PLAN YOUR FINANCE

IFE Academy

Education Simplified

INVESTORS FINANCIAL EDUCATION ACADEMY

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About this book

There is a broad misconception about financial planning – that it's just about budgeting and cutting back, or that it's just about investing. Others figure they're generally moving in the right direction and hope their financial goals will take care of themselves. It is also believed that financial planning is something for people who are younger, older or wealthier. The fact is anyone can benefit from financial planning, regardless of life stage or Income level.

When you have the right financial plan for your circumstances – covering every area of your financial life, from investments to tax planning, insurance needs and retirement planning – you can balance what you need and want today with the personal goals you have for the future.

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FINANCIAL PLANNING

- To fulfil the basic needs of every individual, it is very important to have a proper financial plan in place. If you wish to fulfil the desires of your life, money plays a very important role. This can be achieved only through proper financial planning.
- Though money can't buy you everything, but certainly money in your hands can at least satisfy your basic needs. Then there is another ever present issue of wants exceeding the means. For most of us, our means (i.e. income) are generally short for our needs.
- This is where Financial Planning comes to our rescue. In very simple words, Financial Planning is the process to understand our needs and financial goals, quantify them and match them with expected income over a sufficiently long-time horizon.
- The objective of financial planning is to ensure that the right amount of money is available at the right point in the future to achieve an individual's life goals.
- Since, needs and goals of each individual are different, financial planning is required to be done for every individual separately. However, there are some basic concepts or fundamental principles which are applicable to all of us.

BASICS OF FINANCIAL PLANNING:

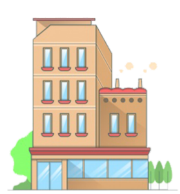
- Financial planning is the step-by-step process of developing a personal roadmap for your financial well being. The inputs to the process of financial planning are:

- The output of the financial planning process is a personal financial plan that tells you how to invest your money to achieve your goals, keeping in mind your risk appetite, inflation, real returns, and taxes. In short, financial planning is the process of systematically planning your finances towards achieving your financial life goals.

LIFE GOALS:

- Who doesn't nurture dreams of owning a bigger house or car, exploring the world, giving their children the best possible education, a blissful retirement, and so on? Basically, these dreams are life goals. And one surely needs money to achieve them.
- Consider this example. Mr. and Mrs. Bharat, aged 35 and 32 respectively, have a three-year-old daughter. Both work in private sector companies. Mr. Bharat plans to retire when he's 50.
- From their current one bedroom rented apartment, the Bharats hope to move to their own two bedroom apartment costing around Rs 2 crore within the next five years. They own a small car, for which they have availed of a loan. Mr. Bharat reckons that he will need Rs 30 lakh for his daughter's higher education 15 years later.
- He also wants to build a corpus of Rs 3 crore for his retirement. The goals are charted out, alright. But what's important is to distinguish the short-term goals from the long-term goals. As a general rule, any life goal that needs to be met within five years can be considered as short-term.
- Beyond that, any other goal can be classified as long-term. By this classification, the Bharat goals can be classified as follows:

1 Short - Term Goal



3BHK Appartments

2 Long - Term Goals

Higher Education

Retirement Corpus

- Using a similar yardstick, you may classify your own life goals. Each of your goals, whether short-term or long-term, needs financing. Carefully planning your finances in order to have the right amount at your disposal at the right time is what financial planning is about.

FINANCIAL PLANNING PROCESS:

Six Step Process:

1 Identify your current financial situation

Financial Discussion

Sit down with all the earning members of your family and gather all financial information (about your sources of income, debts, assets, liabilities, etc.). You will have a clear picture of your current financial situation and you could then study it under the basic heads that it is spread out in.

2 Identify your goals

Short & Long Term Goals

Ask each member from your family to list what they think are current and future family goals. Prioritize each goal by establishing consensus and put a time period against each, i.e., when you will need the finances to achieve that goal. Quantify each goal by putting a financial value to each one. This exercise allows you to clearly distinguish between your short-term and long-term goals, and how much money you need for each.

3 Identify financial gaps

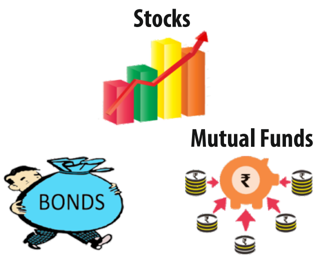
Once you know where you stand financially, i.e., your present assets and liabilities and your potential to save, and where you want to be in terms of the financial goals that you want to achieve, a simple calculation gives you an idea of the shortfall. You begin to see clearly the sum of funds you need for specific goals with respect to the time factor.

This is important because it paves the way for you to identify the right investments that will generate the necessary income within the time required to cover the shortfall so that you can achieve your goals.

4 Prepare your personal financial plan

Once you have a bird's eye view of your financial gaps, you need to review various investment options such as stocks, equity mutual funds, debt instruments such as PPF, bonds, fixed deposits, debt funds, etc. and identify which instrument or a combination thereof best suits your needs. The time frame for your investment must correspond with the time period of your goals.

Financial Plan



5 Implement your financial plan

It's now time to put things into action. Gather necessary documents, open necessary bank, demat, trading accounts, communicate with brokers and get started. Most importantly, start investing and stick to your plan.

