9 Things to do when you're In Your 20s

Something inside tells you that you are not doing the right things with your money? Aaron Rodrigues talks to financial planners to help you set things right

If you are in your 20s, you are spoilt for options. You are in love with everything but can't remain committed to anything. When it comes to money, things get worse. Most people hate numbers—especially those which come as part of finance. The 20s is the age of immaturity on different levels, certainly when it comes to personal-finance issues. For a long period in our lives, we lived off our parents; and now we have our own debit and credit cards. So what do we do with the cash? We spend it. Ask a 25-year-old in the last week of the month and he will tell you that he is short of cash. And then he gets into Rohan Pushkar's shoes.

Rohan Pushkar came out of one those many institutes producing Masters in Business Administration (MBA) and got selected to be a part of a Mumbai-based multinational bank. The company gave him a good pay package with all the perks and he soon started living the high life. He no more carries a few rupees in his pocket to take a bus; he has hundreds to spend on a cab. After a few years, his well-toned body has gained a few pounds. Now 30 years, he is a manager and is soon to become a family man. Not having spent time on becoming financially literate (never mind his MBA!), he has invested mainly in fixed deposits—only a minimal sum. He got scared of stocks early when a broker friend gave him some sure-shot tips that mysteriously went down just after he bought them. He lives it up and has a lavish lifestyle, but when it comes to starting a family (which he is expected to), it is a different story. There is the house which he has to buy, the bills which have to be paid, the child plans which he needs to look at and the monthly expenditure. Do you really want to be in his shoes and enter a remorseful 30s after the thrilling 20s?

To avoid getting into Rohan's shoes, you need to plan your finances, save money, save taxes, invest prudently (so that money compounds to a large sum year after year) and buy sensible insurance. In fact, all this can be captured in nine steps elaborated below.

1. Be Financially Literate

Financial awareness is the very first step towards financial stability and security. You can read magazines like this one, attend Moneylife Foundation's workshops, visit www.moneylife.in and other websites. You can also look for professional help, especially if you have a decent income level. If you wanted to buy a cell phone, wouldn't you educate yourself by looking at all the features provided by different cell phones? You have to do the same for your personal finance. All the more because while we naturally trust our doctors and large companies selling branded products with a reputation to defend, we cannot say the same thing about financial services companies. The insurance product that your cousin sold you may not be right for you; the brokerage account you opened may be misused by your 'relationship manager'; the banker you trust blindly may sell you a mutual fund which is poorly performing… It is hard to believe, but when it comes to financial services, you have no friends. You are on your own and you must read up as much as possible initially and regularly spend time to keep up with the key changes.

2. Set Financial Goals

A wise man once said, "People don't plan to fail; they just fail to plan." Your basic financial goals must be broken down into short-term (within a year), medium-term (a year to five years) and long-term goals (more than five years). An example of a short-term goal would be to save enough money to go on a vacation while a medium-term goal would be to buy yourself a car. Long-term goals are saving up for your kids' education and planning for retirement. "Start allocating some amount from your income to various goals and then start investing to get there. If your goals are near, then invest in something which is very conservative, such as fixed deposits; if your goals exceed a five-year period, go for index funds and diversified equity funds," says Sandeep Chimanlal Vasa, a certified financial planner (CFP) at Total Wealth Management, a financial advisory firm.

3. Save as Much as Possible

That's your primary goal—save as much money as possible and enjoy it in the later stages of life. By later stages, we mean in your mid-30s. Yes, all we are suggesting is a few tight-fisted years at the beginning of your career. After all, when you are in your early 20s, you can make mistakes while spending impulsively. You have to start a saving process that begins with controlling your daily finances. It's not easy. You have just come out of college, and now you're on a spending frenzy. In the beginning, you save a certain amount of cash; however, over time, you forget all this and spend all that you earn. So, it's time to make a plan. Plan ahead; figure out what is required for the month and then spend. While doing this, calculate all your expenses and costs in line with your income for the month. Your expenses could be anywhere from food to transportation, from paying cell phone bills to buying new clothes. These should be your fixed expenses which stay relatively the same each month. Variable expenses, change from month to month, are discretionary and need to be controlled. For instance, a night out or a birthday present. So keep this in mind and set up a buffer fund from your income. Two things here: always keep some extra cash for the present and keep an emergency fund for all your expenses; this way, you don't actually go looking for extra cash if you suddenly need it.

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But even with all this planning, it's important to review your budget on a regular basis. After the month is over, take a minute to sit down and compare the actual expenses *versus* your income. These steps will help you develop an understanding of the way your money works. "Constantly review your expenditure, analyse your cost of living and see what you can do about it," says Jaya Nagarmat, a financial advisor.

4. Open a PPF Account

After all those financial plans you have for savings, it is now time to invest. So, if you haven't invested in a Public Provident Fund (PPF) account, do it now. "The 20s is the right time to invest in PPF, especially for the long run as you approach retirement age," says Sandeep Vasa. The money invested in a PPF account is not only perfectly safe but also earns you 8%. A PPF account can be retained after the maturity for any period without making any further deposits just to earn interest. The money invested, the interest earned, and the final withdraw-able amounts are all tax-exempt (under Section 80C). Over a maximum of 12 instalments per year, one can easily invest any amount from as low as Rs500 to as high as Rs70,000. All one needs to do to invest in a PPF account is to visit a post-office or a designated branch of public sector banks throughout the country. The account can be opened by an individual in his own name or on behalf of a minor.

