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New graduates must learn to save early

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It might seem like a long way off, but it's never to early to start preparing for marriage and retirement

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Image Credit: Supplied

Dubai: With a freshly minted Global MBA from SP Jain Centre of Management — not quite, as the graduation ceremony will take place next Thursday — Rahul Krishnan knows his financial priorities all too well.

"As I am starting my career, the initial month or two will be more expensive than they should. They will be the cost of renting a comfortable place, a driving licence and other initial requirements," says Krishnan, 27. "These expenses should be well planned to avoid a cash crunch in the first few months."

He has a bank educational loan of about Rs1.2 million (Dh900.000) that is payable in five years, but he says he is likely to fast-track this and complete the payment in two years. That's because he landed a sales and marketing job with the world's largest steelmaker ArcelorMittal, in Dubai, with a "reasonably good pay package."

He adds he has to be cautious about spending, without compromising on basic necessities. That would mean trying to cut down unnecessary expenditure. "I do not party much or spend money to enjoy leisure. This helps me maintain my standard of living as well."

But in good or bad times, college graduates have to manage their money carefully, say financial experts.

Starting early

It is always better to start saving early, immediately after graduation, they say.

If you don't have debt from education costs, and find yourself in the fortunate position of working immediately, don't go crazy over credit cards and bank loans. Set aside ten per cent of your take-home pay each month and learn to budget with the balance. Soon, you'll be an investor. Investors, sooner or later, become the employers of people with debts.

But when it comes to paying off student loans, it may sometimes be wise to repay as little as permitted, in order to take advantage of the present low interest rates. But then, you may not want to be burdened with debt, so it is entirely an individual decision. With no job offer, Azim Al Ghussein, who graduated with a bachelor's degree in visual communication, from the American University of Dubai, is going for a second degree in the same field. He is grateful that his parents supported his entire college education. He acknowledges that although he is cautious about money, his parents' support has made things easier for him.

While pursuing his second degree, which his parents are going to pay for, he intends work part-time and save. "Because once I am done with my [second degree] and looking for a permanent job, it won't be so easy and I would like to then rely on myself," Al Ghussein says.

For some graduates, the global economic crisis has brought some money management lessons.

It has definitely taught Ankur Kumar Daftuar, who finished a degree in supply chains and logistics from SP Jain Centre of Management this summer, to manage unexpected risks.

"Money-wise, I am always prepared to support myself for six months as I have kept some savings from navy days especially for this purpose. They are invested in various funds," says Daftuar, 28.

He does not have a credit card. "This view has developed due to lots of hidden banking charges and negative publicity about credit cards," Daftuar says.

Daftuar, who earlier worked in the merchant navy, has an educational loan of about Rs750,000 to be paid over seven years. He's confident he can pay it back as he landed a job as a process analyst at Westcon Middle East.

In some ways, Daftuar says, the decision to opt for management education also made him to start budgeting. He stopped being a spendthrift.

Calculative

"This meant I became very calculating, always trying to get the best deal. This was a great change, because as a mariner, I used to spend a lot."

But like Krishnan, he never stopped spending on essentials, and even fulfilled his long cherished dream of owning a Swiss watch.

But Rumi M. Sanjana, director at Nexus Insurance Brokers, says only some people are lucky enough to enter a profession that pays well from the start. Those who start in low-paying jobs need more time, and possibly a repayment freeze, until their salary is high enough to pay back their loans.

"For those in this situation, it would also be wise to postpone any large outgoings, such as marriage or starting a family, until their financial situation is more secure," Sanjana says.

"Retirement may be the last thing on their mind when they first start working, but there are plenty of things they need to save for," says a financial expert.

"To be realistic though, they are setting out on their career path and still have to deal with marriage, children, a family home to furnish here, and another eventually in the country where they will likely retire," he says.

Sufficient set aside

"They need to ensure that they can provide for these things in addition to retirement. Above all, they should ensure they have sufficient set aside to deal with emergencies which can include loss of employment. Get this right before you start borrowing, is the message."

Sanjana is however more insistent on starting a pension plan right away. It's never too early to start saving for retirement, he says.

"The fact is the vast majority of people do not have enough saved for their future. The point is not to only look at current income in today's terms but also anticipated inflation from now until retirement and throughout the retirement years.

"For example, an inflation rate of just three per cent per annum over 10 years would mean that Dh15,000 per month today would need to rise to more than Dh20,000 per month to maintain the same purchasing power.

Retirees generally need at least 75 per cent of their previous income to maintain their standard of living," Sanjana says.

Another important investment is life insurance that pays a lump sum to the policyholder's family on their death, says Sanjana.

"Again death may seem a long way off at present but such policies offer additional benefits such as Critical Illness Cover, which pays out a sum of money in the event of a person having a serious medical problem or impairment of daily activities through permanent disability.

Provide a replacement

"The sum of money paid out can be used in whatever way is necessary, but it is often especially useful to provide a replacement income if the affected person finds himself out of work for an extended period, or even permanently."

But for now, Krishnan is not scrimping on his lifestyle.

He has cut costs as much as possible before, saving a lot by renting cheap accommodation.

After earning his degree, his priority is to upgrade himself from being a ‘bachelor' to an ‘executive bachelor'.