The Associated Broker

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The 20-something financial jumpstart programme

Sure, they have the rest of their lives to be responsible with money. But those that start now will be way ahead of the game when it counts. Here are 6 strategic money moves every 20-something should make!

There are very few people who can say that they gave much thought to financial planning during their twenties. As long as they have enough money for niceties, then they are good to go. Even those few who know the importance of paying their bills on time often don't give much thought to planning for the future and learning about credit management.

Although they may be young and have the rest of their lives to be responsible with money, there are reasons to get a head start on positive personal finance practices. Try and convince them not to wait until their 30s or 40s to get serious about money.

If you are in your twenties right now then these 6 strategies will help you plan for a comfortable financial future:

1. Start Saving for Retirement

If you're dealing with low wages and high student debt, you may feel you can't afford to save for retirement. However, starting a retirement savings plan while young can have a tremendous impact on your future financial health because you'll maximize your retirement income thanks to the magic of compound interest. No one's saying you have to contribute the maximum each year to your Retirement Annuity or company benefit scheme. Pay what you can afford. As long as you're contributing something, you're on the right path and doing better than a lot of 20-something adults.

2. Live Within Your Means

After graduating from university and getting a job, you might be in a mad rush to achieve the lifestyle you were accustomed to growing up. However, realise that it took your parents years to acquire what they have, so don't expect the same lifestyle in your first couple of years out of school.

If you learn how to live within your means in your 20s, you can carry this good habit throughout your entire adulthood. You're less likely to get into deep credit card debt. And living within your means makes it's easier to save for retirement and enjoy other things in life, such as the occasional holiday.

3. Avoid Credit Card Debt

The debt you accumulate in your 20s can haunt you for decades. So before you buy houses, cars, or start a family, tackle your debt. The older we get, the more responsibilities we take on. Lingering debt means additional interest, and it becomes harder

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to wipe out these balances. You might be ready to move out and exert your independence after graduating but if you can, stay home for a little while longer and use this time to pay off student loan debt and credit card debt.

4. Get Insured

Just because you're young doesn't mean you're invincible. You can get sick, injured, or die unexpectedly, just like older folks. No one likes to think about bad situations, but you need to prepare for the worst. The best time to buy insurance is while you're young and healthy. This includes health, life, and disability insurance. It's not only a responsible way to protect your finances, but you also might qualify for a better rate because of your age. If you live on your own, make sure you get insurance to cover the replacement cost of personal belongings in the event of a natural disaster, theft, or fire.

5. Build an Emergency Fund

Your 20s is also one of the best times to start building an emergency fund. Talk to any adult in their 30s or 40s with a home loan or kids and they'll tell you it's harder to save when there's so many financial responsibilities. If you're still living at home, try living off half your income and save the other half until you build a nest egg of at least three to six months' living expenses.

6. Establish Your Credit History

You can't rely on your parents forever. Now's the time to establish credit if you plan to buy a house and be financially independent in the future. Applying for a student loan is a good start, but diversifying your credit can build an even stronger credit score. You can apply for another installment loan, such as an car loan, or you can apply for a credit card. It isn't enough to apply for credit, you have to use credit responsibly. Don't get in over your head. Only charge what you can afford, and make every effort to pay off your credit card bills in full every month, and on time. Credit building is a slow, gradual process. And regularly monitor your credit report to check for inaccuracies or identity theft, which can drive down your credit rating.

The Real Secret

Very few of us wanted to be "boring" planners in our twenties. We wanted to be free, live in the now and be spontaneous. However, there is one vital skill of accumulating wealth that all 20-somethings should start practising right now. It isn't sexy or exciting but neither is it complex to understand. And that secret is to live below your means. That's it. The bigger the difference between what you earn and what what you spend, the sooner you'll find yourself with enough money to do what you want with your life and that is *real* wealth.

Redefining rich

What is *real* wealth? Central to all of this is redefining what it means to be rich. If you need a huge home and an expensive car to "feel" rich, then this advice won't work for you. But if you define affluence as the ability to spend time with friends and family, to travel, to do work you love and to stop worrying about money, then living below your means is all it takes.

Real freedom is the ability to make life choices that make you happy. Frugality puts money in your pocket so you can do just that.

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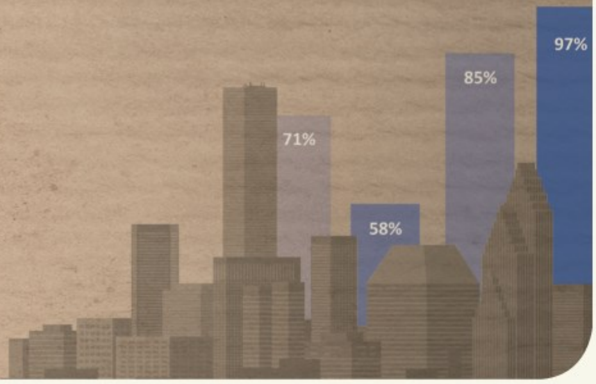

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Taking cover

Many people assume that if they have a home contents insurance policy in place, they will be covered if any of their possessions are lost, stolen or damaged. What they don't realise is that if these possessions are not insured at their correct replacement value they could have to cough up – even if they have been diligently paying their insurance premiums every month. In this article we deal with the nature and risks of under insurance and provide advice on how to prevent being under insured.

