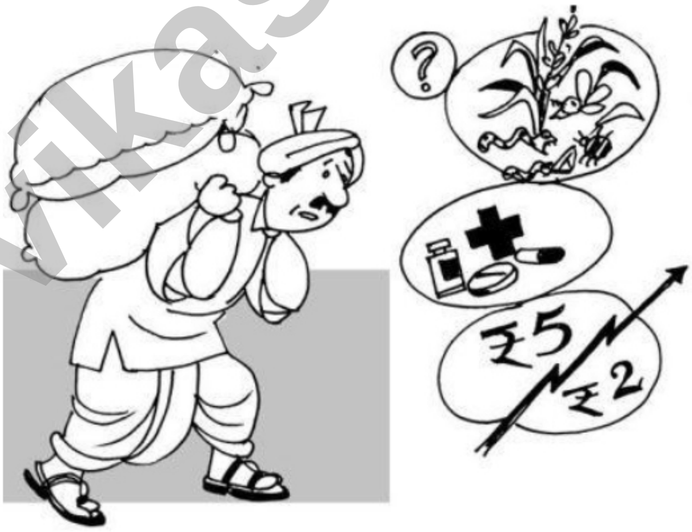
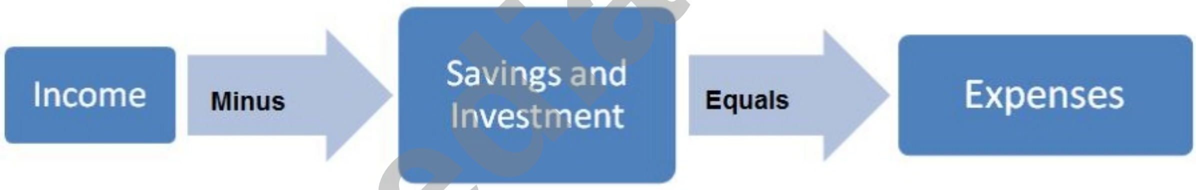
Planning in Practice





- You have to on all the possible emergencies that could arise in your family. To do this, sit down with your family and ask for suggestions. All of you may come up with ideas such as – someone falls sick and has to be hospitalised, the family vehicle may meet with an accident and need repairs, very close relatives require a loan, extended family members drop in and have to be treated specially...and in the worst case scenario, an earning member of the family expires suddenly.
- Now put a price tag to each of the emergencies. How much money would you need if someone falls sick and has to be hospitalised, and how much would you need if unexpected guests drop in...and so on
- Now delete all the emergencies that have already provided for through health insurance, life insurance, general insurance.
- Add up the costs of all the emergencies that are remaining.
- Now, you don't need to set up an emergency fund that equals the total cost of all the remaining emergencies. A sum of 30-40% of that amount should be adequate because it is unlikely that all the emergencies will strike at once.
- Now that you have a figure for your emergency fund, choose a financial product to invest in. Make sure that it will give you back your money IMMEDIATELY. After all, that is the whole purpose of collecting an emergency fund.

- Don’t borrow unless it is necessary. If you can save and buy a fancy new television two years from now, do that. Continue using your old television for two years more. However, if you feel buying a tractor today will make a big difference to your output, by all means take a loan and buy it.
- If you own a credit card, try to pay off the monthly due amount every month. Don’t carry the balance to the next month unless you really can’t help it. Credit card balances attract one of the highest rates of interest within the banking sector.
- The rule to maintain while borrowing is that you and your family should ensure that all your loans do not amount to more than 1 and a half year’s income. Also ensure that all your payments towards your loan (interest and repayment) do not amount to more than 40% of your monthly income.

- Transfer your debt to a lender who charges a lower rate of interest: Sometimes, as in the case of Arvindbhai, people borrow from money lenders, who charge a very high rate of interest. When they are unable to pay back the amount with interest, within the specified period, the period is extended. But with increase in tenure, you also end up paying a much larger amount as interest. The family keeps struggling to pay off the interest component and never manages to pay off the actual loan. In such cases, you must find out if a micro-finance institution or bank in your neighbourhood is ready to give you a loan that equals what you owe the money lender. Even if they are willing to give you part of the amount, you will be partially free of the moneylender’s loan. The rate of interest to be paid to the micro-finance institution is comparatively lower. It will become easier for you to pay off your loans.
- Pay off your higher interest loans first: If you are not able to pay all your loans back at the

same time, pay off those which have a higher rate of interest on them. This will reduce the overall amount that you have to pay.

- Make a very strict budget for yourself and your family: Nobody likes to live with loans. Try to first pay out at least 30 per cent of your income towards repaying your loans, or more if possible. Then, use the rest on your household expenses. Within household expenses, list out those that are necessary (food and education, etc.) and those that you and your family can do without, such as entertainment and spending on festivals and guests. Then try to do without the latter until your loans are paid off.

- Let's suppose you plan for your goals and invest in various long and short term financial products. Let's also say that all's going as per your plans and you are contributing to these products as per your financial schedule. What happens if you are suddenly not around anymore to ensure that the money keeps flowing into these products? Should the dreams that you had for your loved ones suddenly disappear? Certainly not. If you have purchased adequate insurance, it will ensure that your loved ones continue to live the dreams that you planned for them.
- Insurance is a very important foundation which all earning members of a family must have before they invest elsewhere. It is the only product that will compensate a family with a pre-determined amount of money, for the economic loss of the earning individual.
- But how should one calculate how much insurance is enough? It all depends on how your current financial status is and what you would like to leave for your family.
- For example, suppose you have a loan of Rs. 3 lakh outstanding. This should definitely be covered by your insurance. Also let's say your average monthly expenditure on household items, fees, maintenance and repair, etc, is Rs. 10,000. Assume that you would like to provide for your family for the next 4 years because after that they will be able to make alternative arrangements – your son will start working or your wife may take up a job. So, your insurance amount should include Rs. 4,80,000 to meet their monthly expenses for 4 years. Suppose you already have saved Rs. 2 lakh and you feel your family can use that money to meet their monthly expenses, you can reduce the insurance money by Rs. 2 lakh. In this very simple example, you would need insurance with a sum assured of Rs. 2,80,000. In real life, you would need to examine your family's needs – include all your goals for them – and your existing financial products more carefully. This will help you to reach a decision on how much insurance you will need.
