



As a young person one of the last things on your mind is planning for the future or your retirement.

Research shows that Australians are living longer therefore it is crucial that and at some point you start putting some money away to meet both your short term and long term financial needs.

For example, putting 10% of your net salary away each time you are paid is a great disciplined way to save money. This money can be used in emergencies if needed but the main aim is to build a substantial amount, say \$5,000, to begin investing for your future.

You can create an ongoing savings plan with managed funds or shares whereby you invest a regular monthly amount. This strategy coupled with the re-investment of all investment income will allow you to benefit from the long term benefits of compound interest described by Albert Einstein as the 8th wonder of the world.

In simple terms, compound interest is interest paid on interest – this means you are earning interest not only on the amounts you invest but also on the accrued investment earnings. For example, \$5,000 invested for one year at 5 per cent a year would yield \$250 in its first year and at the end of the second year would pay 5 per cent on \$5,250 (being the original \$5,000 plus the \$250 earned in the first year).

The following table demonstrates the compounding effects of investing \$10,000 per annum for 40 years compared to investing the same amount for only 30 years. Based on an investment return of 7% paid quarterly, the compounding effect over the additional 10 years equates to an increase in capital of \$1,167,508 after a 40 year investment period – in effect doubling your capital.

	\$10,000 invested each year for 40 years	\$10,000 invested each year for 30 years
Final balance	\$2,187,796	\$1,020,288

As demonstrated above, no matter what your financial goals are the earlier you start saving the better off you will be over the long term.

Protect your most valuable asset – your ability to earn income

When you are young your main financial asset is the ability to earn income. Have you thought how you would cope if you were unable to work because of sickness or accident? If you have a mortgage or pay rent would you survive if your income suddenly ceased?

It is hard to imagine, but accidents happen and young people do get sick. Income Protection Insurance provides a monthly payment of up to 75% of your income if you are unable to work due to sickness or accident. The premiums are also fully tax deductible which is an added incentive.