When you take out an insurance policy, you are required to explain the value of the property (or its contents) that you want to insure. This value is known as "the sum insured". In some cases there will be a discrepancy between the value of the property and the value of the sum insured. If the value of the property is higher than the sum insured – this is known as "under-insurance". Why? Because in the event of a total loss, the sum insured will not pay for the full value of the claim.

What remedies do insurers have for under insurance?

At the time that any claim is made for loss under an insurance contract, whether this is for a partial value of the whole sum insured or the entire value, an insurer may assess the value of that property as part of the claims processing routine. If the insurer discovers that the claimant is "under-insured" they may, if there is a clause in the contract (and there usually is), "apply average" to the policy.

What does "apply average" mean?

This means that the insurer is allowed to reduce their payout in the event of the claim in proportion to the amount under-insured.

Let's take an example:

A policyholder insures his home and contents for R200,000.

He makes a claim for R50,000 following a fire.

The insurer assesses the total value (before the fire) of the home and contents to be R250,000.

Thus the household cover was only for 80% (R200,000/R250,000) of the actual value.

Thus the payment made when the insurer chooses to "apply average" will be 80% of R50,000 which is R40,000.

What is the replacement value of goods?

It is important to also understand the term replacement value:

The replacement value of goods is what it

The Ancient History of Insurance

In some sense, we can say that insurance dates back to early human society. We know of two types of economies in human societies: natural or non-monetary economies (using barter and trade with no centralized nor standardized set of financial instruments) and monetary economies (with markets, currency, financial instruments and so on). Insurance in the former case entails agreements of mutual aid. If one family's house gets destroyed, the neighbours are committed to help rebuild it. Granaries embodied another early form of insurance to indemnify against famines. These types of insurance have survived to the present day in countries or areas where a modern money economy with its financial instruments is not widespread.

The first methods of transferring or distributing risk in a monetary economy, were practised by Chinese and Babylonian traders in the 3rd and 2nd millennia BC, respectively. Chinese merchants travelling treacherous river rapids would redistribute their wares across many vessels to limit the loss due to any single vessel's capsizing. The Babylonians developed a system which was recorded in the famous Code of Hammurabi, c. 1750 BC, and practised by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the

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would cost you, at the time of a claim, to replace all your belongings with similar brand new ones. If your home is insured for replacement value and you submit a claim, your insurer will calculate the replacement value you should have insured yourself for. If you insured your belongings for less than that, your insurer will only pay a part of your claim.

Why would a person be under insured?

The reasons for being found under insured can be either oversight on the part of the insured or his or her deliberate choice!

Oversight

With inflation there's likely to be an increasing gap between the value for which you insured your goods and their real replacement value over time. Your policy may take an 8% inflation increase into account, but the replacement value of your goods might increase by 15% a year. Over time your goods will be insured for less than their replacement value. You might also purchase expensive new “big ticket” items like a plasma television, or a top of the range sound system, thereby increasing the value of your household contents, without increasing the stated sum assured on your policy. Many people are just not vigilant enough when it comes to updating their policies and inventory lists. This is probably the most common sort of under insurance encountered.

Deliberate choice

Sometimes it is just too expensive to insure the items to their full replacement value, and some reason that, while they won't be able to replace the exact item, some sort of financial compensation for their loss is better than none at all. These insured clients under insure their goods in order to save a bit of money on their monthly insurance premiums.

How to avoid becoming under insured

“You need to review your insurance policy every year, not merely renew it,” Dennis Jooste, the former Ombudsman for Short-term Insurance, once advised. When reviewing your policy you should make sure that you are insured for the right amount. You need not wait for a policy’s anniversary to review your policy; you can do this any time.

Keep in mind that the replacement values of goods change over time.

You – or an expert - need to make a realistic estimate of the true replacement value of your insurable assets, equipment etc. Remember to include not only major furniture, appliances and electronic goods but also sports equipment (water skis, bicycles, gym equipment etc), suitcases, travel bags, binoculars, camping gear, tableware (dishes, dinner service, glasses, kitchen utensils, pans, cutlery, etc), linen, curtains, bedding, clothing and shoes (for all residents including children).

Update your household inventory list or other list of assets on a regular basis.

There are a multitude of free inventory apps available from your phone / tablet app store.

shipment be stolen or lost at sea.

Merchants have sought methods to minimize risks since early times. Pictured, *Governors of the Wine Merchant's Guild* by Ferdinand Bol, c. 1680.

Achaemenian monarchs in Ancient Persia were presented with annual gifts from the various ethnic groups under their control. This would function as an early form of political insurance, and officially bound the Persian monarch to protect the group from harm.

At some point in the 1st millennium BC, the inhabitants of Rhodes created the 'general average'. This allowed groups of merchants to pay to insure their goods being shipped together. The collected premiums would be used to reimburse any merchant whose goods were jettisoned during transport, whether to storm or sinkage.

The ancient Athenian "maritime loan" advanced money for voyages with repayment being cancelled if the ship was lost. In the 4th century BC, rates for the loans differed according to safe or dangerous times of year, implying an intuitive pricing of risk with an effect similar to insurance.

The Greeks and Romans introduced the origins of health and life insurance c. 600 BC when they created guilds called "benevolent societies" which cared for the families of deceased members, as well as paying funeral expenses of members. Guilds in the Middle Ages served a similar purpose. The Jewish Talmud also deals with several aspects of insuring goods. Before insurance was established in the late 17th century, "friendly societies" existed in England, in which people donated amounts of money to a general sum that could be used for emergencies.