Implementing

6 Periodically review your plan

You may have implemented your financial plan and out it into full fledged action. However, financial planning is not a one time activity. A successful plan needs serious commitment and periodical review (once in six months, or at a major event such as birth, death, inheritance). You should be prepared to make minor or major revisions to your current financial situation, goals and investment time frame based on a review of the performance of your investments. If you are not inclined or not comfortable developing your own plan (feel this is just beyond you) you can always consult professional financial planners, who will take you through the whole process. As financial planning is supposed to see you through your life, the process is continuously reviewed and fine tuned to account for changes in your life and in the financial environment.

Financial Planner

BENEFITS OF FINANCIAL PLANNING

Let's take a look at how planning ahead financially can give you a solid start for a secure future:

- Create your own wealth Most of us prefer to buy things at the last moment and then pay the interest and principal amount over the course of next few months. But how many have actually stopped and thought am I overpaying when I buy things at the last moment? Well, most of the times you do.
- If you start planning today for something you want to buy in the near future, your savings will buy that thing in a more cost-effective way than your instalments will ever do. These savings will earn interest for you (as opposed to you paying interest in instalments) and create substantial wealth in the long run if you plan your finances in a phased manner.

Manage your Income, Cash Flow and Capital:

Through planning, it is possible to manage your income in an effective way. It is certainly a plus if you can understand, well in advance, the money you will need to spend for your monthly expenditures, how much taxes you need to pay and ultimately how much you are going to save. Keep a careful track of your spending patterns and expenses. It will help in generating more cash flow for you. Just be cognizant in your spending and budget your money for an increased cash flow, resulting in an increase in capital. All this can help you to invest more for your future.

Secure your near and dear ones:

Your family needs to benefit from any decisions you take, financially or otherwise. By following a meticulous plan for your investments and returns you will be providing them with financial security – a gift of supreme value. Having the correct amount of insurance coverage and policies will provide peace of mind to you and your loved ones.

Enhance your financial understanding:

If you have a good grasp of your own finances and how they work for you, you are one happy individual. Financial planning gives you an edge over others by providing a better understanding of financial concepts and helping you to achieve proper control over your investments. All assets look desirable from a distance. But many of them have unseen liabilities attached to them. The knowledge of the real value of an asset comes with a good grasp on the financial basics. You can plan ahead by considering your objectives, risk appetite and personal preferences and then invest in the right assets to meet your needs and goals in an effective way.

Spend freely:

Who wouldn't want a lavish life and spend freely over vacations? It is possible if you plan your monthly budget and maintain your expenses on a regular basis. Planning helps in avoiding unnecessary expenses. Plan ahead and spend freely knowing that your savings are not going to be hampered in any way.

HEALTHY STANDARD OF LIVING

How do you plan to support your current, if not an improved lifestyle in the future? People who plan ahead and save money as per their requirements are able to accumulate enough wealth to lead a comfortable life. Having a financial goal and a plan which supports your goal will help you grow your money in a logical way. Well, if you have come this far, you really are interested in understanding the basics of formulating a financial plan. Please remember, people who breeze ahead in their life getting what they want, are usually the ones who financially plan ahead. They set individualistic goals and achieve them with the financial know-how. Having a good plan in place is the only way to have sound financial security. Financial planning can be done individually if you have the required financial knowledge. However, it is generally better to take the guidance of SEBI registered advisors or experts in this field. A professionally qualified and registered financial advisor can save a lot of your valuable time and also lets you to benefit from his experience and skills.

You just need to follow the simple steps enlisted below to open the gates of a financially secured life :

Planning and setting realistic goals:

Every individual have different financial goals. Financial goals are nothing but targets which are driven by specific future financial needs. Set a goal for yourself. For instance your goal could be to arrange Rs 25 Lakh for higher education of your child when he / she graduates. Another example of your goal could be to arrange a defined amount of money for destination wedding of your son or daughter when he or she turns, say 25 years. What about the dream vacation you always wanted? Jot down your goals with absolute clarity there should be no confusion about your requirements. Start by asking yourself a question – What do I want in the next 10 years? Give a detailed answer, avoid general statements like, "I want a lot of money." Keep your goals realistic. You can succeed only with clearly defined attainable goals. It is important to be clear about your goals and these goals are achievable only when you put a time frame on them. If you want a house, when do you want it? It cannot be a vague time in the future write down the time frame in measurable years say, I want to own a house by the time I turn 50 years i.e. in say 10 years from now. Setting a goal does not mean that's permanent and one cannot change it ever. It is rather prudent to periodically review your goals and make required adjustments.

Start Saving:

The key to any sound savings plan is to learn to control your expenditures. If your expenditures increase in a direct proportion to your increase in income, no matter how much you earn, it is never going to be enough. A lot of people are stuck in this vicious circle. After enlisting your expenditures, determine where you might be spending too much. Track your money. Where does it go? What are your expenses? Can you cut down the frivolous spendings? You also need to take into account the expenses that you do not incur every month – car repairs, Annual Maintenance Contracts, even insurance premiums. Develop a detailed monthly budget for your money. And, when you are doing this exercise, please remember that it is okay to treat yourself once in a while. Look for ways to save, but don't be too harsh on yourself. You will also want to free up some part of your income for creating a cushion in advent of unexpected expenses. This way, you won't be left out in the open to deal with emergencies.

