

Use windfall to plug gaps in finances

Prepay loans and hike SIP amounts before you think of discretionary expenditures

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The government decided to give its employees a Diwali bonanza by hiking their dearness allowance from 12 per cent to 17 per cent. Around 5 million government employees and 6.5 million pensioners are expected to benefit from this move. The hike will be effective from July. While the government perhaps expects you to spend the money, provide a boost to consumption and get the economy going, an increase in salary is a good time to plug the gaps in your finances.

Experts are of the view that government employees should be cautious with both the lump sum amount (the arrears from July onwards) and their salary increment. A larger portion should be saved and invested, and only a small portion should be spent on discretionary expenses. The economy is slowing down. Some government employees' spouses could be in the pri-

vate sector. They could be at the risk of job loss due to downsizing by their employers. With government revenue collections not growing as expected, future increments for government employees could get delayed or get smaller.

Also, government employees don't get increments as regularly as those in the private sector. "Expenses would have gone up since the last increment and investments would have fallen, so government employees need to make up for that," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Asset prices have also not grown at a robust pace in the past couple of years. Returns from equities have been anaemic, interest rates have been declining (so returns from fixed-income products have also come down), and real estate prices have been

largely stagnant. Only gold has done well over the past year. "All investors, including government employees, need to invest more, so that they are able to hit their investment targets," says Dhawan.



YOUR MONEY

The lump sum amount that government employees receive could be used to prepay loans. "If you have a housing or a car loan, use the arrears to reduce the principal outstanding. Such periodic pre-payments help reduce the total interest outgo and loan tenure," says Abhinav Angirish, founder,

InvestOnline. He is of the view that at least 70 per cent of the lump sum received should be used to prepay loans, or should be invested.

Depending on the amount received, government employees may also use this windfall to fill the gaps in their financial plans. If they have not set up

an emergency channel this money. If their term insurance policy expires or they feel the need for health cover (over and above government-provided health cover), the money can be used for these gaps.

To avoid the temptation of spending the lump sum on discretionary expenses, it can be put in a bank fixed deposit. Once the employee receives the money, they can use it where you would otherwise use it.

Now that the salary has gone up, government employees should boost their investments. "Use the salary to set up ongoing systematic investments in mutual funds, and the windfall to set up long-term investments in equity-linked savings schemes (ELSS), Public Provident Fund (PPF), and debt funds, and