First job, first paycheck? Now set the money agenda for years ahead

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Spend some, save some and plan your investments and taxes. First-time salary earners should learn the ropes of money management quickly to ensure they don't squander their money away.

After he got his first paycheck, it was time for celebration for Garvit Malhan.The 23-year-old who had landed his first job as a product manager with a start-up felt a surge of joy and a sense of financial freedom. Now he would not need to ask his parents for money to go watch a movie, have a meal with friends, or buy something.With the first pay, Malhan bought a gift for his parents follwed by a dinner with the family at a nice restaurant.But then a sense of responsibility dawned on him. Though he liked to have a good life, he should not spend it all.According to the World Economic Forum, around 13 million people join the workforce in India every year. For the first time, they face the challenge to manage money and strike the right balance between spending and saving for a secure future.

A few simple money hacks can put you on the path to achieving financial independence and help meet financial goals such as further studies some years down the line, buying a car or a two-wheeler or even taking an international holiday.

Put aside something, every month

Spend some, but also save some. Financial planners recommend that you try to put aside around 30-40 percent of your monthly take-home paycheck. These are your savings.

But what to do with them?

Start a systematic investment plan into at least 2-3 mutual fund (MF) schemes.Two equity schemes and one debt scheme should suffice, to start with. As you move along, it's a good idea to ascertain what you are saving for; in simple words your financial goals. Work backwards and see how much you need to save every month.

Khushii Arora, 23, who works with a fintech firm, moved out of her parents' house two months back. While she was able to invest 70 percent to 80 percent of her salary while staying at home, it has been cut to 15 percent to 20 percent while being away. Yet, for Arora, it is important to save some.

"Keep your retirement goal in mind as well," says Vishal Dhawan, Founder and CEO, Plan Ahead Wealth Advisors. This might sound too premature but most experts recommend **saving a little every month for retirement**. This also helps if you wish to retire early from your job and say, start something on your own.

"Enjoy your present too. Don't compromise on it to save for the future because these young years will never return as well," says Gajendra Kothari, MD and CEO, Etica Wealth.

Get your insurance in place

This is important. There are many types of insurance policies out there but as someone who is into her first job, you must buy a health insurance plan, which reimburses your hospital bills if you require hospitalisation. "For someone who is 22-23 years old, a cover of at least Rs 3 lakh currently is a must and should be reviewed every 5 years to enhance gradually," says Dhawan.Your office might provide you with a health cover but it's important to have your own cover as well. When you are young, you tend to change jobs frequently as well. But if your new employer doesn't provide you with adequate cover - or worse, no cover at all, your **personal health insurance** helps.

“I am looking into the kind of insurance I should have (health or life or both) and plan to buy a policy (or two),” says Kritin Syal, 22, who is working with a consulting firm.

If you have financial dependents, a life insurance cover is also required. Make sure you buy a pure term cover; not the one that comes with an investment plan or promises to give you back money during your lifetime.

Build an emergency fund

You want that car that you’ve been saving up for, right? Or that international holiday you’ve been eying for. Make sure you do not touch the pot of money you’ve been so carefully building for it, SIP by SIP. But what happens if there is an emergency?That’s exactly **what an emergency corpus is meant for**. Keep a little extra every month into a separate, albeit a smaller, pot called emergency money. It comes in handy at the time of any sudden expense you just can’t get out of.It helps if, for whatever reason, you are out of a job, even if temporarily.Your emergency corpus should ideally be big enough to cover six months’ worth of necessary expenses (room rent, food and grocery, monthly SIP investments and the like).
“Use liquid funds or bank deposits to accumulate this emergency corpus,” says Kothari.

Plan your tax savings well

Come December and January and you will need to do your income-tax planning.If your income falls in the tax bracket, i.e., if your taxable income is above Rs 5 lakh, then you will be taxed. A good way to reduce your taxes is to invest in financial instruments that help save taxes. Look at some investments that give you **tax deduction benefits under section 80C**. You could invest a maximum of Rs 1.5 lakh in them.
But don’t pick your investments randomly. “Align your tax planning with your long-term goals,” says Harshvardhan Roongta, Principal Financial Planner, Roongta Securities Pvt Ltd. Like saving through an Equity linked saving scheme (ELSS) helps one save for long-term goals like retirement and provides tax benefits, he explains. And avoid insurance-cum-investment products because “someone else told you to do so,” he adds.

What else?

Avoid debt traps. It’s good to have a credit card. Malhan says he has a credit card from the same bank where he has a salary bank account. His choice was boosted because the card offers him discounts on purchases of Apple products. But for scores of first-time earners like Malhan, it is crucial to not fall into debt traps and make purchases just because your cards offer discounts and cashbacks.

Avoid investing in cryptocurrencies for now. Read up first. Understand what they are and if you still insist do not invest more than five percent of your overall investment corpus in cryptocurrencies.Talk to a good and qualified financial advisor. Not your office colleagues, neighbours or friends.“Don’t compare your spending habits with others and always give yourself at least 48 hours to think before making a big money decision,” says Dhawan.