Insure Yourself:

If you have a family, it goes without saying that you need to have an insurance coverage to protect your loved ones against unexpected crisis. Plan for adequate health insurance, term insurance, car or bike insurance cover etc. taking into account your financial situation. Insure your family against the unexpected expenses to avoid any financial burden in the future.

Build a Portfolio:

After you insure yourself and your family, monitor your other additional expenses and save wherever you can. The next step is to start looking for avenues to invest the savings in. For new and seasoned investors alike, the approach to start a portfolio is to invest in assets which are well diversified – some with low risk - low returns such as Fixed Deposits (FDs), Recurring Deposits (RDs), PPF etc. and some with high risk - high returns such as Equities etc. Then there are some assets which carry medium risk and offer medium returns, for example, balanced mutual fund. Always ensure to have an adequate mix of financial products in your portfolio. You can manage your portfolio perfectly by matching your investments with your risk appetite. Your investments need to be spread across different asset classes so that even if one of your investments fails to achieve the expected results, you are compensated to some extent by returns earned in different investments. It is nearly a universal truth that not all the asset classes perform too well or too bad, at the same time.

Keep track of your investments:

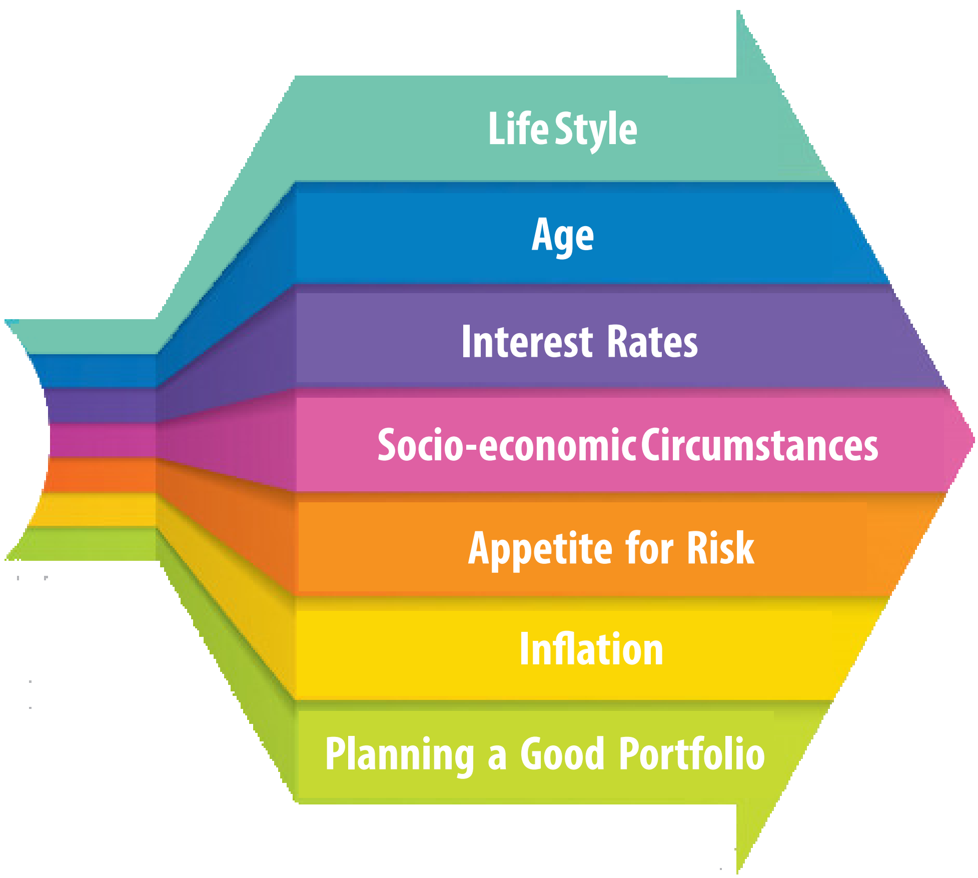
Investing in an asset and then forgetting all about it is not an ideal strategy to achieve your goals. The excuses are endless I do not have the time or I am simply not interested in the short term. But this habit can wreck more damage than do you good. You need to manage your financial plan with periodic check-ups to ensure that it remains consistent with your personal financial situation. This is necessary as over a period of time your goals may change, so will your income, debts, family needs and health. With a Demat Account, you can hold all your investments in securities market for example, equity shares, preference shares, mutual fund units, bonds, debentures, sovereign gold bonds, government securities etc., at one place. This would help you monitor composition of your portfolio and changes in the total portfolio value.

You can also keep your insurance policies in electronic form through your e-Insurance Account (eIA) .

Keep an alternate plan ready:

For every financial goal in your plan you must have an exit strategy in place. For instance, your son may desire to pursue a management course abroad, requiring more money than what you had planned for his MBA degree within country. For such a case, you must have ability to free some of your other investments to meet the demands. Financial planning requires some groundwork. But once you master the art of managing your finances, it will help you to achieve your dreams. There are various factors that affect the formulation of each individual's financial plan. These factors influence a person's ability to take risks and the amount of savings he/she can actually manage to convert into investments. Some of them are listed below:

FACTORS INFLUENCING FINANCES



Lifestyle:

The house you live in, the car you own, the vacations you take every year and your ability to guilt-spend in a greater capacity – all these are indicators of your standard of living or 'SOL' as it is popularly called. SOL is a major factor which decides the path your investments are going to take in the future. As said, higher the standard of living, greater would be the investments.

