

Ten Money Mistakes Made in 30s That Can Cost You Dearly

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People in their 30s spend a significant part of their income towards lifestyle needs, home loan EMI and children's tuition fees. If they are able to achieve these, they think they are doing fine. Financial planning is not on their priority list and hence they end up committing financial mistakes which can cost them dearly. If you are in your 30s avoid doing the following mistakes.

1. Choosing incorrect tax-savings instruments: Tax-saving is generally a last minute activity for many, which means they end up investing in instruments that offer poor inflation-adjusted returns and have a higher lock-in. A few examples of such instruments are endowment policies offered by insurance companies and tax-saving fixed deposits.

"People blindly invest without knowing the purpose of investment," says Vivek Karwa, a certified financial planner.

In your 30s, when you have time in hand, you can look at investing in instruments such as tax-saving mutual funds which not only help you save tax but build wealth over time.

2. Not buying adequate life insurance: Many people buy insurance but do not review the insurance requirement regularly. You should be adequately insured to financially secure the future of your family in case of an emergency. The insurance cover should also account for all your liabilities. If you have availed any loan, increase your insurance cover accordingly. Buy a term insurance as they provide maximum cover at low cost.

3. Not having health insurance: Few people in this age group feel the need to buy a health insurance. But these days, the cost of hospitalisation even for a small accident can run into few thousands and hence can severely dent your finances. Therefore, it is imperative that you have health insurance. Also, you shouldn't rely on the insurance cover by your employer as between jobs you will not be covered.

4. Not tracking expenses: Most of the people don't track their expenses and as their income rises they end up spending more towards their wants rather than needs. "People tend to ignore lifestyle inflation as they don't track their expenses, and hence their expenses rise sharply compared to the rise in the income." says Vishal Dhawan, a certified financial planner. Therefore it is important that you make a budget, allocate how much you are going to spend towards each expense and spend accordingly.

5. Saving after spending: When in 30s, most of the income of the people goes towards maintaining family and hence they fail to save.

"For common person the formula is income minus expense equals to savings or investments while for a wise investor the formula is income minus investments equals to expenses," says Mr Karwa.

After deciding the amount you want to save monthly, use tools like bank ECS mandate to invest through systematic investment plans in mutual funds.

6. Not setting goals: Most of us are generally aware of our goals but don't really quantify those goals or set a time frame. But remember just knowing goals is not enough. You have to calculate the exact cost of the goal and exact time frame when you would need the money.

7. Not saving for retirement: In 30s retirement looks like a far-away goal and you think you can save for it later. But this is a huge mistake. Saving for retirement should start as early as possible. You can start by saving small amounts and increase it over time as the income rises.

8. Taking unnecessary loan: For people with double income, one of the common mistakes is that they over-leverage themselves.

"At times people are sandwiched between raising family and supporting parents and if one of the income support goes, they struggle to pay the EMIs," says Mr Dhawan.

9. Not creating an emergency fund: Emergencies can strike any time. It can be a natural calamity such as flood and earthquake, or a job loss or medical emergency. With an emergency fund in place you will be financially better prepared to face such situations. Although, there is no thumb rule, analysts say a sum equivalent to 6-12 months of expenses should be kept in the emergency fund.

10. Not investing towards improving skills: Late 30s and early 40s is the age when the income generation potential is generally the highest but one of the common mistake people do in their 30s is that they don't invest money and time in improving their skill.

Story first published on: December 20, 2015 15:54 (IST)

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