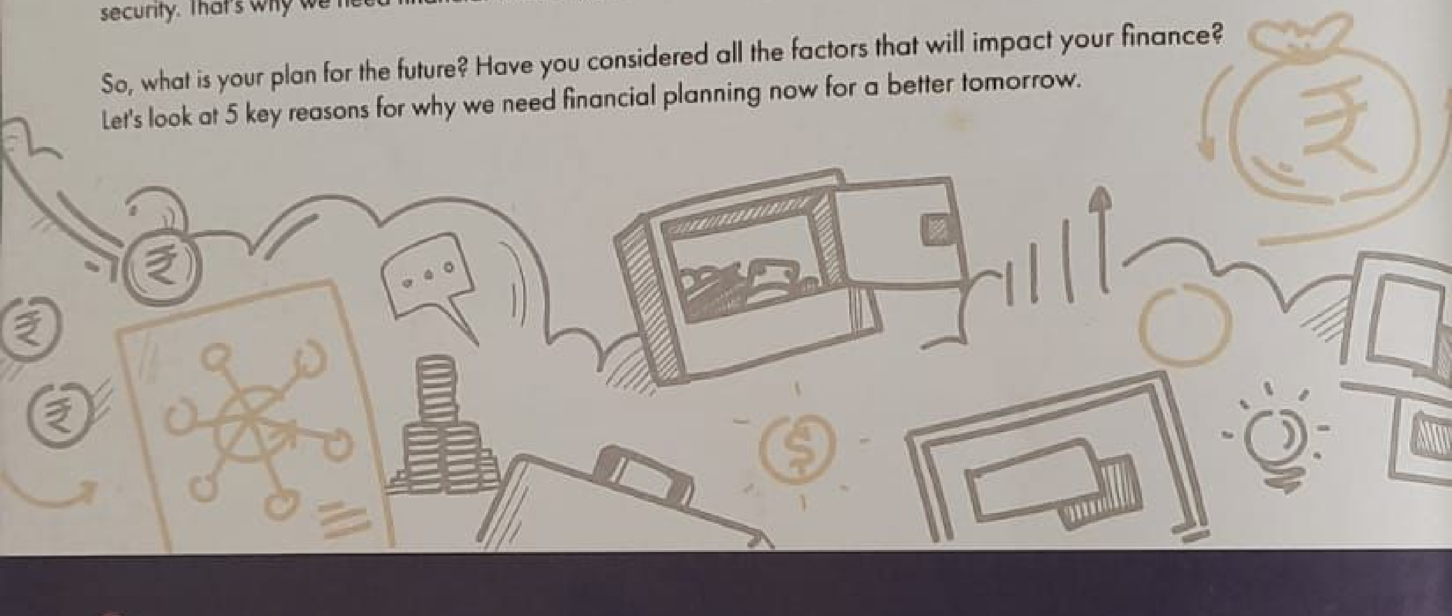
FINANCIAL WISDOM

BASICS OF FINANCIAL PLANNING

Planning is essential to achieve big. This is true in all aspects of our life, but this is particularly important when it comes to fin
We all want to improve our standard of living, to be free from the stresses of bills and loans, and to have complete financial
security. That's why we need financial wisdom, and the first step to achieving it is planning.

So, what is your plan for the future? Have you considered all the factors that will impact your finance?
Let's look at 5 key reasons for why we need financial planning now for a better tomorrow.



01 LONG-TERM GOALS

Life consists of very important goals. Be it the purchasing of your first car, your own house, or saving for your children's education or their marriage. In your mind, you probably have a figure about much you would want to spend on your marriage. But at some point, you are going to have to save that same amount for your children. Financial planning helps you achieve these goals. It is better to plan early, because investing your money now will make it easier to achieve such long-term goals.

02 DREAMS

Financial planning is a step towards achieving your big dreams. It might be to move abroad, purchase your own house, or to go on your dream vacation. Financial planning can fulfill your dreams while still taking care of your responsibilities.

03 EMERGENCIES

Throughout life, we are bound to face some unexpected expenses. It could be a job loss, major home repairs, medical emergencies or even a lockdown. If we are not prepared for these emergencies, then this could cause a big disaster in our life. Good financial planning prepares us for such situations while making sure it doesn't affect our primary goals.

