Importance of Saving

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Personal Finance and Investment

Money Matters

This section provides you insights on personal finance that will help you to take control of your money and secure a better future for yourself and your family. This will cover topics such as importance of saving, inflation, benefits of the power of compounding, financial planning, retirement planning, insurance and Estate planning.

It is suitable for everyone, regardless of his or her financial knowledge. However, it is particularly beneficial for those having limited financial knowledge and seeking to improve their financial literacy.

By the end of this section, you will have a better understanding of the followingConcepts of Personal Finance:

Saving:Setting aside a certain portion of income to meet future financial goals.

Financial Goal Setting:Targets that you set yourself to achieve financial objectives

Budgeting:Planning to save and spend your money effectively.

Inflation and Investing:Investing helps to reduce impact of inflation.

Debt Management:Things to keep in mind while you borrow money

Insurance:Protection against unforeseen events

Retirement Planning:Plan-ahead for a comfortable and secure retirement.

Estate Planning:Planning to manage assets after one's demise.

Why Save

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Savingmeans setting aside of a certain portion of income to meet future financial requirements. Saving is what remains from income after expenses, which can be calculated as income minus expenses.

Saving is important for securing an individual’s financial well-being, achieve long-term goals and financial security. It also provides a sense of peace of mind.

It is often stated that“Don’t save what is left after spending, spend what is left after saving.”

There is no right time to start saving, the earlier we start the better.

Some key reasons why saving is important:

Savings enable us to build an emergency fund to cover unexpected expenses, such as medical emergencies, business loss, etc.

To meet financial goals such as buying a new house,to meet cost of higher education of children, planning for retirement and so on.

To know more about savings, please watch the following video:

(i) Saving Every Coin Counts
(ii) Savings is Cool

Understanding Our Needs, Wants, and Desires

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In order to prioritize your spending and increase your savings, it is essential to understand the difference between needs, wants, and desires.
Needs are necessary for survival. These are basic in nature. Examples of needs include food, water, housing, clothing, healthcare, etc.
Wants are not essential for survival, but enhance one’s lifestyle and comfort, such as, entertainment, dining out, vacations etc.
Desires are strong aspirations like buying a dream luxury car, latest electronic gadgets like high-end mobile phones, etc. To satisfy desires, one may be tempted to borrow money (see the articleThink Before You Borrow Money).
If we spend too much money on our desires or wants without prioritizing, budgeting and therefore saving may become difficult. Therefore, one should prioritize the allocation of money first towards needs and then towards wants and lastly toward desires without losing focus on saving.
To know more, please watch the following video:
(i) Needs and Wants?

Management of Income and Expenses

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One should manage income and expenses by creating abudget, tracking spending, and making informed financial decisions.
Create a Budget: -Prepare a budget by outlining all sources of income (e.g., salary, bonuses, rental income etc.) and all categories of expenses (e.g., utilities bills, food expenses, entertainment). One must allocate a certain percentage of income to savings and investments regularly and be disciplined about it.
Prioritise Expenses: -After preparing a budget, one should prioritise expenses so as to cover basic needs first. After that, one should think of wants and desires. Unnecessary or impulse based spending should be left if budget permits.
Build an Emergency Fund: -Allocate money for an emergency fund to cover unexpected expenses or financial setbacks.

Invest for the Future: -Set aside a specific portion of your income for investments, to meet your long-term financial goals.

Inflation: The General Increase in Prices

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Inflation reduces the value of money, which means that with the same amount of money, you can purchase lesser amount of goods and services than before. This happens due to general increase in prices of goods and services. For example, at an inflation rate of 6 percent per annum, an item that costs Rs. 100/- now will cost Rs. 106/- next year.
The below chart shows how the value of Rs. 1,00,000 will diminish over a period of time (5 years, 10 years, 15 years and 20 years), assuming average inflation rate of 6%.
Individuals have little control over inflation. However, there are ways to reduce the adverse impact of inflation on personal finances by:
Prioritize spending and cutting unnecessary expenses
Diversifying your investments wisely in assets, which provides better returns than rate of inflation over the long term.
Focus on long-terminvestmentsthat have historically performed well during inflation, such as equities, mutual funds, gold etc. Over the long term, it has been generally noticed that these assets provide higher returns than the rate of inflation
To know more about inflation, please watch the following video:
(i) What is Inflation?

Grow Your Money with Power of Compounding

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Compounding allows savings to grow substantially over a period of time as it involves earning interest not only on the initial amount of money (the principal) but also on the accumulated interest over a period of time. In other words, it is interest earned on the principal and the accrued interest.
Albert Einstein once said:"Compound interest is the eighth wonder of the world. He who understands it, earns it … he who doesn't,… pays it".
Growth of Rs. 1,00,000 @ 10 % per annum compound interest Vs simple interest for 20 years can be seen in the below picture.
It can be observed, in compound interest, Rs. 1,00,000 has grown to Rs. 6,72,000 at the end of 20 years as compared to Rs. 3,00,000 using simple interest.
To do your own calculations, you may use the Power of Compounding calculator available

on SEBI Investor website(https://investor.sebi.gov.in/calculators/power of compounding.html)
Thumb rules that can help in understanding the power of compounding are given below:
To know more about Mutual Funds, please watch the following video:
(i) What is Power of Compounding?