Appetite for risk:

Many a times, windfall gains are a direct result of higher risks taken. However, there is a downside to this – you can lose everything you own too. Each person has their own appetite for taking risks. Some are naturally more comfortable taking risks than others. The other category of people who like to take either no risk or measured risk are termed as being 'risk averse'. Your financial plan will shape up in line with your capacity to take risks. It goes without saying that your returns are directly related to your risk appetite.

Age:

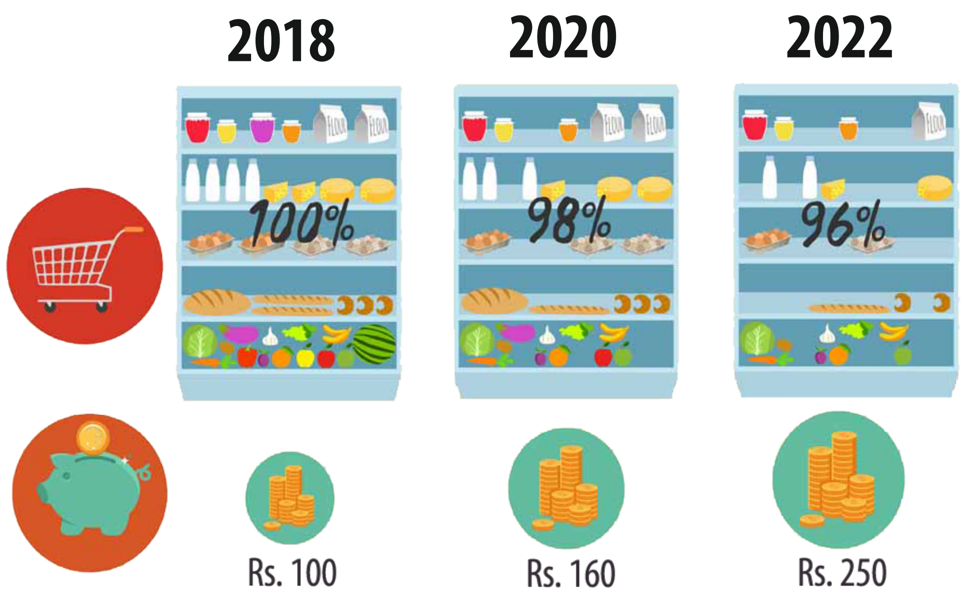
Age has a direct relation with one's financial goals and also is important factor while choosing the investment products. The golden rule is to start investing as early as possible. If you are asking the question today – when should I start investment? Then the answer is – You are late, sir. You should have started investment yesterday. The simple idea behind starting investment early is that it gives you the benefit of time being on your side. Early investors are able to choose to invest in High risk high return products since they can afford to take more risk and in case of losses rebuild or repair their portfolio over a period of time. Apart from above, there are other factors which affect the creation of your financial plan, such as level of income, education and knowledge. They determine the diversification of your portfolio and also how much risk you take while investing.

Socio-economic circumstances:

These circumstances include economic cycles of a country, political and global issues. If a country is doing well, businesses grow well and investments pay good returns. If a country is facing a down slide, investments can get stuck in the rut. Similarly, political stability of a country also decides the prosperity of an economy. It has significant impact on the performance of investments. Global issues like increase in the price of oil or even some other country going down economically, impact the investments in India. As a result, the graph of the global economy is also an important indicator of our growth.

Interest Rates :

The rates at which individuals and businesses borrow and lend to the banking sector and other lending institutions are determined by the interest rates in the economy. Usually, when people want to borrow more money to grow their businesses, interest rates in the market increase.



Inflation:

Expected rate of inflation has a direct impact on financial planning. If the inflation rate is high, an investor needs to look at an investment product which gives higher returns. For example, if the inflation rate is 4%, then an investor should look at an investment product which gives at least 14% returns so that the real returns is 10% (14% - 4%) in hand of the investors.

Planning a good portfolio:

How much funds do you want to allocate to different assets in a portfolio? An ideal portfolio plan must lay down an investor's goals, risk tolerances and expectations regarding returns. Once this trio is spelled out, the percentage of money allocated to different assets such as stocks, bonds or real estate can be laid down with surety. It is rightly said, "Do not keep all your eggs in one basket". An investor can construct his/her portfolio by following a systematic approach.

BUYING TERM INSURANCE

If your family relies on your income, Life Insurance is an important part of planning for your family's future.

Why buy Term Life Insurance?

In general, life insurance is purchased to replace a person's income if he is not around, so that his/her family continues their living without any compromise. Because of its low cost, relative to other types of life insurance, term life continues to be the most popular life insurance choice. In this plan, the policy amount is payable, in the event of the demise of the policy holder, during the term of the policy. It is for a fixed term only and so if the insured survives the full term, nothing is paid.

Return of premium Option

Under this option, the Insurance Company returns back all the premiums paid by Policy holder if he survives till the policy term.

Choosing the right term life policy

The term for which you would need the cover (usually 10, 20, or 30 years) depend on a lot of factors such as your debts, financial needs, dependents' needs and when all those responsibilities might change. Choosing a higher cover amount when you are young and healthy is affordable, since the rates will increase substantially as you age. It's a good idea to review your life insurance needs carefully, both when you buy a policy and when you experience a major life change.