04 INFLATION

Inflation is defined as the general increase in prices and fall in the purchasing value of money. For us, this means we can buy fewer things for the same amount of money. In Delhi, 1989, the cost of a litre of diesel was an average of 3.5 rupees[37], but at the start of 2020 it was 67.96 rupees[38] – that's a huge 1942% increase in price. Inflation is caused by several economic factors and nearly all of them are out of our control. In the future, the value of our money (or purchasing power) will continue to decrease. Financial planning will allow us to take into consideration inflation and ensure we're able to accurately save money to achieve our goals and dreams.

05 RETIREMENT

One of your family objectives should be to prepare for a comfortable retirement. If we start investing our money early, then in the long term we can benefit from the compound interest of our savings. Financial planning helps you create a sufficient collection for retirement, at a time when expenses continue but income starts to diminish. Therefore, it is advisable to plan for your retirement as part of your long-term goals.

How has financial planning benefited you or your family? Write your answer below.
(Not sure? Then ask your parents when you get home.)

E.g. *When my mother had a medical emergency, her medical insurance paid for her treatment.*

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"Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't, pays it."

Albert Einstein

THE IMPORTANCE OF SAVING EARLY

When we save our money early and use compound interest, then we can automatically increase our funds. Compound interest means we can earn interest on whatever you deposit, and then we continue to earn interest on that interest. All we need to do is put aside a small amount of our earnings every month. But the key is to start saving early.[39] Study the example below:

Hema and Deepa have both graduated from college and have started their careers. Both intend on saving some money for retirement. But Deepa doesn't see the need to start saving now. She would rather just spend all her money now and save later. She waits until the age of 35 to start investing. Whereas, Hema understands the power of compounding. So, she only invests a small amount, but she starts early. Both use the same savings scheme which earns the compound interest of 8%, yearly. But the crucial difference is in **when** they decided to start saving. Have a look below.

HEMA Starts investing at **20years old**

Invested **Rs 500/-** per month, for **15 years**

Rs 17.25 lakhs

At the age of **65**

Hema earns around **Rs 3 lakhs more** than Deepa

DEEPA Starts investing at **35years old**

Invested **Rs 1000/-** per month, for **30 years**

Rs 14.27 lakhs

Hema invested less money, for a lesser amount of time, and yet she still collected more money than Deepa. How? Because she started early.

SAVE EARLY

BUILD REGULARLY

MAXIMIZE COMPOUND INTEREST

My Financial Goals

When we look towards our future, we know that there are certain things that we need to live a comfortable life. A job because it allows us to earn money. A house because we need somewhere comfortable to live with our family. A car or bike because we need a means to travel. Whether it is such basic needs or perhaps more expensive luxuries, we require a financial goal to achieve them. By setting financial goals, we can decrease our unnecessary expenditures and focus on saving money so that we can attain our goals in the shortest amount of time.

In the Goals Chart below, write down some of your financial goals. Decide whether they are short, medium, or long-term goals. Then estimate how much you think it would cost.

- **Short-term goals** should take one year or less to achieve. Examples include buying a new computer or a new mobile.
- **Mid-term goals** can't be achieved straight away but should only take a few years to achieve. This could be purchasing a car or travelling abroad.
- **Long-term goals** may take several years to accomplish. They may include paying back student loans or buying a home.

Financial Goal	Short/Mid/Long Term	Estimated Cost
Example: Buy a Smartphone	Short Term	It costs Rs 12.000/- for the phone I want.

To achieve our goals, it will require us to save money on a regular basis. Right now, you may not be earning a salary, but it is likely that you receive pocket money. Calculate how much you must save every month to achieve your short-term goal.

Example

Pocket Money: Rs 2000 per month
Target: To buy the Rs 12.000 phone in one year
Calculation: Rs 12.000 / 12 months - Rs 1000 per month

Therefore, if I save half of my pocket money (Rs 1000) every month, then I can buy the phone I want in one year's time.

