Just started working? Beware of these six money mistakes you could make

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Early Jobbers are individuals between the ages 22 and 27 who've recently started their work lives. They're an interesting cohort because they're digital natives with big aspirations and have a pretty good idea about what to do with their money. As per the 2019 Aspiration Index, (a study of India's aspiration through the lens of personal finance) the Early Jobber's biggest life aspirations are buying a home and saving and investing for their children's education. These are long-term goals. The path to their fulfilment can be littered with setbacks and mistakes. Here are a few mistakes Early Jobbers can avoid, and give themselves a strong start in life.

Spending first, saving later

The golden rule of savings is to bank your money first and spend from what's left of it. As a thumb rule, aim to save at least 20% of your monthly take-home income. Go higher if you can. You can start a recurring deposit with your bank or a mutual fund SIP that automatically debits your account at the start of the month, leaving you lesser to splurge. With your savings secured, you could then confidently meet your fixed obligations such as rent and groceries, and also make discretionary spends on lifestyle and consumption without feeling bad.

Reckless borrowing & credit card use

A fixed salary in your first job may soon help you get your first loan or credit card. However, be careful about borrowed money, always. Never be late with your EMIs and credit card payments, because you could be charged late payment fees and hefty interest charges. Being late also damages your credit score, and this makes future borrowings difficult. Wherever possible, borrow to create appreciating assets (such as a home or a career), and keep borrowing for consumption and lifestyle (think travel, eating out, gadgets and clothing) under tight control.

Just insuring, not investing

As a new entrant to the workforce, you'll be provided plenty of advice on how best to manage your money. One of these advices would be to buy investment-linked life insurance products. Avoid this advice. It is best to not mix insurance and investing. Therefore, buy a term plan if you have dependent family members. If you need to save income tax, open a PPF account or invest in an ELSS mutual fund. In any case, always stop to ask what the annual rate of return on any investment product is. If it returns less than PPF, strongly reconsider buying it.

Not buying health insurance

India has poor health aspirations. This means that many Indians aspire to a standard of health they feel they can't achieve. Among the many reasons for this, the escalating costs of healthcare is just one. A health emergency can strike anyone regardless of their age. A hospitalisation or the treatment of a critical illness such as cancer can quickly drain your family's savings. Therefore, always be covered by a suitable health insurance plan of at least Rs. 5 lakh. Even if your employer provides you one, buy another one for yourself to ensure continuity of coverage just in case you lost your employer-provided coverage due to reasons such as job loss.

Not creating an emergency fund

An emergency fund is meant to cover you against situations you may not be able to foresee – for example, loss of job and income, home repairs, health emergencies, urgent travel, and so on. This fund should be made using a recurring or a fixed deposit with your bank, and it should grow to be at least 3x your current monthly income. Not creating this fund would mean the absence of a savings habit, as well as poor preparedness against life's vagaries. Therefore, fortify your finances and start creating this fund immediately.

Investing just to save tax

A common mistake, it creates several problems. One – you are saving only to save income and not to create wealth, which requires focus, time and financial plan. Two – you're likely to earn poor returns. Three – because tax-saving instruments have lock-ins of at least three years, you will lack liquidity when you need it. Therefore, invest towards the achievement of goals (buying a house, retiring early, etc.), and make tax efficiency a part of that exercise. This will help you create more wealth, save more tax, and ensure liquidity.

In summary, shore up your finances with an emergency fund and insurance, save every month, invest to create wealth, and borrow with great care. This will create a strong financial platform for your later life stages.

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