

BY BEN MCGUIRE

# Generation Y left high and dry when savings run out



**T**hey say that “Money is the root of all evil” and for one in two New Zealanders it is, according to a recent survey conducted by North and South magazine.

One in three kiwi’s expect that their financial problems will only deteriorate in the coming years. With a recession occurring, New Zealand youth spending more and saving less, we are becoming a nation of

swimmers drowning in debt. New Zealand has public debt totaling \$42.84 billion as of 2005. If you divide that by New Zealand’s 4,115,771 population the average debt per person is \$10,408.74.

On top of that, as of April 10<sup>th</sup> 2008, collective student debt in New Zealand hit a monumental \$10 Billion. People’s lack of knowledge on the dry topic of money has led to a nation spending far beyond their

means and heading for a wall of credit card debt.

The best way to deal with a financial problem is planning and understanding in order to find a solution. People need to understand some of the basic principles of money, savings and debt. Issues of serious concern for us should be youth and student debt, cost of living, changing trends in society, how we save and the lack of financial

BY BEN MCGUIRE



education in budgeting for youth.

**Students drown in tertiary debt**

**S**tudent loans mark the starting point at which the next generation enters their financial adult life. With student loan figures reaching all time highs of \$10 billion isn't it time to stop? The Labour government introduced interest free student loans in 1992.

Now sixteen years later in 2008 the debt train has simply sped up as students see this plan as a way to gain easy no-obligation money and instead of spending it on education they blow the loan on overseas holidays, partying and everything but study.

"Why should I worry, I can borrow it now for overseas holidays and pay it back later", says Auckland University student, Tamara Gedye (19). The problem for Tamara and even for some adults is the lack of understanding about the flow on effects of borrowing money.

Students need to work out what money they need to borrow and grasp the idea that they will have to pay it back. People get so caught up in the idea that the loan is interest free, they forget to put the amount into perspective of how long it will take them to pay it back, even without the interest. A student allowance, at \$150 NZ a week for three years will end up having a loan of \$23,400. Tertiary education is expensive. Courses can easily cost \$4,500 a year, and all banks are very keen to loan students money at an interest free rate. The government lends students \$1000 annually for course related costs. Add up all these amounts up and a typical student

loan can reach \$39,900.

Studylink is the government agency that deals with student loans. It is important to remember that all money borrowed though Studylink will remain interest free. However, when banks offer students additional funds they will not receive interest while they study, but once they cease being a student they will apply interest to any outstanding debt.

Paying the loan back and at what rate is vital information. Once a person earns over a certain amount of money, (threshold; \$18,148 for the 2009 tax year) they will have to start paying back 10 cents for every dollar earned above the stated amount.

There are some things you can do as a student to reduce your student loan.

*"With student loan figures reaching all time highs of \$10 billion isn't it time to stop?"*

Borrow only what you need for your course work and do not factor in partying and holidays into the budget. Try and hold down a part time job so that even if you have to borrow the course fees and the course related costs you will save yourself the \$23,400 in student allowance.

You should also see if you are eligible for the living allowance, which you don't have to pay it back.

**Changing tides in New Zealand's saving trends**

**C**hanging tides in New Zealand's saving trends  
 People's views of money have changed. 'Save what you have' is a thing of the past and has given way to a 'buy now pay later' attitude adopted by generation Y. Generation Y is the generation born from 1982 to the mid-1990s. Generation Y is like no other generation; born into a changing world with increasing technology and desire to consume, it is particularly hard for these youths to save money. 97% own a computer, 97% download music using peer-to-peer file sharing and 94% own a cell phone; without a doubt generation Y is truly driven by consumer needs.

The changing economy has also had effects on other generations. No longer do children expect to inherit money from their parents. This is because people are living longer and they have to use their resources and sometimes equity to support their life style into their 90's and beyond. Parents will most likely spend their retirement money on day to day living and holidays. Also people have started to downgrade the family home to a smaller house or even a retirement village. Parents are truly spending their money to the last dime. Rutherford College year 13 student Carey Sizer says, "My parents worked hard for their money and if they spend it to the last, so be it"

A key reason why people are constantly in debt is because as well as



BY BEN MCGUIRE

buying the essential items such as, food, water and power, individuals are pressured into keeping up with the latest trends and buy too many luxury items.

The iWant ad campaign lunched by Apple iPods sent shock waves through the advertising world, with mothers saying "This just goes to show the materialistic world we live in and our kids will be exposed to." People, globally, are now spending billions on goods such as cellphones, iPods and TV's that there is no wonder we are in so much debt.

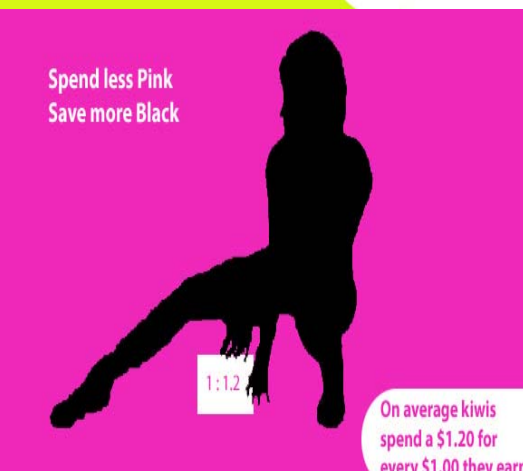
In terms of savers there are two types of people.

