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PERSONAL FINANCE FOR THE INDIAN MIDDLE CLASS

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Abstract: In spite of the fact that individuals have significantly more money than they did decades ago, the level of information on how to manage that money has not kept pace, according to financial experts (Maura Fogarty, 2012). (2012) (Maura Fogarty). Everyone must take responsibility for planning and managing their finances and put these skills into practice. This is necessary to establish a household budget and save, invest, and plan for retirement.
This article examines the concept of financial management, the necessity of financial management, how each individual can manage and plan their finances, and financial management knowledge in India. This writing aims to raise people's awareness of the significance of planning and managing their finances, as well as to educate readers on how to plan and manage their finances for their betterment today and in the future, which indirectly contributes to the development of the nation.

Index Terms **– Personal Finance, Investment, Middle Class, Management, Debt, India**

I. INTRODUCTION

Personal finance involves developing a strategy to achieve one's financial goals, such as saving and investing, controlling debt, purchasing a home, and planning for retirement. It primarily depends on a person's income, expenses, living requirements, personal goals, and the plan they devise to achieve those goals within their financial constraints.
To maximize one's income and savings, one must have a firm grasp of personal finance. Financial literacy enables one to distinguish between reliable and unreliable financial advice and to make prudent decisions.
The new concept of conservative personal finance involves budgeting, establishing an emergency fund, paying off debt, using credit cards responsibly, and saving for retirement, among other strategies.
Establishing a budget is the first and most significant phase in planning and managing personal finances. After determining how much money is earned, the next step is to determine how much is spent. We should keep track of each one of our expenses. There are three categories of expenditures: fixed expenses, which include annual housing, insurance, and car payments, and fixed costs that do not vary from month to month. Everyone should know their monthly income and expenses based on this cash flow. The next step is our savings—as a general rule, 10 to 15 percent of our income should be set aside for salvation. This is the minimum amount; it is recommended to save more. In addition to saving, every individual should establish an emergency fund to cover unforeseen expenses such as car repairs and medical emergencies. The standard recommendation is five times our monthly income. After selecting an emergency fund, everyone should begin planning for long-term goals such as retirement. In addition to saving, one of the most important things people forget is putting their savings to work. Credit Cards are one of the best tools for building credit, but they should be used cautiously. The annual interest rate for credit card borrowing is typically between 15 percent and 20 percent. To avoid unnecessary expenses and debts, one should exercise extreme caution when using credit cards, pay them off at the end of each month, and limit the number of credit cards they possess. In addition to the careful and deliberate use of credit cards, planning

for retirement is an essential aspect of sound financial management. It is never too early to begin retirement planning. The sooner we might start, the better the future will be.
Personal finance is essential for anyone who wants to live a debt-free life and avoid the stressful existence of working until old age to support themselves and educate their children. Everyone ought to be aware of and comprehend the importance of financial planning and management. This research paper would be very useful for those less knowledgeable about the significance of personal financial management and those who are determined to take control of their finances and put their money to work.