My Calculation

This was a simple task, but it is an important habit to develop now. Because as we set out to reach our bigger financial goals, the planning will become more complex and difficult, so it will require strong discipline to regularly save and achieve those goals.

Once we start earning a salary, there are two important short-term goals to set. These two goals are to set a budget and to start an emergency fund. To prepare for this time, we need to learn to use these financial techniques now.

BUDGETING

We may not be currently earning an income, but we do have outgoings. Our costs can be split into four categories. Look at the chart below and see the examples. Once you understand the difference between the categories, fill out all the categories with your current monthly costs. **E.g.** Tuition fees, Rs 6000 per month.

MY MONTHLY BUDGET

FIXED COSTS		VARIABLE COSTS	
1. MANDATORY	**2. VOLUNTARY**	**3. MANDATORY**	**4. VOLUNTARY**
Tuition fees	Gym membership	Food	Restaurant
Rent	Online Subscription	Medicine	Vacation costs

EMERGENCY FUND

An emergency fund protects us against life's unexpected expenses such as a job loss, surprise medical emergencies, major home repairs or even a lockdown. It can make the difference between a small disturbance in your financial life and a complete disaster in your entire life. As soon as we start earning a salary, we should make preparing our emergency fund a priority. An emergency fund should be 3 months of your basic expenses, if you have a salaried position and have secure employment. Or 6 months, if you have less stable employment or earn variable incomes.[40] An emergency fund should be collected after earning a salary, but we can practice this method by looking at our current costs. Follow the method below:

Refer back to the previous chart, **MY MONTHLY BUDGET**

Add at up the total of box 1 **(Fixed-Mandatory Costs)** and write the figure here:

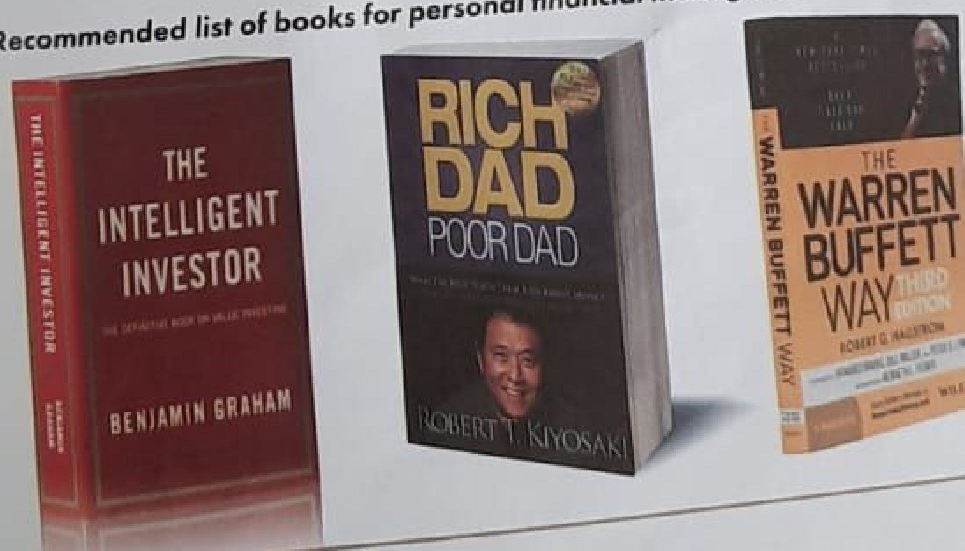
Add at up the total of box 3 **(Variable-Mandatory Costs)** and write the figure here:

Now add up the total values of box 1 and box 3, to calculate your basic expenses per month:

Now multiply this figure by 6, to calculate your 6-month emergency fund:

These simple techniques create the foundation of our financial planning. Now that we understand them, we should make sure that we don't forget them. These techniques are important to practice now so that we can become fully prepared to become financially independent.

Recommended list of books for personal financial management and investi



IPDC Essentials

Financial planning allows us to achieve our long-term goals, while meeting our daily needs.

Important components of financial planning:

- Save early and use compound interest
- Set your goals and dreams, and then create a plan to achieve them
- Calculate your budget and review it regularly
- Prepare an emergency fund