MONEYTALKS

Susanna Stuart reminds us about putting something away for a stormy day

CHOICE WHEN LESS IS MORE

Kiwis love freedom of choice. A few years ago we voted on a referendum which, if it had passed, would have made it compulsory for us to save into a superannuation fund. Around seven out of 10 voted against the measure.

Since then, New Zealand's personal savings record remains abysmal. The Government is attempting to help us save for retirement by rolling out a work-based savings initiative, KiwiSaver, later this year. Although voluntary, it offers incentives for employers and employees to contribute.

Each day we make decisions where we're forced to trade off the present and the future, but our brains aren't very good at it.

Richard Thaler, one of the pioneers of Behavioural Finance (a scientific method of analysing how we make economic decisions) proved in a number of clever experiments that this is because we generally put a lot more emphasis on the tangible present rather than on the future.

Part of this stems from our tendency to place higher value on potential losses than on potential gains. Compulsory super probably seemed to the public more like a tax where we'd be out of pocket today, than a savings plan where we'd one day get our own pot of gold.

Then there are the simple gut reasons why we don't save money: The battle between our instinctive brain versus the rational brain.

High credit limits will also often lead to greater spending. Psychological tests show, for example, that those with a bigger box of chocolates will eat more than those with a smaller box. It isn't about hunger, it's about availability.

Despite these obstacles I feel more people actually like the idea of enforced savings these days. In my position as a financial adviser one of the strategies I suggest is to set up the finances of clients so that they effectively have less temptation or freedom. Automatic payments go into mortgage accounts and savings schemes before my clients even get a look at their hard-won wages. Less choice? That's the way they want it. Sometimes less can be good. N

how to trick yourself into saving

To get over our tendency not to save, Richard Thaler devised a simple strategy called Save More Tomorrow. He says if you're employed, you could ask your employer to direct all future pay rises into a separate bank account. While diverting existing money into savings feels like a sacrifice, Richard has devised this strategy to outwit ourselves:

- This isn't rocking the status quo (where humans tend to want to stay). It doesn't feel as if we're changing the way we receive or spend our money.
- Because you're committing future income, it won't feel so hard. It's 'somewhere out there'.
- There is no emotional sacrifice. Because you can't see the money, you're not giving up any 'financial chocolate on the plate'.

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MAKINGCENTS

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Q I hear KiwiSaver has a mortgage diversion option. I want to save but I have a hefty mortgage. I am expecting a pay rise so should I be paying off the mortgage first?

Ursula, Wellington

A Without any tax concessions on the earnings of the super funds themselves, paying off the mortgage first will almost always provide a better return. Once this is paid off, you can do some serious saving and investing for your future.