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FINSHOTS

MAY 2024
ISSUE NO 1

HOW TO MANAGE YOUR FIRST SALARY

A FINSHOTS GUIDE

Getting your first salary soon?

Well, it might be a good idea to start your personal finance journey with that first paycheque too. And we'll tell you why today.

So, here are 4 things you need to do from Day 1!

Oh, and there's a bonus tip at the end.

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Step 1

Start loud budgeting

What's that, you ask?

Well, even if you are disciplined and track your expenses, if you tell your friends that you've started budgeting, you'll hear some boos from the crowd. The peer pressure will kick in. It'll tempt you into frivolous spending. So the idea with loud budgeting is to simply state your intentions loudly. Maybe in a group chat.

For instance, say your friends are planning a trip and you want to opt out. Here's a template you can send to your group chat:

> "Folks, I've some big plans of my own this year that's going to suck the money out of my wallet. So, I'll have to ditch this trip to Goa (adulting sucks). But come and hang out with me at home before you all go, and we'll have a blast?"

Now we're not saying you shouldn't take that trip. Do it if that's the most important thing for you. It's all about making memories. But money is finite, so you simply need to figure out what matters to you. If you're saving up for a new phone and you don't want to splurge cash at a trendy new cocktail bar, just state your goal loudly.

It might even inspire your friends to do the same! And everyone can get into the act of budgeting together.

Step 2

Buy Freedom

Let me explain. The hard truth about life is that most of us will eventually land up in a job we despise. Maybe it starts out great but maybe the boss leaves and the new one is a piece of work. Sh*t happens.

Now before you face a situation like that in your career, you need to do 2 key things.

Firstly, you need a **Rainy Day Fund**. Think of this as a fund you'll tap into only for emergencies — things like emergency travel, a dental issue, a car repair... stuff like that. Or maybe to tide you over for a while if you lose your job or if a health scare means you need to take a break.

Secondly, you need an **FU Fund**. I don't need to explain what that stands for, do I?

Put simply, it is money that allows you to live and choose to do as you please. FU Money is the freedom to walk away from your job. To do something new. Or do nothing at all for a while.

But remember, FU money isn't going to appear magically overnight. You need at least 1–2 years of your expenses set aside for this goal. It's going to take a while to get there and it's not going to be easy to save up. Especially when we have so many distractions that scream, "Buy me!!!"

But the freedom you get at the end of it all is going to be worth it.

Trust me.

And if you're wondering where to invest the monies for these funds — consider a simple break up like this — keep 3 months' worth of expenses in a savings account. And mind you, this shouldn't be in a bank account you use daily. Set up a new account just for this. And then, the rest of the Rainy Day and FU Fund monies can be invested in the dowdy Fixed Deposits or Recurring Deposits. They're easy to set up. And since the objective of these sorts of funds is to get quick access to your money, they do the job well.

If you're financially savvier, you could consider something called a Liquid mutual fund. But only if you understand the risks here, ok?

Step 3

The R-word — retirement

Because it’s never too early to start planning for that life, sipping martinis on the beach!

Take the example of Anjali and Rahul. At the age of 21, they get their first jobs. And they’re both paid ₹50,000 a month.

Now Anjali decides to be prudent. She sets aside 10% of her monthly salary towards building a retirement fund. Rahul wants to wait a few years and have a bit of fun. So at the age of 30, he finally begins his retirement planning journey.

Let’s assume that they get an annual salary increment of 5%. And their investment fetches them an annual return of 12%.

When they retire at the age of 60, they swap notes.

And Rahul is shocked. He sees that while he has a tidy sum of ₹4 crores, Anjali has amassed double that — she has a retirement kitty worth a whopping ₹8 crores.

And she got there just by starting early. That’s the magic of compounding folks.

So yeah, don’t forget to make your money work for you from Day 1.

Now you might be wondering what kind of investment can maximise the returns, right?

Here’s a piece of advice, ignore the voice in your head that nudges you to buy stocks. At least at the start. It requires time to study and understand stocks. And you’d be better off focusing on upskilling yourself in your career. So pick up mutual funds instead — and look at index mutual funds. These are the ones that simply track an index such as the Nifty 50 or the Nifty 500. They’re no-fuss investments and should hold you in good stead for the long run.

Step 4

Buy Protection!

We're talking about insurance, of course — both the health and life kind.

Even if your company provides you a health insurance cover, please take one of your own.

Wait...why do you need health insurance if the company already provides one?

Well, having employer-provided health insurance is fantastic, but, life's full of ifs and buts.. What if you want to jump on the entrepreneurship bandwagon? What if you just want to take a break for a few months? What if you want to retire early? Or worse, what if you get laid off? You probably won't have any health insurance in each of those cases.

And if a medical emergency crops up, well, dipping into your savings will be quite a painful affair. In most cases, a single hospitalisation can wipe out years of savings. And it's not just the hospitalisation you have to worry about. You'll often have to contend with various diagnostic exams before doctors determine what's wrong. Post-hospitalisation, you'll have to deal with medication costs. Modern treatments are costly, and medical inflation usually peaks at 7–8% yearly.

To put it simply, falling sick can be an expensive affair. And it also has the potential to upend your life altogether. It can prevent achieving true financial independence and strike havoc at any point.

Most of us forget about health insurance when we're young and hearty. Because we feel we're pretty invincible. But we wake up one day and find that we have a slipped disc, or diabetes, or hypertension. You look to buy a health insurance policy but the insurer isn't pleased. They refuse the policy or charge you a ridiculously high premium. And then you wonder...

So, buy a health insurance policy for yourself. Please.

And then there's life insurance or term insurance.

The common refrain you'll hear is that you need life insurance only if you have dependents. Typically, if you have a spouse and kids. So if you're young, you can ignore it.

And that's true. But only partly.

People often forget that parents can be your dependents too. If you're taking care of their financial needs, they could struggle in your absence.

There's another reason why millennials should probably consider looking at a term plan — Debt. Most people we spoke to have home loans, education loans and other personal loans with a considerable interest burden. In their absence, this burden would shift to their dependents. It's not something most people think of, but it happens all the time.

Finally, you get a pretty good bargain on term insurance prices when you're younger. The idea is to pay a nominal sum every year (something that won't burn your pocket) to protect your dependents in the event of your untimely demise. And this fee is the lowest when you're young.

So, yeah. Don't wait. Get these insurances in place before you even start investing.

How do you estimate the amount you need?

Well, if you want a really great experience of understanding insurance, take 2 minutes and check out our parent entity — Ditto Insurance. Click the top right corner for the Ditto Hotline and set up a call with our advisors. It's a no-strings-attached, zero-spam policy we follow here. So you won't regret it.

Bonus Tip

"Building a personal brand around your career is the best professional insurance you could ask for."

That's from creator Jack Appleby. And there's a lot of people who think that way today. It has never been easier to share your opinions and insights about your industry or anything else you're passionate about these days. Social media has democratised content creation.

And what you create and share can have an exponential effect. It can reach millions of people and you never know who's watching. Your next gig or big opportunity could come from here. So maybe keep that in mind as you build your career.

If you found this comprehensive compilation useful, then don't forget to spread the word (and the wisdom)

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