retirement and changes to the private health insurance, the real headline grabber has been the level of debt needed to fund the budget. It's something of an irony that this has attracted so much attention when many Australian households have been racking up debt at a cracking pace over recent years – a personal time bomb that has scarcely raised an eyebrow.

By way of example, a 2007 report by the Investment and Financial Services Association noted that household saving as a proportion of disposable income has been declining since the early 1970s. In fact, since 2002-03, Australia's net household saving ratio – what we save compared to what we earn, has been negative. This means we've been borrowing money to buy things that we couldn't otherwise afford if we relied solely on our take home pay.

The same report goes on to say that while some of our debt has been used to buy assets like our homes, a significant chunk of our debt has gone towards what the boffins call 'consumption spending' - items of no lasting

value like new clothes, the latest appliances and overseas vacations.

I don't have a problem using debt to buy an asset like property, which should rise in value over the long term. But using debt for lifestyle purchases can land us in serious financial trouble, leaving behind a legacy of interest charges and even unmanageable repayments.

Part of the reason we tend to be poor savers is that spending is often much more fun than saving. So the secret to boosting your savings is to find ways of making saving a relatively easy and painless process.

Try this simple method for size. When you come home from work or the shops go straight to the piggy bank or moneybox and put the loose change from your pocket or purse into it. When the moneybox is full bank it in a special savings account or put it towards your mortgage.

It all sounds pretty basic, but even simple savings techniques can generate enormous figures over time.

From the age of 18, if you saved just \$2 per day into an account paying just 4% interest (about the going rate being offered on

many savings accounts today) by the time you turned 50 you could accumulate over \$42,000.

I reckon most of us could put aside a few dollars a day without even noticing its absence. And the beauty of saving is that it's never too late to start saving.

I realise that for some readers will say the family budget is so tight you can't spare a dollar to save. Okay, I know almost everyone goes through difficult periods. But for most people the tough times don't last forever. As soon as things take a turn for the better you really should grab the opportunity to save.

Paul Clitheroe's 'Making Money' for the week beginning 18 May 2009



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