II. LITERATURE REVIEW

Since 'the mid to late 1990s' (Choi, n.d.), policymakers, service providers, and academics in the financial sector of developed nations in the United States and Europe have begun to recognize the significance of personal finance education; thus, the majority of the prior review studies discussed below pertain to developing nations.
In their review of finance developing nations studies from seven European countries, Lusardi and Mbeingred a correlation between low financial literacy and socio-demographic factors. These studies consistently measured personal finance's fundamentals, including interest compounding, inflation, risk, and return. There was a lack of financial literacy among younger or older age groups, less educated women, and the unemployed. The researchers also discovered differences in financial literacy based on race and religion. According to researchers, financial literacy and self-assessment are two factors that can lead to financial mistakes. Financial literacy and financial behaviors were positively correlated, even though retirement plans were unsatisfactory across the board. It was discovered that people in the United States and certain European countries lack the mathematical skills necessary for making routine financial decisions. Moreover, both studies emphasized the importance of addressing the needs of vulnerable groups, such as women, youth, the elderly, the unemployed and undereducated, minorities, and low-income groups, to prevent the negative effects of low financial literacy and suboptimal financial decisions among these groups.
Financial literacy is becoming increasingly important in both developed and developing countries, as evidenced by a global survey of financial literacy literature conducted by **Xu & Zia (2012),** which aimed to provide evidence on the importance and level of financial literacy, its correlates, and effects, and their practical implications. Previous studies have shown that poor nations have low levels of financial literacy. Studies in poor nations are lacking, even though they are very important for policymaking and academic purposes. According to their findings, financial literacy and various socio-demographic characteristics are closely linked. Ethnicity and occupational status differ at the global level, too, as Lusardi & Mitchel (2011) found. Personal financial management abilities were influenced by a variety of behavioral characteristics, such as one's belief in the value of financial literacy, how satisfied one is with one's existing level of financial literacy, and the results of this belief in the importance. As more impact assessment studies surfaced with encouraging findings, they recommended that policymakers consider promoting financial literacy initiatives. However, they noted that the total body of research on this topic is still divided.
Lusardi & Mitchelle's (2013) study, 'Economic Importance of Financial Literacy,' shows that financial literacy grows with age but decreases with advancing years. Females of all ages were shown to have a lower level of financial literacy than men of the same age. Lusardi and Mitchel presented various theories to understand why women have a lower financial literacy while having more education. As a result, they projected that females might learn about financial literacy in various methods, which might serve as a source of information for financial education strategies that target females. The findings of this study are consistent with those of other studies, which found an increase in financial literacy with increased education, income, and employment. Race and ethnicity and the divide between rural and urban residents remain across age and different financial literacy questions. Other studies have shown that financial literacy may be learned more simply through contacts with others, such as at work or in the community, according to Lusardi and Mitchel (2013). It was also discovered that differences in cultural backgrounds, such as race and ethnicity, had an impact, which led to the following conclusion:
"…..while financial illiteracy is widespread, it is also concentrated among specific population subgroups in most countries. Such heterogeneity in financial literacy suggests that different mechanisms may be appropriate for tracking the causes and possible consequences of the shortfalls."
As shown in the evaluations mentioned above, a lack of financial literacy across demographics and socioeconomics in many nations suggests the importance of financial education, especially for a specific population, to produce results quickly. Research from poor nations suggests that well-targeted financial literacy initiatives have favorable consequences, as Xu and Zia (2012) emphasized in their proposal for policy in developing countries. This is not just based on survey data from the developed world.
Only a few studies have been done on financial literacy in emerging nations, such as India and South Africa, which have implemented national financial literacy initiatives. According to **Kummar & Annes (2013)** and

Subha & Priya (2014), financial literacy is critical in India. The government should improve access to financial markets and financial inclusion for the country's poorest citizens. Only a few surveys were evaluated. However, the findings of **Kummar and Annes (2013)** show that "[t]he financial literacy level largely depends upon education and income level; the social variables such as family size... also have a modest influence" on this (pp. 85). As a result, **Subha and Priya (2014)** emphasized the importance of doing more research to identify the most at-risk populations and enhance financial education programs for these groups.
There are few financial literacy surveys and inconsistent measuring and research methodologies available in the United States, much as in India, as **Fatoki & Oni (2014)** pointed out. According to the available studies, South Africa has the same level of financial literacy as the rest of the world. Further and comprehensive research was suggested to reduce measurement and methodological inconsistencies while providing a comprehensive view of financial literacy across demographic and socioeconomic characteristics of the population for evidence-based financial education policies and implementations, in addition to enhancing financial education in South Africa.

III. Research Objectives

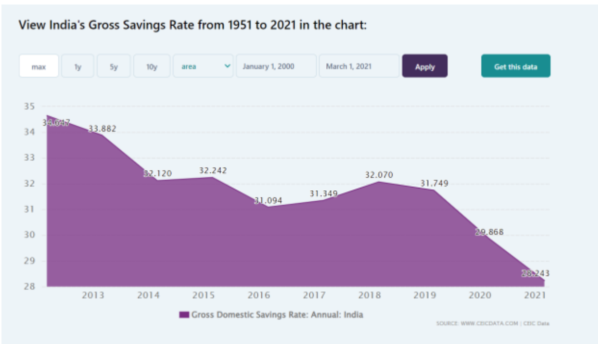
1. The aim is to dig into the world of Personal Finance not only for the Indian middle class but also to touch on personal finance for all segments of society and understand the importance of savings, investments, and retirement plans. We will also be discussing how Inflation eats our money.
2. The primary objective of this research would be to understand the different types of Investments-risk/return, fixed income securities and assets, commodities and real estate, stocks, and mutual funds analyze the growth and check the best-suited investments for yourself.

IV. Significance of Study

- This study will be significant for understanding different modes of investment like risk/return, fixed-income securities and assets, commodities and real estate, stocks, and mutual funds.
- The study will also help understand savings, Insurance, and retirement plans. Also, it will provide a clear base on inflation eats people's money.
- This study will help provide an in-depth understanding and management of personal finances.