Steps in buying a Term plan:

- **Visit www.ifea.in and discover how much coverage you should have.**
- **Choosing the length of the policy:** Common terms include 10, 15, 20 and 30 years.
- **Choosing the Sum Assured of the policy:** This is the sum your beneficiaries will receive in your absence. Many policies amounts range from Rs. 10 lakhs to Rs. 1 crore, but higher and lower amounts are also common.
- **Reading the fine print:** An insurance policy is a legal document, so read it carefully and make sure that you understand it before signing anything.
- **Be truthful:** Answer all application questions accurately. All facts to be disclosed to eliminate the chances of claim rejection. Insurance fraud is a serious crime and companies treat it as such.
- **Maintain your list of beneficiaries:** Don't wait to change them when it's necessary. And tell your beneficiaries about the insurance – There's no point if your heirs can never claim because they don't know about the policy.
- **Medical examination is preferable.** The exam typically covers your height, weight, blood pressure, medical history, and blood and other routine testing. It is preferable to undergo medicals so that it gives us 3 advantages (1) opting for higher sum assured, (2) lower premium for good health and (3) Minimal chances of claim rejection for medical reasons.
- **Initiation of policy.** Once your policy is in place, maintaining it is a matter of paying your premiums regularly.

Choosing the right term life policy requires a small investment of time, but the benefit can be priceless. The reason for this is obvious: Even if you outlive your Life Insurance policy, **peace of mind** that comes with knowing that you and your loved ones are covered.

IT'S IMPORTANT TO BUY PERSONAL HEALTH INSURANCE

Having health insurance has many benefits. It protects you and your family from financial losses in the same way that home or car insurance does. No one plans to get sick or hurt, but most people need medical care like a doctor visit, a prescription drug, a lab test, physical therapy, or counseling at some point. These services can be expensive. And if something happens that requires surgery or emergency medical care, it's really important to have coverage.

A trip to the hospital can be much more costly than you might expect. Consider these facts:

- A bypass surgery costs around Rs. 3 Lakhs
- The total cost of kidney transplant would cost Rs. 8-12 Lakhs.
- A Chemotherapy would cost around Rs.2 Lakhs per cycle with a requirement of completing multiple cycles.

These examples sound scary, but the good news is that, with the right plan, you can protect yourself from most of these and other types of medical bills. Other key benefits of health insurance are access to a network of doctors and hospitals, and other resources to help you stay healthy. With health insurance, you'll enjoy:

- Being able to find the help you need close to home
- Peace of mind and less worry because you know you're covered

Employer Cover

Most of the salaried people have a health cover provided by their employers. Most feel they do not need any additional insurance. But there are a lot of limitations in cover provided by the employers:

1. Most companies have been restricting on the no. of persons covered and insisting on co-payment for employees' parents.
2. The cover varies from employee to employee based on their position held in the organisation.
3. There's gap when switching jobs.
4. Employee-provided insurance covers only for hospitalization expenses in most cases. Post hospitalisation follow ups may not be covered.

Start early : Buying health insurance when healthy

Buying a personal health insurance policy is cost-efficient for a young and healthy person. The premium is lower and the policy offers comprehensive coverage in comparison to a policy purchased at an older age. As an individual grows older, the cost of the cover increases and if he develops health issues, the health insurance company may exclude pre-existing conditions which defeat the whole purpose of buying a health insurance. Most health insurance companies have an upper age limit for the policies, which means one would have limited options after retirement. One can enjoy the benefits of cumulative bonus in the form of no claim benefit if they renew the policy without any claims.

Tax benefit

The icing on the cake by opting for a personal health insurance policy is the tax benefit. Payments made towards health insurance premiums are eligible for tax deductions under section 80D of the Indian Income Tax Act. Individuals less than 60 years of age can claim a deduction of up to Rs. 25,000 for the health insurance premium paid for themselves, or for their spouse, children. If parents are Senior Citizens, an additional Rs. 50,000 can be claimed towards the Medical Insurance premium. The need to improve risk management should be the driving force behind opting for a personal health insurance policy. One should calculate the amount of health insurance required and make sure that they are adequately covered.

STEPS YOU NEED TO FOLLOW FOR AN IDEAL FINANCIAL PLAN

Decide an ideal asset allocation for you

There are several factors which affect portfolio allocations for different individuals. One such important factor is risk tolerance or an appetite for risk. A conservative investor's portfolio will largely comprise of large-cap value stocks, bonds and liquid cash. The main goal of a conservative portfolio is to protect its value. As opposed to this, a person who has a high-risk tolerance will have small-cap and mid-cap growth stocks, a high yield bond exposure and maybe, exposure to real estate. A moderately aggressive portfolio satisfies an average risk tolerance, attracting those willing to accept more risk in their portfolios in order to achieve a balance of capital growth and income. The time horizon of the investment also needs to be considered while building a portfolio. As a general rule, investors should move to a more conservative asset allocation as the goal date approaches, to protect the portfolio's principal that has been built up to that point.

Building a desired portfolio

A perfect portfolio does not exist. You simply cannot go out and shop for a 'one-size-fits-all' portfolio. Every individual is desirous of a different mix of asset allocation and tries to divide their capital accordingly between them.

