Financial Planning

Finances for Generation Y-young & restless

Source: IRIS (27-FEB-12)

Hemant Beniwal

I grew up listening that we are Generation X (Gen Next) and we have a very different thought process. Generation X contributed in improvement of India`s economy and they are more comfortable with diverse perspectives. Recently I felt bad when I read that we (Gen X) are called old fashioned as Gen Y and Z are changing the face of society. According to demographics people who are born between 1982 and 2000 are part of Generation Y-before 1982 it was Gen X and post-2000 it is Generation Z.

Recently there was a survey in US on Gen X and Y-it revealed some surprising facts:

> Gen X are more likely to indulge in risky behaviour than the irresponsible Gen Y.

> Gen Y were more financially cautious than the previous generatio

> Gen Y is also better at saving and spending within their means.

> Gen Y are taking more responsibility for their actions.

It looks like that in the US, the game is in favor of Gen Y but I feel that in India Gen X is still better than the next generation, if we look at their finances. So let me share few basic rules that Gen Y can use to get ahead.

Who are you?

You may be unmarried or recently married or may be on the verge of starting a family. You might be new to professional life or settling in your career. Also you may or may not have bought a house. If you fall within these parameters, then read onâ€¦.

Generic solutions

At you start off the blocks, if you inculcate the right strategy in handling finances, you will lead a very comfortable life. You should list down your financial goals and make a financial plan. Construction of a house without a blue print is dangerous; so one must plan, before you really act. One can take the help of professional financial planners, to get the right direction. Make sure that all financial products should be taken on need-based analysis and one should clearly avoid products that offer a mixture of needs: life investment with insurance etc. We have tried to provide a road map on financial management but you are generic in your approach. The actual decision should be based on your situation.

Insurance for young people:

Disability/Accidental insurance is must for you and you should immediately buy a comprehensive accidental policy of ten times of your annual salary. If you have dependents, you should also opt for term insurance for at least fifteen times of your annual income. For example, if the income is Rs 5 lakh a year, the sum assured should be Rs 75 lakh. Term insurance for such amount may cost around Rs 10,000-12,000 depending upon your age, health and habits. You should avoid any other kind of life insurance or unit linked insurance plan. If there are no dependents, there is no need for life insurance either. A Medical Insurance policy if not provided by your employer should be taken separately.

Property investment

One should look for property investment only if one is going to stay in such house for at least the next ten years. There is really no hurry to take immediate decision.

Emergency corpus

People in the younger age group, at times, live on credit and by the end of the month, many of them are short of cash. One should start putting some amount in short term funds to create an emergency corpus of at least six months expenses. Avoid total reliance on credit cards. Develop the habit of using cash or debit cards. In movie Shuarya, K K Menon says ``agar jindagi udhar pe chal rahi hoti hai to sachai door ho jati hai``. So a reality check is very important.

Financial investment

You should open a PPF (Public Provident Fund) account as soon as you get a job, even if you are investing through EPF

(Employee Provident Fund). We are not suggesting to young investors that they should put the maximum amount permissible (which is Rs 1,00,000 now). But one should open the PPF account and just put little bit so that at least the account completes its lock-in period as soon as possible.

Also one must start Systematic Investment Plan (SIP) in diversified equity funds. This should be at least 15-20% of your monthly income.

Start saving for your retirement

You should not think that you are too young to start thinking of retirement (after all we are not Rajnikanth who can defy age and health problems!). We just want to say that even a very small contribution towards retirement corpus at this stage becomes a huge amount at the time of retirement as you have the `Power of Time` in hand. At a later stage, time cannot be compensated by investing huge amounts. SIPs in diversified equity funds are the best option for such planning.

Loans for young people

Loans like education loan or home loan are good but in case one takes loan for buying an expensive car or for going on an exotic holiday, that is a wrong approach. Also use of credit card should only be to substitute handling of cash and ease of payment and strictly it should not be used as tool to get a loan.

Mistakes Gen Y should avoid

It`s not that Gen X has not done mistakes; so there are couple of things that you can avoid to get ahead of them. Avoid buying investment linked insurance products, spending on wants /desires rather than only needs, Investing in liabilities and not assets, making a portfolio similar to your parents, not giving importance to financial literacy and being conservative investor at this stage of life.

Gen X was a bit lucky to have some pension from government, joint families and highest guaranteed interest rate products, but you have to face a dynamic world where even banks saving account rates are not same. You should prepare yourself to face this brutal financial world-have a financial plan which will guide you in this complex world.

(The author, Hemant Beniwal, is Principal Financial Planner at Ark Financial Planners and a member of the Financial Planners` Guild, India)