V. Theoretical Framework

Savings: Savings is the most crucial part of anybody's financial journey. Usually, it is said that savings are that part of our earnings, whether from salary, business, investments, inheritance, and so on, which we are left with after spending on our wants and needs. Spending on our needs is necessary. After all, we cannot go on long enough without food, water, and shelter. And also, in this modern world, we have things like electricity and the internet, which we need to stay connected with the world.
According to Investopedia, "In economic terms, saving is a choice to forego some current consumption in favor of increased future consumption, so the savings rate reflects a person or group's rate of time preference. The savings rate is also related to the marginal propensity to save."
Needs have a limit. They help you in surviving. Once this limit is reached, we don't have to spend more on it. Wants, on the other hand, have no limit due to the greedy nature of humans. We may live in a modest 2BHK apartment but still want a bungalow; we may have a nice hatchback car that gets us from point A to B, but we may still want a sedan car. We may have ample clothing to keep us warm, but we may still want those designer clothes which get out of trend almost every month, and we again want to be in trend. It is not that wanting something is demonic, wants can be a great motivator to earn more, but those wants should be well within our limits so that they don't get over our minds and make us spend more than we earn. Nothing remains in trend in today's society, and it is a rat race. Being in trend just to look appealing to others is surely a path to financial doom. Instead, we should have mercy on ourselves and increase our ability to earn to meet our reasonable wants, like going out to dinner at a fancy restaurant, a family vacation, etc. There is a thin line between reasonable and unreasonable wants which depends on a person's rationality.
The saving rate is the percentage of money saved over monthly gross income. The generation before ours was very good at increasing the saving rate as times were tough for them. They were happy to sacrifice their current wants to save for their children's education, a home, and other essential needs. Our generation, on the other hand, has shown a downward trend in the savings rate (as shown in the graph)



But why save? To achieve our financial goals and wants. Savings can also help us when it starts to rain. In case of an accident or a medical emergency, our relatives may or may not support us, but our savings will always support us. They can also prevent the vicious cycle of living from paycheque to paycheque, helping us to be financially independent, or also helping us explore new employment opportunities. A person that earns Rs. 40,000 per month and has 3-4 lakhs saved can easily quit his unsatisfactory job and find a new one or even gather capital to start their own business.

The problem is we spend before we save and end up with little or nothing to save. Ideally, we should save first and then spend. For the middle-class Indian that goes to a job, this is much easier as they receive consistent paycheques. But despite this, 1 in every 3 Indians live from paycheque to paycheque (according to DealSunny's "spending behavior of Indians 2016" survey). The same survey tells us that almost 80% of Indians have less than Rs. 25,000 saved in their savings account or emergency fund.

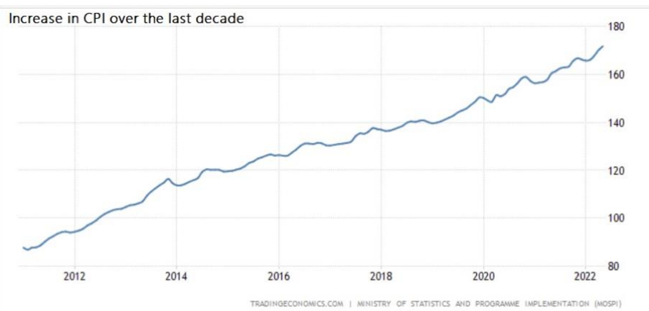
Inflation: Inflation is the relative change in the cost of living over a period of time. We all experience the recent petrol price hikes and increases in the rates of edible oils, wheat, automobiles, and whatnot. It is a sensitive topic in politics because it affects everybody in the country. Inflation is not necessarily bad, as it can be said that it is a by-product of growth. As the economy grows, consumption, i.e., demand, increases, increasing the general price level of goods.

The problem is that inflation is not only affected by growth; it is affected by plenty of other things like bank rates, consumer mood, the efficiency of supply change, the level of foreign investments, and even when growth goes out of control. So, to tackle this, the government makes various budget and monetary policy decisions by tuning the factors affecting inflation.

$$\text{consumer price index} = \frac{\text{market basket of desired year}}{\text{market basket of base year}} \times 100$$

The government, or anyone, cannot control anything that cannot be measured. So, to measure inflation, the government uses an index, usually CPI (Consumer Price Index). In layman's terms, it is a comprehensive basket consisting of all the essentials like foodgrains, fuel, education, medical treatments, etc., calculated concerning a base year. The percentage change in this index over a particular period is termed the inflation rate for that period. In India, CPI is calculated by the Ministry of Statistics and Programme Implementation (MoSPI).

This rate of inflation reduces our buying power over a period of time. We hear from our grandparents about their good times when everything used to cost so low. This is true because the general price level increases and the number of goods one rupee can buy decreases. In the 70s, ₹100 could buy a whole month's load of groceries, but now we can barely get a liter of petrol in the same amount. As inflation is an inevitable by-product of growth, it is bound to happen. This tells us that the value of ₹100 today is more than the value of ₹100 a decade later.