For instance :-

1) Investors always choose stocks that satisfy their level of risk sector, market cap and stock type are factors they consider and then carry out an extensive analysis on each potential investment avenue to determine its pros and cons.
2) For bonds, the factors to be considered are maturity, the bond type and rating. The interest rate matters as well.
3) Mutual Funds are the safest bet of the lot and allow an investor to hold stocks and bonds that are professionally researched and tracked by experts. They do charge a fee for their services but it assures you that your portfolio is in good hands. It is always advisable to analyse the details of the scheme you are going to invest in as well as the fund manager.

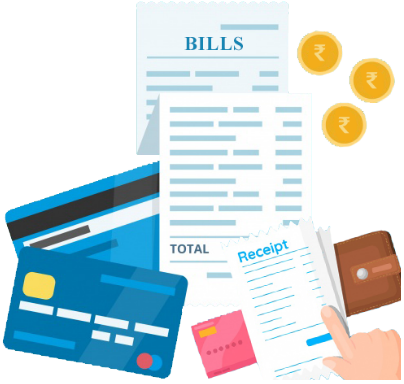
4) Exchange-traded funds are essentially mutual funds that trade like stocks. ETFs cover a wide range of asset classes and can be useful for rounding out an investor's portfolio.
5) Cash and cash equivalent are important part of any portfolio. Big or small, no portfolio is complete without cash as part of it.

HOW WILL YOU MANAGE YOUR FINANCIAL PLAN

Handling finances can be a difficult task for some. How many times have you asked yourself, "Where does all my money go?" or "Why am I always hand-to-mouth by the end of every month?" If this is the case, it is essential to make some changes in your financial habits. When handled and planned right, your finances can help you enjoy a comfortable existence without the worry which accompanies poorly planned finances. Financial prudence helps you save money and gets you closer to your long term financial goals. When you inculcate prudent financial habits you basically plan well in advance and invest in areas where you expect adequate returns. It also means having complete knowledge about the money you have and how you can make it grow best. If you have a financial goal – such as getting out of debt, saving for home loan repayment or putting money aside for your retirement – it will help you work towards this too. Financially cautious individuals follow these habits and make their money matter in the short as well as the long term. The inside out approach to prudent financial habits starts with charting your household budget and following it through. A household budget will formulate a clear plan about your affordable outgoings by considering your earnings and spending habits. It has to be designed in such a way that you know where your cash is seeping off to and remain on top of your spending. Setting up a budget will make you less likely to end up in debt and more likely be in a position to save up for a holiday, a new car or a new house.

Drawing up an effective household budget and following it wisely necessitates the following steps,

Get organized:



Start with a clear mind and think over before you begin planning a home budget. If you rush headlong into it, you are more likely to make mistakes. Take into account all the important bills (credit card bills, utilities bills, school fees, household bills etc.), receipts (for any recent purchases) and income statements (salary slips, bank statements etc.) before you start budgeting.

Take stock of your income and expenses:

Your regular earnings from employment (net take home i.e. after deducting tax, loan payments, pension contributions etc.) plus other sources of income – like interest, dividends, rent received, make up your total income. You can consider an average income of six months to have an idea of your expected income in the future months. Next, jot down how much of your monthly income goes towards essential spending. Clearly demarcate and sum up your payments that go towards home loan payments, grocery bills, utility expenses, childcare, school fee, living costs etc. The difference between your earnings and expenditure is the available amount for 'free spending' in any given month. This 'free spending' or 'disposable' income helps you cushion your monthly budget. The more accurate your figures are, the more useful your budget will be. At this point, you may discover you are regularly spending more than you earn. With an accurate picture of your average spending now at your fingertips, it should be easy to draw up a monthly budget you can stick to. While this can be done using a paper and pen, its better if you can use a simple spreadsheet (say excel sheet). You would be able to save time, avoid errors and try out different permutations and combinations.

Stick to the budget:

Once you have drawn up your budget, it's important to keep an eye on how faithfully you are sticking to it and adjust your limits accordingly. If you are spending more than you have coming in, you need to work out where you can cut back and believe it, doing this may be easier than what you may think; as easy as making your lunch at home or cancelling a gym membership you rarely use. You could also keep a spending diary and keep a note of everything you buy in a month. If you spend with a bank card, look at last month's bank statement and see where your money is going. Nowadays, with technology in place, there are multiple apps which help you track your day to day income and expenses. Revisit your budget every month and keep a minute track of every spending. Adjust your expenses so that they dent your future financial goals to the minimum.

Involve your family members:

Get everyone in your family involved with maintaining a budget. Active participation by each family member will make it easier to work out how much spending money is available for each. Your children will surely learn the value of money and benefits of being wise with expenses, from an early age. At the foundation of prudent financial habits lies the important cornerstone of living within your means. There will be no point in setting future financial goals till you master the art of living within your means and there is nothing complicated or strategic about this habit. As Warren Buffett said, "Don't save what is left after spending; spend what is left after saving." The process is simple. If you routinely pay your last bill of the month, only to discover that you have mere pennies left, reverse your tactics. Save first and then spend what's left on your bills. If you've calculated correctly in terms of how much income and expenses you have and the amount you should be able to save, things will work out. Saving money should almost always come before spending. Think of it as the foundation upon which your financial house is built. Unless you inherit a large amount of wealth, it is your savings that will provide you with the capital to feed your investments. If times get tough and you require cash, you would be selling out your investments at the worst possible time. That is not a recipe for getting rich. There are two primary types of savings programs you should include in your life. They are,

1) As a general rule, your savings should be sufficient to cover all of your personal expenses, including your mortgage, loan payments, insurance costs, utility bills, food and clothing expenses for at least six months. That way, if you lose your job, you will be able to have sufficient time to adjust your life without the extreme pressure that comes from living pay check to pay check.

