Where your salary should go every month

By Gouri Shah |The Established | 3rd January, 2022

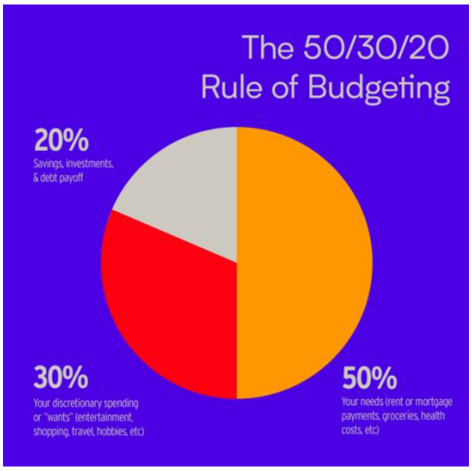
The financial experts weigh in

It's payday, and nothing could be sweeter than the sound of money as it hits your account. A weekend getaway with the gang? An unnecessary but exciting upgrade on your phone? Or a new gym membership, perhaps? So many directions for that money to go, but how about holding on to it for a change?

Channelling your mind to think of your financial future first may seem like a herculean task, but the pay-out for those who start early is much sweeter, financial experts say. Here are some tricks to get ahead of the curve so you can enjoy your money when it matters.

1. Decode your finances

First things first, understand how much money you're bringing in each month after all the deductions. It's essential to understand this income number correctly, as all your expenses and savings emanate from here. Next, use a weekend to go over all your bank and credit card statements. Account for every expense, right down to the rupee. While it may seem like a mind-numbingly tedious exercise, it will give you a clear picture of where your money is going each month. It will also throw up some surprising insights. I mean, who would have thought that those quick stops for a latte and croissant each morning was setting you back by Rs 12,000 each month? It will also allow you to identify income leaks—seemingly insignificant expenses that are draining your money. Like that subscription you forgot to cancel, the gym membership you don't use, or the takeout bills that are eating a hole in your finances.



2. **Come up with a budget**

For beginners, the 50-30-20 rule is a sound money management technique that splits your pay cheque into three categories—50 per cent for essentials (rent, groceries, health, transport, utilities, etc.), 30 per cent for your discretionary spending or wants (travel, entertainment, eating out, shopping, etc.) and 20 per cent towards savings, which should be set aside no matter what. Financial experts suggest you create two accounts—one for expenses and another for savings. Setting up an auto-debit facility is ideal because that 20 per cent is tucked away before you get your hands on it. A budget will also help identify areas that you can cut back on. So, if you've capped your budget for lattes at Rs 1000 a week, you need to cut yourself off after the third latte. Eventually, you will come up with a formula that works for you. Like diets, the best budget is the one you can stick to consistently.

3. Save. Save. Save.

The first rule of being financially stable is to save as much money as possible, as early as possible. "Starting early clearly has a disproportionate advantage even if the amounts are much smaller. People hesitate because they think they don't have enough, but there are enough financial tools which allow you to start small," says Vishal Dhawan, CEO and founder, Plan Ahead Wealth Advisors, a Mumbai-based SEBI licensed, registered investment advisory firm. For instance, if a 20-year-old and a 30-year-old started investing in a SIP (Systematic Investment Plans) in equities simultaneously, earning the same interest, the 20-year-old would end up with a substantially higher sum of money at retirement. While investing in the market is more complicated and riskier than letting your money

TARGET AGE	60 YEARS (%)	NO. OF YEARS	MONTHLY CONTRIBUTION (INR)	ESTIMATED VALUE AT AGE 60 (INR)
20	12%	40	10,000	11,88,24,202
30	12%	30	10,000	3,52,99,138
40	12%	20	10,000	99,91,479
50	12%	10	10,000	23,23,391

*Source – Plan Ahead Wealth Advisors

sit in a savings account, financial experts maintain that if you invest sensibly and have a long enough investment horizon to deal with the uncertainty and volatility of equity, your investments will multiply over time.

4. Dig yourself out of that debt hole

A critical aspect of managing your personal finance is successfully managing or getting rid of debt. While living with outstanding credit card balances, personal loans, auto loans, and home loans may seem like a part of life, tackling debt early on has some serious advantages. Not only does it allow more breathing room in your budget, but paying off your debt early will also improve your credit score. "Prioritise getting rid of your debt, starting with the most expensive loans that offer no tax benefits such as credit card loans and personal loans, and then systematically move down the hierarchy, all the way to the home loan," says Dhawan. Credit card loans are the most expensive loans and cost anywhere between 30-42 per cent per annum. If you don't have a handle on your credit card spends, financial experts suggest lowering the credit limits on your cards or cancelling the cards you don't need. Worst-case scenario, put your credit cards on ice, using only your debit card or cash for expenses.

5. Set up a substantial emergency fund

When life throws a curveball, you don't want to be caught off-guard. Emergencies could range from job loss, sudden home repairs to unexpected medical expenses or death. An emergency fund could give you that financial buffer to get back on your feet. "We recommend that you start working towards an emergency fund immediately," says Dhawan, "If both partners are working, then their emergency fund should ideally cover three months of expenses and six months of EMIs. If it is a single earning member, then that emergency fund should cover six months of expenses and 12 months of EMIs."

6. Get insurance

You and your family must be protected against risk. This could be in the form of health insurance, general insurance and life insurance. Emergencies emanating from sudden expenses in these areas can set you back financially and even push you into debt. If you have dependents, it's crucial to get a term life insurance to secure their future in the event of your death. "As a rule of thumb, you should have health and general insurance; these are critical for everyone. But when it comes to life insurance, you should buy it only if you have dependents," said Renu Maheshwari, a SEBI registered investment advisor and co-founder and principal advisor, Finscholarz. Moreover, it's prudent to have these in place independent of whether your company or organisation offers them as a perk because if you lose your job, you also stand to lose that insurance.

7. **Treat yourself but avoid the lifestyle inflation trap**

Let's face it, squirrelling away money is a good thing, but a treat every once in a while never hurt anyone. "At the end of the day, money is a tool to buy what we need in life. So there is no harm in indulging once in a while, but that indulgence should be judicious," says Maheshwari. As life progresses, with promotions, bonuses and raises coming your way, it is important to avoid the lifestyle inflation trap. "Enjoy your money. But ensure that your savings also increase proportionally. When you get an increment of say 15 per cent, your savings should also go up by a minimum of 15 per cent. Your expenses, on the other hand, should stay the same," she says, adding that it is best to be sensible. "Don't touch a luxury item unless you know you can afford it. Once you get used to that luxury, it becomes a necessity in a very short period. So be prudent about what you can truly afford."

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