

Planning for your holiday finances



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WITH THE holiday season upon us and the earlier concept of visiting friends and relatives during vacations being replaced by foreign holidays, the moot question is "How does one plan financially for a foreign holiday?"

■ Identify the location(s) that you would like to visit — since the costs vary depending on your choice of location, this should be your starting point — a holiday for a week to 10 days to Southeast Asia would cost Rs 1.5 to 2 lakhs whilst a US/Europe holiday for a month would require a plan for Rs 4 - 5 lakhs. Break up the target into bit sized pieces and accordingly work out a systematic monthly savings plan towards this goal.

■ Don't overextend your finances — especially if you have a floating rate home loan, as you can expect your home loan EMI commitments to increase with the rate increases by the central bank. Also, your holiday plan should not jeopardise the rest of your financial goals like retirement and education for your children.

■ Choose your saving vehicles appropriately depending on:

Time available before you wish to realise your holiday goal — if you are planning at least a couple of years in advance, you can afford to

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take a little equity exposure and reduce it as you reach closer to your goal. However, if the goal is only a few months away, you would need to use instruments that have no equity exposure whatsoever.

Keep in mind that at least 50 per cent of your expenses for a foreign holiday are likely to be incurred much before you leave for your holiday.

Ability of your family to handle a change in plan as holiday goals tend to be flexible in most cases, you can afford to take some risk in your investment strategy.

However, if you believe that the holiday destination and budget cannot be compromised, do not take undue risk in your investment strategy, as you do not want to dip into the investment plan of a different goal to support these expenses.

■ Definitely buy overseas travel insurance — we have

come across multiple instances where lakhs are spent on the holiday but a few thousands are saved by not buying medical insurance.

With your domestic medical cover not valid overseas and exorbitant medical costs in case something happens, we have come across instances where other financial goals have had to be compromised because of this one slip-page.

There are a range of covers available while most features are standardised with medical expenses coverage, compensation for delay in luggage, and lost passport coverage, there are a few covers that have additions that you could find interesting like reimbursement of cancellation expenses in case of a change in plan that you could evaluate as well.

■ Avoid using your credit card and debit card internationally as your credit card usually involves a 3.5 per cent markup, it is best to leave the usage of the credit card to an emergency. Most debit cards also come with a markup, whether used at merchant establishments or ATMs. The best option would be to use a combination of foreign currency notes, travellers cheques and preloaded travel cards issued by banks.

Happy holidays!!!

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