

# Personal Finance

Turning 30, for many people, is a wakeup call. It's the time when you typically enter a new phase of life- either you get married or have kids (or plan to have them).

In this article, I covered 9 important financial decisions you need to make before you turn 30.



## #1: Understand the most powerful word in finance: Compounding

Consider the investment behaviour of two friends, me and you.

- I start investing Rs 10,000 every year at the age of 25 and stops at the age of 35, but does not withdraw.
- You start investing Rs 10,000 every year at the age of 35 and continues till you are 65 years old

Who do you think will have more money when they are both 65?

As crazy as it may sound, I will have 2.5 times the amount you have (1.28 Crores vs 46.5 lakhs), even though you invested for 20 years more.

What happened in this case is that for me, money started compounding early, and earned interest, which in turn generated further interest, and this goes on. This is the true power of compounding.

**Expert Tip:** Start investing today. Even if it's just Rs 10,000 a year, it will compound to many times that amount by the time you retire.

## #2: Buy a home or keep renting?

Most of us would like to have a place we call home. The question you have to ask yourself is, do you need to buy one or would you want to stay in a rented place?

Buying a home is more of an emotional purchase rather than a logical one for most people- especially if they are taking a home loan.

Understand the pros and cons of owning a home/living in a rented accommodation and make a decision. Your home buying/renting decision will have a huge impact on your future financial planning since it's probably the biggest single ever investment you'd make in your lifetime.

### #3: Get insured

We have all, at some point of time, seen those LIC advertisements. It portrays the role LIC plays in helping with children's marriage or education when the earning member of the family has passed away unexpectedly.

While we all wish it does not happen to us, life is highly unpredictable. Make sure that you get a life insurance – term insurance is most recommended. The earlier you get a life insurance, the lower the premiums and complications.

And don't stop with just life insurance. With rising medical costs, you also need to get a medical insurance to cover your medical costs. Even if your employer gives you a medical cover, take one additional to cover you and your entire family.

Taking medical and life insurance also helps you save tax under Section 80D and Section 80C respectively.

**Expert tip:** Insurance is an expense and not an investment. Don't fall for money back plans that typically give you much lower returns for your investments. When choosing life insurance, always opt for term insurance.

### #4: Set aside an emergency fund

You should set aside 3-6 months of your monthly expenses (including any EMIs you might have) in a separate emergency fund. Make sure you do not withdraw from this fund unless it's for emergencies.

And no, upgrading your hatchback to a sedan does not count as an emergency!

### #5: Make the right career choice

Chances are, by the time you are 30, you would have switched a couple of jobs. If you are not yet settled in a job (not a company, but a line of work), you have to do some soul searching.

Find out what ticks with you and stick to it. Just because you might have read about someone starting up and claiming that you should be your own boss, doesn't mean you can succeed at your own business.

Take calculated risks. Following your passion does not guarantee that it can help you pay the bills. In all likelihood, the moment you try to earn a living by following your passion, you'd probably start liking it less.

Figure out what makes you happy and helps you pay the bills. Then stick to it and follow a routine investment plan to ensure you have enough savings to help you retire and do what you are most passionate about (even if it means you have to keep spending money on it).

## **#6: Invest in yourself**

There are two ways to get more money.

One, be thrifty and save as much as possible. Two, increase your income.

The latter is better because there is only so much you can control when it comes to saving. There are too many external factors (rent increase, petrol prices shoot up and so on) due to which making money by controlling expenses become difficult.

**Expert Tip:** Increase your income by investing in yourself. Learn a new skill so that you get a promotion in your current job. Or maybe just spend money for a relaxing vacation to make you more efficient when you come back fresh.

## **#7: Plan for retirement**

Unfortunately, most people are not prepared enough for retirement. Either they miscalculate the amount of money they require at the time of retirement, or start saving when it's too late.

Don't make the mistake of not having enough money and having to rely on your kids for your expenses.

Start planning for your retirement before you hit 30 (the earlier the better).

## **#8: Become debt free**

If you are not debt free yet, you are not alone. With easy access to loans and EMI schemes, more Indians than ever are under debt.

Debt is something that you need to get rid of before you turn 30 – or at least take steps to minimize it.

The next time you get your bonus or hike in salary, instead of the latest feature-packed mobile on EMI, decide to pre-pay your loans and become debt free as soon as possible.

**Expert tip:** While becoming debt free is good, not all debt is bad debt. Debt taken for purposes of creating a long term high value asset (like starting a businesses or buying a reasonably priced home within your budget) is OK.

## **#9: Plan for your children's education & marriage**

Even if you don't have children, it pays to make a financial plan. With the spiralling cost of education, it's important that you start planning as early as possible.

Some kindergartens charge you more than a lakh for admission. A medical seat in a reputed private college can be more than 60 lakhs. An MBA from a good business school can easily cost you 13-15 lakhs (50 lakhs + if you want to do it from a reputed school outside of India). That's how expensive good education has become.

Make sure you start a SIP for your child as early as possible so that by the time they want to get into a good college, lack of funding won't hold them back.

You have heard of the big fat Indian weddings. When it comes to your children's marriage, you want to celebrate it- and that's OK. These are small things in life that are ones in a lifetime moments.

Make sure you set a separate target for your children's marriage spending and work towards that goal. Since the cost of conducting a marriage is increasing at a very rapid rate, traditional saving accounts like bank FDs and RDs won't work.

**Expert recommendation:** Start a SIP in equity mutual funds. One year before the event, move the total corpus to a debt fund for protection from volatility of equity market.

# Thank you!!!!!!