2) Any specific purpose in your life that will require a large amount of cash in five years or less should be savings driven.

Motivation for saving is hard to come by for some people but the entire exercise becomes much easier if you set a goal. The first step for this is creating a contingency fund or emergency savings. You can fall back on this money in case of an emergency, which often arrives unannounced. Ideally, try to get three months' worth of expenses in your savings account which can be accessed at a moment's notice. This might not be possible right away but aim for it. Start by putting some money into your savings account every month. . Once you have set aside your emergency fund, the following habits will be easy to adopt:

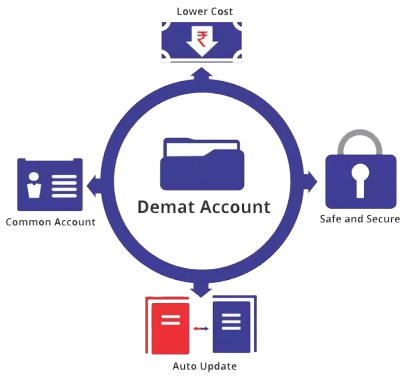
Paying off credit card bills:

If you are using a credit card for your purchases, one of the most important tasks is to not miss out on the monthly credit card payments. Remain punctual in case of credit card or EMI payments. Remember that credit card issuers generally charge a high rate of interest on dues which are not paid on or before due date. Also default in paying credit card dues would affect your credit score, which will further increase cost of finance in future. If you have more than one credit card, keep track of amount to be paid and due date for payment for each credit card. You may consider using standing instruction facility to pay off the bills. Once you give this instruction to your bank, this facility ensures that credit card outstanding are paid on time directly from your bank account every month, without your further action.

Avoid keeping money idle in saving accounts:

It is very common to find people opening a new saving account whenever they change their job or residence, etc. More than often, old savings accounts are not closed. This results in some amount of money lying idle in multiple saving accounts, earning a very low interest. On the other hand, you continue to pay various service charges like SMS fee, ATM / Debit card fee. It is better you close savings accounts which are no more required. If this savings account is used for receiving any periodical payment (interest or dividend etc.), remember to approach those companies / your DP to change the bank account details, before closure of the account.

Another common observation is that a substantial amount of money remains parked in saving account for a long time. As explained earlier, you must maintain emergency funds; it is necessary that you put the excess money to make more money for you by investing it prudently. This can be done in more than one way like investing in short term bank fixed deposits, liquid mutual funds, Exchange Traded Funds etc. Not many people are aware that mutual fund units can be held in demat form and that online subscription and redemption of mutual fund units is possible now.



Be flexible:

If your budget goes awry for reasons like a steep hike in petrol price or sudden expenses on medical treatment, review your budget. Someday, you may save more because you got a pay raise and on other day you might find your household bills increased. Review your budget periodically and adjust to the given situations as early as possible. Taking time out to manage your money better can really pay off. You can use these extra savings to pay off any debts you might have, put them towards your pension or spend them on your next car or holiday.

Pay Your Bills on or before time:

Paying bills late will increase your cash in hand on a temporary basis. However, it is just another delaying tactic and will give you a false sense of how much money you actually have. It is possible to miss-out the payment date, if you do not track them meticulously. Nowadays, most of the utility suppliers send their bills through email. It is a good idea to subscribe for getting the bills in electronic form. Apart from contribution to greater cause of 'Go Green', it also ensures that it reaches you fast and for sure, not leaving scope for you missing it out inadvertently.

Avoid informal / unorganised channels of debt:

Sahukar or loan sharks as they are sometimes known, charge outrageous interest rates and more than often use unethical and illegal practices to fleece the borrowers. The loans offered by them are short term and they charge upfront fees most of the times. Since the loans are not legally documented and the borrowers are not obligated to pay the loan, Sahukar can resort to violence, threats, and other illegal practices to collect the money owed; some even confiscate ID cards and other documents as a guarantee of repayment. These loans are often packaged attractively with no credit checks and fast and instant approval. Hence, people who are short of cash or those who are knee-deep in debt, are attracted to them.

Check your emergency fund on a regular basis:

Once you build an emergency fund, replenish it immediately once you have taken money out of it. If your living expenses increase over the years, you may find your emergency funds no longer adequate. Take a look at your emergency fund at least once each year. Determine if it is sufficient to cover at least 6 months of living expenses, based on your current expense level. Refresh it as needed. An appropriately sized contingency fund will help you be more financially stable.

Choose to be smart:

Many service providers like Tata power or Reliance Energy offer attractive discounts if you make use of their pre-payment offers and pay off your dues before the date. Make use of these pre-payment discounts offered by utility companies and effectively save money. You may also checkout the discount offers on online bookings of many services and online payments. Take advantage of the free credit platforms which are available. One such example is OLA post-paid, a feature where you can take multiple rides without paying. You have to pay at the end of the credit cycle or if you max out your limit. OLA post-paid facility is available at no extra cost or interest. If you need, you may also consider availing grace period for payment of life insurance premiums without affecting the continuity of policy.

