Ten Tenets to a Financially Well-Funded Life

WRITTEN BY SURESH SADAGOPAN,
FOUNDER,
PRINCIPAL PLANNER,
LADDER7 FINANCIAL ADVISORIES

Ladder7 Financial Advisories is an India based Professional Financial Planning & wealth advisory firm, offering fee-only planning & advisory services for families/ individuals. Ladder7 has been founded by Suresh Sadagopan – a pioneer & a leader in the Financial advisory space.

1. Expenses Are the Key

People tend to think that income is the number to focus on. Income is important. But, more important than that are expenses.

In a lot of client cases we have seen, they were earning a very good income. But, the expenses were very high too. The upshot - savings were low. This creates a huge problem.

Let us take an example to illustrate this:

Ryan is earning Rs.3.5 Lakhs a month. His family is spending Rs.3 Lakhs a month. The saving he does is about Rs.40,000 pm. This is equivalent to four days of expenses.

Ravi earns about Rs.1 Lakh a month. His family saves Rs.40,000 a month. Here his monthly savings are equivalent to twenty days of expenses.

If Ryan continues to save as he is currently doing, he will have a tough life ahead. Ravi, on the other hand, may be doing quite well. Though both are saving the same amount, the one who is covering more number of days of expenses does well. One needs to understand this concept really well.

2. Start Saving Early for Retirement

Retirement is a long way off for most people so much so that people don't even give it a thought. Many are even spending on current luxuries (like a vacation) the money they have put away for their retirement years.

The thinking is that - who has seen tomorrow. Or tomorrow will take care of itself - after all, did not our parents get by with virtually no planning at all?!

But, we all have to retire someday. And we need a good corpus to see us off in comfortable affluence throughout.

People don't save for retirement & if they do, they start much later - in their forties. That is actually very late.

A back of the envelope calculation shows that if one wants a corpus of Rs.3.5 Crores when one retires at 60, the amount one needs to save monthly from age 25,35,45 are respectively Rs.10,000, Rs.27,000 & Rs.85,000 (assuming 10% returns throughout).

That should tell you something!

People are today living longer than ever before. Many are living into their nineties. Retirement period, which was once probably 15 years is now close to 30 years or more. We will all need a much bigger corpus.

The only way to achieve that is to get serious about the Retirement phase & start committing funds to it early on.

3. Get the Lifestyle Right

We all want the good things in life. There is nothing wrong with such aspirations.

But, the lifestyle bit, needs to be paced well. This is where most people get it wrong.

Most people set their lifestyle so high & keep increasing that as the income increases that it is always a challenge for them to meet all their expenses.

The best way is to be a bit more patient and allow for the savings to catch up.

Keeping the expenses in check while income keeps increasing - that's the best way to increase one's savings over time.

The cars, international holidays, fancy whitegoods etc. , can come somewhat later. This way one will build comfortable liquidity & investments.

Once the base is built, one can slowly increase the lifestyle. Keeping the lifestyle a couple of notches below what one can afford is the best way to ensure that you are comfortable moneywise.

4. Increase in Income Does Not Solve Any Problems

Most people think that when they get the next hike or when they jump ship to another organisation at higher pay, things will get better.

It will not.

If one is not able to save money, it mostly nothing to do with income. When income grows, expenses also grow in tandem for these people.

There is a high possibility that the problem is about expenses, living it up, lofty goals etc.

Not able to save money or money related problem is just a symptom.

To correct the underlying problem, one needs to take a hard look at one's money habits &seek to correct them. Without this, no amount of income can help.

5. Plug the Leakages

You will be surprised by how much you may be able to save if you look hard enough.

Let me give you some examples:

- Many people we know are still paying Rs.1,500-2,000 pm in their mobile post-paid plans. Today, prepaid plans (across operators) with unlimited calls, roaming, 100 SMS a month, 1 GB data etc are available at just Rs.450 for 84/91 days! Yearly package for the same is about Rs.1,500/- pa!

- There are huge savings possibilities on groceries/ domestic purchases due to organised retail (Reliance Fresh, DMart etc.) & due to e-commerce sites like Grofers, Amazon pantry, Flipkart supermart. Just a word of caution - prepare a list of what you would want to buy and stick to it. Without it, you may end up buying a lot of unwanted stuff, which will increase the spend!

- Buying clothes, white goods, mobiles etc. during sale periods, slashes the prices significantly.

The amount of money that is currently going down the drain unnecessarily would be enormous. A little bit of smart purchase will help you in saving quite a packet.

6. Invest in Yourself

Today is the day of disruption. There are massive changes underway and every industry is getting upended.

Only the smart companies who know how to navigate in these times of seismic changes will survive. People working there also need to understand this.

However, most people seem to be oblivious to the massive churn that is happening. They seem to think that once they are in a job, they are entitled to higher & higher pay, promotions etc. as they go along. Very few people qualify themselves and prepare for tomorrow. But everyone should.

The smart ones sense the changes and have positioned themselves well - within the company or to reap the opportunities outside the company.