5. Put Aside a Small Portion into an Equity SIP

PPF will help to save taxes and get interest-free income. What about making your money grow faster? Start contributing through a systematic investment plan (SIP) every month. "Don't just save money; it's what misers do. Invest it prudently through SIP," says Ms Nagarmat. It will help you mitigate market risk and volatility; more importantly, it lets you test the waters and build your portfolio one step at a time. An SIP lets you spread out the investment in the stock market over several months. A monthly SIP helps in averaging out the cost of purchase and provides benefits of the power of compounding while simultaneously creating wealth over a longer period.

6. Take a Home Loan

You are in your 20s and living it up. Soon, you will get married and settle down. If you are going to inherit you father's large apartment in Mumbai, you are among the lucky few. If not, you have to look to buy a flat. Home loan payments (interest and principal) are tax-free upto a certain amount and you must take advantage of this. This is one of the friendliest things the government has done for us—it lets you build an asset from the taxes you save! Start looking for an apartment fairly quickly after you get a job and don't leave it to a decision you make after marriage. If you postpone it, you lose in two ways: you don't avail of the tax-breaks and pay higher taxes on your current income; two, you may end up paying a much higher price for a flat—and possibly a higher interest rate—if you decide to buy one a few years later.

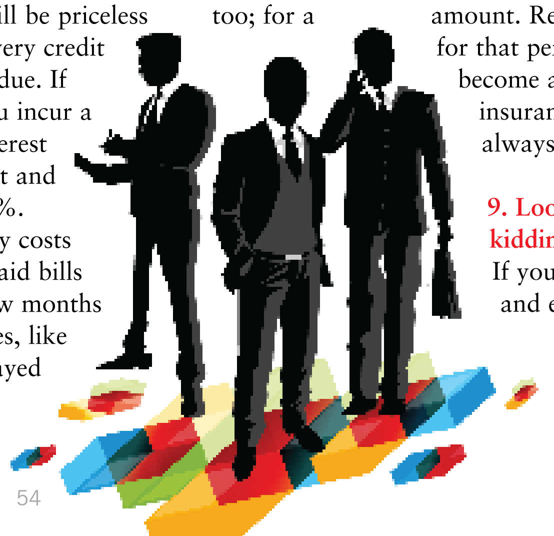
7. Pay All Credit Card Dues, Get a Debit Card

Buying her the perfect dress: Rs2,000. Taking your date out: Rs5,000. The expression on her face when you say "Will you be my wife": priceless. You know how the MasterCard ad goes. But let's check it out two months later when you can't pay your credit card bill. Bet, that expression on ***your*** face will be priceless too; for a different reason. Pay off every credit card due whenever it falls due. If you roll over you dues, you incur a heavy cost. Credit card interest rates are among the highest and can go as high as 40%-65%. Credit cards have too many costs attached to them, and unpaid bills accumulated over just a few months attract a variety of penalties, like compounding interest, delayed payment charges, interest on unpaid interest, etc. Most important, if you miss a payment, it becomes a blot on your credit history. "What people don't understand is that any bad credit is recorded in your personal credit history," says Ms Nagarmat. "The bank reports your credit history to credit bureaus and it adversely affects your ability to borrow in the future."

Credit cards are a useful tool but make you overspend, especially when you are in your 20s. Credit cards frequently lead to spontaneous buying binges which are often unaffordable. If availed to withdraw cash, it comes at an interest rate of 35% to 40%. Then there are security issues. If stolen, the card could be used for fraudulent purchases and billed to the owner's account, if it is not blocked on time. "Debit cards are much safer; go for them and they make unnecessary financial doubts go away," Ms Nagarmat advises. A debit card simply deducts money from your existing savings account.

8. Buy Life Insurance If You Have Dependents

As early as possible, get yourself an insurance policy. And a term policy, not a unit-linked insurance plan (ULIP). "The best time to buy insurance is when you get your first pay cheque... Buy it as quick as possible," says Mr Vasa. The earlier you buy, the better it is. For a Rs1-crore plan, you would spend Rs10,000 annually when you're in your 20s; if you are in your 40s, you would have to spend around Rs40,000 to Rs50,000 to get the same cover. It is the same with health insurance. When you are in your 20s, mostly likely, you are absolutely healthy. All those illnesses which you would possibly suffer from later, would escape the 'pre-existing diseases' clause, leading to lower insurance charges. Other insurance products that you need to buy are motor, home and personal accident insurance. Two things to note when buying life cover: One, always buy a policy which provides you with the longest term; two, go for one which offers you the lowest premium amount. Remember, you are committing yourself for that period, so if you can't pay up, it will become an issue. Also, when it comes to insurance, pay the premiums on time and always be truthful.



9. Look for a Rich Wife / Husband (just kidding)

If you think all these steps are too tough and end up straight-jacketing you, then search for a rich husband or wife. We don't have a solution about how to go about doing this, though. ■