#### Savers and Spenders

People that look at the future and people that live for today. People that look at the future are usually good savers. These people have the ability to see what they will have to save for and are able to set goals financially that they need to achieve. Then at the other extreme there are people that live for today. They have no concept that they need to save for their retirement or overseas holiday. They want to spend their money now so they can reap the immediate rewards rather than the rewards down the track.

The biggest thing that anyone will save for is their retirement. This is something that is inevitable as eventually everyone has to stop working when they become older. The basic idea of saving for your retirement is that from the age of 25 you save 10% of your earnings, excluding any money contributed by your employee. This way the amount should be suitable to anyone's income and any money you have in shares and property will be a bonus on top.

Although these facts stated above are widely published in recent surveys done by the retirement commission only 52% of New Zealanders are saving for retirement down from 57% a year ago.



## The tide goes out on kiwi families

Unfortunately times are hard and some family situations are leading towards children missing out on some of the basics. Dairy products are so expensive that families just can't afford to buy them.

Melanie Sutherland, concerned parent says, "Although my family never goes without, my biggest fear is one day I won't be able to put food on the table for my children."

The cost of life is increasing every day. Household items cost more to buy; milk is up 17.8 %, cheese is up 37. 1 % and butter up 66.2 % in the last two years. On top of it all mortgage rates are on the rise. People are cutting back. Even brands such as Budget and Pams, who market themselves as low price brands, have been forced to make annual percentage increases to cope with rises in basic food and transport costs. This has further implications as the standard of living families have will have to be downgraded to cope with price increases.

It is estimated that nearly a third of all fixed mortgages are due for refinancing adding extra interest payments per week for a family. On a loan of around \$350,000 that is about \$100 a week, excluding the amount you pay off your loan each week, clearly showing how the New Zealand economy is now affecting the average kiwi family.

One way to deal with this problem is by educating people about financial literacy. One of the problems in New Zealand society is poverty. Each year 15,000 primary pupils will start the year on a empty stomach (Herald/ KidsCan). These are the children that don't appear to have the means to learn how to save by examples set at home and should be taught at school in order to break the cycle of poverty.

Distance aside, New Zealand is still threatened by the global credit crunch (This means money exists on a balance sheet but cash that can actually change

BY BEN MCGUIRE

hands is in short supply). With global commodity prices such as oil and biofuels increasing, people are paying more for staples such as milk, butter, sugar, bread and cheese. Now, even more than ever, New Zealand families need to know how to make their money go further and how to save.

**H**ow you save

Saving money is one of those tasks that is easier said than done. There's more to it than just spending less money, although that part alone can be challenging. How much money will you save, where will you put it, and how can you make sure it stays there?

According to stats New Zealanders are bad savers. The average New Zealanders spend \$1.20 for every \$1 they earn. People need to learn that the fastest way to becoming rich is to pay off your debt. If you have several loans, HP (hire purchases) or credit cards try and consolidate by moving all of them into an easy to manage loan. Banks are usually the best companies to approach regarding consolidation, as they offer the lowest interest rates but there are other alternative companies all offering different rates.

If you are unable to consolidate your debt, then choose to prioritise paying off things with the highest interest rates and work your way down. Remember the two golden rules.

One: planning and shopping around are easy to do and can save you time and effort. Two: there is no such thing as a free lunch and the same is said about interest free products or services. There are always administrative costs and maintenance costs hidden in the contract that can run into expensive add-ons.

Once out of debt look around for the best place to bank your money. Different banks offer better interest accounts but some may not be suitable for what you want to do with your money. Again apply the shopping around rule. Spread your money around, do not keep it all in one place. The safest place is usually banks



who, as well as offering savings accounts, also offer term investments (whereby a lump sum of money is locked in and invested by the bank on your behalf for a set amount of time seeing a pre established return rate). Some more risky options are shares. The rule of thumb is that the higher the return the higher the risk is involved but even the largest companies can fold overnight. The largest market for investment would be the property market. This however requires a large amount of money to buy into the market but can see high return in only several short years.

*“Saving money is one of those tasks that is easier said than done. There's more to it than just spending less”*

The most publicised plan is KiwiSaver. It creates controversy with it being a government fund and a way of getting money off people to float New Zealand's budget. This creates fears that National (a government party) will wipe its hands of the idea if they come to power.

The basic concept is that upon signing up the government gives you a \$1000 kick start. Each year after that the government will match your contributions up to \$1043 in tax cuts a year. As of April 2008 your employer also has to match 1% to your kiwi saver account, based on your earnings. Another plus to kiwi saver is that it can

be used for purchasing a first home. The government will contribute \$5000 towards a KiwiSaver's first home. You can also withdraw some of your kiwi saver money to help buy a house and pay rent.

As well as many good points to KiwiSaver there are some bad. This is a long term contract and you have too little access to the money before retirement. KiwiSaver is not like a bank account. The only way you have access to it is if you can prove financial hardship or file for bankruptcy. Even if you move overseas you have to wait 12 months for it to be released and it is not certain as to what amount you get back e.g. whether it is just yours and your employee's money and not the government's. It is also important that the government does not have liability if the KiwiSaver manager goes under/ files for bankruptcy, therefore you lose all your money. So KiwiSaver has good points and bad points and just to say it is good for most doesn't mean it's right for you.

New Zealand society has much to learn in terms of money, savings and financial literacy. This can be achieved though educating people and instilling in them values from a young age.

People need to stand down from their moral grounds that money doesn't buy you happiness and realise that it does "bring you a more pleasant form of misery." Spike Milligan