The ones who are status quoists hang on there without doing anything and cry “who moved my cheese” when transformation gets underway and they become irrelevant.

The best investment that one can make is in oneself. This is much truer today than ever before.

7. Be Realistic About Your Kid’s Education

Parents want to do the best for their children. One can understand that. But, parents have to be practical, realistic.

Parents want to give their children “excellent education”. And for most, that means the “international” schools that have sprouted around like mushrooms & charge as if they are situated in US!

Parents flock to these schools as they don’t want to "compromise” on the quality of the education that their children can access. The heuristic used here is that if it is expensive, they must be worth it! Hence, the more expensive the school, the more demand it has. We know schools in Mumbai that charge up to Rs.12 Lakhs pa (plus incidentals)!

Now coming to college education, these parents want to send their children abroad & also want to fund it fully! Education in a place like the US would cost between Rs.40-60 Lakhs pa, depending on the course & college. Parents and their wards want to go for graduation onwards, without realising that all their savings will be gone and they may get into debt.

Parents need to evaluate their options carefully. For school, they can look at those providing good quality education at a reasonable cost - not necessarily international schools.

For college education, they can look at sending their children abroad for Post-graduation, rather than for graduate level course. That will limit the expenses. Also, parents will have to allow recourse to education loans. They need to look at colleges offering scholarship options. The children should be willing to part fund expenses by working part-time while studying.

Anecdotal evidence does not point to any major outperformance of students coming out of "international" schools or having "foreign" degrees.

We are aware of cases where after completion of their course, they are not able to secure jobs and had to return to India.

Parents & their children should behave sanely - else college tuition fees by itself can completely swallow the money earmarked for all other goals, including retirement.

You will agree that it is completely avoidable.

8. Buying a Home

"Settling down" involves buying a home. There is tremendous pressure to settle down from the family and society.

But, when does one buy a home?

Today, people are quite mobile and go where their career takes them - quite often, across the globe. In this context, buying a house and settling down in one city is tough for most.

Even those who have taken that decision, have had to move.

When they buy a property in one location and they move out to another city, they are forced to rent a home.

The irony is that they would be staying in a rented home even though they own a home in another city!

Firstly, given home prices these days, it is not possible to buy early in life.

Second, there are so many short-term goals & expenses like travel, gifting, buying stuff for home, vehicles etc. which are important in that stage of life.

It makes sense to do what is suitable in that stage, accumulate some money for down payment, position oneself to be able to pay the EMI comfortably, be sure that they won’t need to move to another city & then buy.

It should be much later than most people do, probably in their forties.

Till then staying on rent is a great option.

9. Choosing Investments

We all do our best in terms of what we can invest. We want the best possible returns from our investments.

Hence, we keep moving to the investment that is firing up at that point in time.

But, trying to ride the crest of the wave is fraught with danger.

Most people tend to think that getting good returns on investments is all about timing. However, getting the timing correct is not possible & most times, people get it wrong.

The investments are to be done considering many factors like risk profile, the number of working years left, tenure, regular income needs, return expectation, tax implications etc.

Based on this, we need to decide the asset mix in the portfolio.

Investment return at a certain point / which investment option is doing well at a point does not play any role in deciding investment candidates.

If anything, an asset should be present already in the portfolio so that one may enjoy any potential upsides, when it happens.

This is an area where most investors go wrong. In their quest for the best returns, they move from one asset to another and in the process don't enjoy the benefits that an asset can give if one had held on to it.

Put together a good portfolio as per one's needs; review from time to time and make changes as per ones changing situation.

10. Let Saving Tax Not Become a Compulsive Habit

Paying tax is very, very hard - for most people across the globe. Hence, people look at ways to save taxes.

There are some ways to save taxes. One can invest Rs.1.5 Lakhs in designated investments under Sec 80C & get a deduction.

Similarly, one can take a medical insurance plan under Section 80D and get up to Rs.25,000 as a deduction. Another Rs.5,000 can be availed for a preventive health checkup if incurred.

One can also get a deduction of up to Rs.2 Lakhs on interest paid on Home loans. There are a few others.

One can take the benefit of all these sections to the extent possible. But, one need not compulsively try to exhaust all these sections.

For instance, if medical insurance has been taken and the premium comes to much less than Rs.25,000, one need not take additional insurance just for the purpose of saving some taxes!

Some people take the idea of saving taxes to the ridiculous extremes - we know people who have borrowed money to invest so that they may be able to save taxes!

There are others who do not want to disclose the interest income in their returns, capital gains from their MFs or property. That is tax avoidance.

All of these are bad ideas. Tax avoidance also comes with the additional danger of a call for scrutiny. In this linked world, it is very easy to get a full dossier of what all one has done. Hence, the chances of getting hauled up are quite high.

All this is completely avoidable.

It is best to pay the tax liabilities (after taking advantage of the tax shelters available) & then invest the rest to build wealth. That way life is smooth sailing & peace of mind rules.

So, those are some of the things which you will need to keep in mind while taking care of your finances.

We work for it all our lives. Let us ensure that it works for us.