General Factors:

Avoid impulse purchases. Try to curb extravagant habits as much as possible. Undertake periodic review of your spending habits to avoid higher bills at a later stage. If you neglect now, the bills will pile up and hit you harder. Periodic maintenance should be taken care of on time. This will save you from a large amount of spending in a couple of years. Shop without your credit cards once in a while. This will keep you from running up your credit card balances. When you use cash or debit card to make your purchases, there is a very good chance you will spend less money than you would if you are shopping with a credit card, because you cannot just pay it off later. It's a battle between real money and plastic money. And, the use of real money will help you make wiser decisions while doing a transaction.

Safeguarding your money:

Traditionally, most of us do understand the need to protect our money and assets physically. We know that it's better to keep our valuable documents and jewellery in a locker, rather than keeping them at home. However, nowadays, with so many transactions happening online, there is a need to be careful from a new breed of threats. Shopping, transferring funds from one account to another and paying utility bills online are some of the transactions we conduct on a frequent basis. An online transaction is an amalgamation of two things a debit/credit card details or internet banking credentials etc. and a password/ OTP/ PIN/ CVV. If a fraudulent person gets hold of any of these, he can easily divest the customer of everything. Here are some golden rules to follow to safeguard your money Check the security of the app you are downloading Whenever you download a new app on your phone or tablet, especially one related to shopping or financial transaction, check its security protocols first. While it may be convenient to allow Apps to store your credit card / bank details so that you do not have to enter every time, remember this convenience comes at the risk to information getting stone by hackers.

Check the website / URL used for transactions:

It's a good idea to type the website address / URL you intend to visit for any transaction, rather than using the click here option available at unfamiliar sources. Many a times, websites having name with minor and barely noticeable differences in the name are created by those who want to steal user data. Hackers also attempt to lure unsuspecting users by making them to click and redirect them to such fraud websites. If a website is poorly designed or has multiple redirects, it might not be a legitimate retailer. To stay safe, stick with big-name retailers and familiar payment systems. Check for https ahead of the web address, i.e. https://www.abc.com, or a lock icon, certifying that the website is secured. Security certifications are also mentioned on the bottom of the home page.

Be careful while using your phone for online transactions:

Avoid public Wi-Fi networks. If you cannot avoid them fully, at least do not use them for any financial transaction. Similarly, avoid using public desktops (e.g. those in cybercafé) as your information may not be secure. If at all you have to use public / shared computers, ensure that your logout or sign out from your session and close the browser before leaving the machine. If you are making online purchases with your phone's browser while it's connected to an open network like coffee shops and airports, then it's possible for other people to steal or access the information you are transmitting. Try and use a secure network. Always protect your phone and computer with a good anti-virus software. Again one time installation of anti-virus software is not the end. Remember to update it as and when a new version is made available by the vendor (off course it's better to use auto update option for this task).

Use strong passwords:

Agreed that remembering so many passwords is a tough task, but then there is no escape from it in today's world. Keep your passwords which are long enough, difficult to guess and keep changing them regularly. We cannot avoid all the risks but can certainly minimise the probability of someone being able to crack our password and steal our money.

Schedule a regular paperwork review:

Review your credit card and bank statements every month. This can help you detect any errors. If any charge seems incorrect, let your card company or bank know. Keep a track of your financial statements. If you use the Internet regularly to pay bills or shop online, keep track of your expenses through the bank or card statement. If there are suspicious transactions that you may not have initiated, inform your bank/card issuer immediately.

Never share confidential data:

Confidential information should never be shared. Always remember that no bank executive or service provider will ask for details like PIN, OTP or CVV. If you are trying to pay online and receive a call saying that the caller will help complete the transaction with your PIN or OTP, it is a fraudulent call. Just cut that call and block that number. Remember, no bank or credit card issuer or RBI will ever ask your PIN or OTP. They just don't need for any purpose. Only a fraudster needs to ask you all this to hack your account and run with your money.

Trust your instincts:

In spite of multiple checks, if you feel there is something wrong with the website, it is better to avoid making a payment than risking getting duped. If the offer looks too good to be true, it is probably a scam. Stay away from it. When you are struggling financially, it's easy to feel overwhelmed. You may be tempted to ignore your bank statements and demands for payment, but it will not make the problem any better. If at any point in time you feel overwhelmed by your levels of debt vis-à-vis your current earnings, do not hesitate to seek professional help. Get a clear picture of your finances and get personalised advice on how to improve your situation. Once you have done this, you will know what you have to deal with and you can work out what you need to do next.

About IFE Academy

IFE Academy was established in 2011 as a Not-for-Profit entity to promote Financial Education. IFE Academy conducts Investor Awareness Programs across the country with the support of other market participants. www.ifea.in is a comprehensive website on Financial Education. It has various sections such as Videos, Puzzles & Games, Financial Calculators and Library. It gives a holistic view on financial education combining various aspects such as Savings, Investments, Credit, Insurance and Pension at a single place. IFE Academy periodically publishes Investor Educational materials and distributes it to general public.

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