Financial Goal and Budgeting

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Financial goals are targets to achieve specific financial objectives within a specified timeframe. By establishing clear financial goals, one can take control of finances and work towards securing financial future.
A good financial goal should beSMART i.e. Specific, Measurable, Achievable, Realistic and Time bound.
Budgeting is the process of creating a plan for how you will spend your money.
Budgeting helps you to gain a clear understanding of your financial situation by documenting all sources of income and expenses, control spending, saving money, paying off debt and work towards your financial goals.

Plan Early for Retirement

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You should have a retirement plan in advance, so that when you retire from work, you continue to maintain the same life-style without worrying about expenses and inflation. A retirement plan helps you to pursue your post-retirement dreams and to secure your future.
Some for Your Retirement Planning Tips:
Saving early for retirement gives money more time to grow and compound. This ensures availability of a large lump sum on your retirement.
Make sure you save enough to cover unplanned expenses and emergencies. Ensure that you have adequate insurance policies to cover unforeseen events and medical emergencies to secure your family and loved ones.
It is desirable to diversify your investments across different asset class so that if one asset class does not perform, you can get returns from other asset class. Put it simply, don't keep all your eggs in one basket.
Choose your plan keeping in mind your retirement goals and lifestyle.
You may contact a regulated financial advisor to guide you through the retirement planning

process who will help you find the best retirement plans for you.
You can use the financial tools: -https://investor.sebi.gov.in/ calculators/ Retirement Investment Tracker.htmlfor retirement planning.

Think Before You Borrow Money

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You may need to borrow money when you do not have enough savings to buy what you want or to meet expenses related to emergencies like medical needs etc. One should not take loans for meeting avoidable and unnecessary expenses. Borrowing money comes with huge financial responsibilities and potential risks.
Banks offer loans for various purpose – such as to buy car (car loan), to buy house (house loan). Loan can be secured loan or unsecured loan. With secured loan, the asset is pledged to the bank as collateral. If secured loan is not paid, the asset can be sold to recover the loan. Examples of secured loans are housing loan, car loan. In unsecured loan such as personal loans, assets are not pledged as collateral.
Check whether lender is regulated or licensed. Never deal with unlicensed or un-regulated lenders.
Check whether you have the capacity to repay the loan.
Compare the interest rates of various lenders. This ensures you get the lowest rate.
Check how interest is calculated: - In a flat interest rate, you're charged interest on the full principal amount you borrowed. On the other hand, in a reducing interest rate, the interest you pay goes down as it's calculated on the outstanding amount.
Depending on your ability to pay, decide on repayment period. Shorter the loan repayment period, less is overall interest paid (and vice versa).
Assess all costs such as processing fee, pre-payment charges, late payment fee, etc. before you sign loan document.
Important points to keep in mind after you borrow money:
Make your repayments on time and in full to avoid any penalties or additional charges.
Repay part or full loan early if you have spare cash — but check if there are any pre-payment charges.
Review your borrowings regularly.
Avoid borrowing too much and taking too many loans as you could be over burden.

Insurance - Protection Against Unforeseen Events

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Insurance provides you financial support if something unexpected happens to you and your family – such as an accident, medical emergency cost due to illness, fire or theft. Insurance provides a safety net that can help mitigate the financial impact of unexpected events or emergencies.

Life Insuranceprovides financial support to your dependent family members in case of your demise.

Disability Insuranceprovides income support if you meet with an accident that prevents you from carrying out your physical activities.

Health Insurancehelps you to cover the medical and hospitalisation cost due to illness or accident.

General Insurancepertains to car insurance, travel insurance, retirement insurance, property insurance etc.

Assess your needs before you buy insurance. The type of insurance you need will depend on what you intend to protect in case something untoward happens to you – such as your life, family, house, movable/immovable assets etc. To buy insurance, you will be required to pay premium, which could be monthly, quarterly or yearly. Premium can also be one-time payment in case of certain type of insurance such as Travel insurance. These payments need to be part of our budgeting exercise.

You may contact reliable insurance agents to guide you through the insurance process.

You may also use the following tools to work out your needs, financial goals and budget on your own:

Insurance Calculator

Financial Goal Planner

Estate Planning

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An estate consists of everything you own; your home, car, savings, insurance, investments, furniture, personal possessions. Estate planning helps you to plan on who will own or manage your assets after your demise. It records what you want to give your loved ones and family members.

Your legal heirs get the assets in the estate left behind after your demise without delay when they need it most.

Your estate can be distributed as per your wish without any disputes.

Estate planning records what you want to give your loved ones and family members. Estate plan includes documents such as:

Will:It records how your estate shall be distributed after your demise. It also covers who shall look after your children if they are still young. In certain cases, a legal process of probate of Will need to be followed – process by which court recognises and certifies a Will.

Power of Attorney:Document where you give someone - who is trustworthy, financially

responsible - the legal right to look after your affairs and property in your absence.
Review and Update your Will Regularly:Life circumstances and laws change, so it is essential to review and update your estate plan periodically to ensure it remains relevant and current.