

Manage your pay hike to slash debt



VISHAL DHAWAN

“AAJ PHIR Jeene Ki Tamanna Hain...” — this blockbuster song of the 1960s is probably on the mind of most salaried individuals today, as salary hikes, big bonuses and promotions have made their comeback after a couple of difficult years.

One, the real risks that investors face is giving in to their pent up desires, and buying that new car or going on that dream vacation that they wanted with the bonus that they receive, or committing to a car loan EMI to the extent of the salary hike that has been received.

Financial remodeling after salary hike

Since a salary hike gives you access to enhanced cash flows for a longer duration of time,

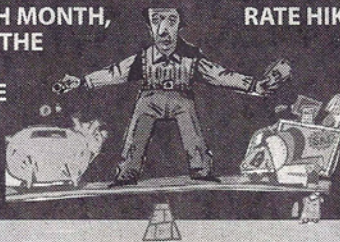
■ Calculate the effective increase in net take home salary post the hike.

■ If you have any outstanding credit card payments that are being rolled over, use the excesses that will be generated to pay off the credit card outstanding each month, as this is the most expensive form of debt.

■ Use the same strategy for other loans that you may have, like personal loans. In case your loan provider does not allow partial repayments, invest this excess in a recurring

SALARY HIKE

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BONUS PAYMENT

PREPAY LOANS THAT YOU HAVE — THIS IS CRITICAL FOR YOUR FLOATING RATE LOANS AS INFLATION MAY RESULT IN FURTHER RATE HIKES OVER THE FEW NEXT MONTHS.

deposit or a SIP in a short-term debt product and once the amount collected is enough to prepay the personal loan, please do so.

■ Since floating rates on home loans are likely to move upwards soon, get your home loan EMI adjusted to a higher level so that you can try to pay as much as possible of the loan quickly.

■ Buy a term cover after evaluating your life insurance needs, in case there is an insurance gap in your financial plan. Premiums on term covers can be paid at monthly or quarterly intervals.

■ Enhance your savings towards long-term financial goals such as education for your children, retirement etc, by enhancing your Systematic Investment Plans in mutual funds to the extent of enhanced monthly salary.

Financial remodeling after bonus

Since a bonus gives you a one time cash inflow.

■ Closely evaluate the medical insurance coverage for you and your depend-

ents — if you find that there is a gap, fill it up.

■ Prepay loans that you have outstanding — this is very critical for your floating rate loans as inflation is likely to result in further interest rate hikes over the next few months.

■ Enhance your savings towards long term financial goals like education for your children, retirement etc. In case you are concerned about current financial markets, invest in the form of Systematic Transfer Plans (STPs) so that you can get the benefits of rupee cost averaging.

■ Build your emergency corpus in case you do not have at least six months of expenses available in a liquid form.

Remember the next line of the song was *Aaj Phir Marne Ka Iradha Hain* — you don't want to do the same with your finances in spite of the enhanced inflows.

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