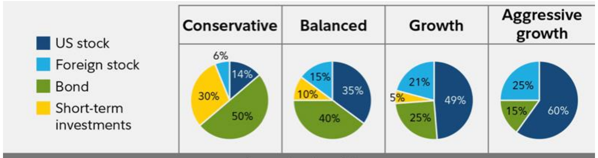
This brings us to the conclusion that inflation will eat our savings. If a person saved ₹5,00,000 for their retirement in the 80s, they would have thought they had hit the jackpot. But it would have completely deteriorated by the dawn of the next millennia.

So this means that just saving money is not enough to achieve our financial goals or freedom, as inflation will gradually reduce the value of our savings, leaving us with nothing but a pipe dream. We will have to generate a return on our savings that should negate the effect of inflation on our savings. If we are going to generate a return on our savings, then why not have it be superior to the inflation rate so that our savings not only are protected but also grow on their own?

Investment: Investment is a financial instrument that we use to generate a return on our capital. An investment is a good or service purchased to profit or appreciate. A thing has increased in value when its worth has increased over time. When a person purchases something as an investment, he or she intends to use it in the future to earn money. Investment always entails putting out something new, such as time, effort, money, or an asset, with the expectation of receiving more. For instance, an investor may purchase a monetary asset in the present with the expectation that it will generate income in the future or increase in value so it can be sold for a profit.

However, this profit comes with a risk. In financial terms, risk is the possibility that an outcome or investment's actual gains will differ from its expected gains or return. Risk is the possibility of losing a portion or the entire initial investment. We may purchase an asset, but there is no assurance that we will receive the expected return. This risk is known as interest risk. This is known as credit risk. The asset's value may fall below what we paid for it in the first place, or we may lose the entire amount invested. Risk is ubiquitous. This might not even make us

want to invest. Nevertheless, certain types of investments carry a certain degree of risk.
Risk is measured in terms of standard deviation normally in the financial world. Standard deviation is a simple math idea that measures how volatile the market is or how much each data point is different from the mean on average. Simply put, the standard deviation is a way to determine how far asset prices are from their average. When prices go up or down a lot, the standard deviation is high, which means there is a lot of up-and-down movement. When trading ranges are close together, on the other hand, the standard deviation is low, which means volatility is low. What can we tell about it? When prices change a lot, the standard deviation is high. The standard deviation is low when prices are stable and don't change a lot.
Standard deviation is a good way to measure the risk of an investment, but it's not the only way.
But standard deviation alone cannot tell us whether we will lose money or not. Our judgment and homework can help us avoid losing money in investments. As an investor, we should know thoroughly how we invest and diversify enough. We should also know what we are investing in and whether the other party can give us that return or not. Diversification can occur across asset classes like stocks, bonds, mutual funds, real estate, gold, etc.



Annual return %	Conservative	Balanced	Growth	Aggressive growth
Average annual return	5.96%	7.96%	8.97%	9.65%
Best 12-month return	31.06%	76.57%	109.55%	136.07%
Worst 12-month return	−17.67%	−40.64%	−52.92%	−60.78%
Best 20-year return (annualized)	10.98%	13.83%	15.34%	16.49%
Worst 20-year return (annualized)	2.92%	3.43%	3.10%	2.66%

Fixed-income securities are the ones that are the less risky ones but also give low but assured returns. Fixed-Income Securities are debt instruments that pay investors a fixed interest in coupon payments. Interest is usually paid every six months, and the principal is returned to the investor when the bond matures. Most fixed-income securities come in the form of bonds. Companies get money from investors by giving them fixed-income products.

Bonds are investments that companies and governments sell to get money to pay for projects and run their businesses. Corporations or governments issue most bonds, and they can have different maturity dates and face value amounts. When the bond matures, the investor will get the face value back. Some fixed-income instruments in India are –

1. Public Provident Fund- This is one of the Government of India's more popular plans for long-term investments. It has good interest rates, and you don't have to pay any taxes on them. The investment is 15 years, but it can be extended into five-year chunks. Section 80C of the Income Tax Act says that interest is not taxed, a tax break. The most you can put in in one year is INR 1.5 lakh.
2. Voluntary Provident Fund- The Voluntary Provident Fund is another type of fixed-income investment. This is when an employee puts money into the provident fund account. This is a good way for investors who don't like taking risks to build wealth over time.
3. PSU Bonds List- These are bonds that are given out by entities backed by the government and have a very low chance of not being paid back. Interest from interest on these bonds is not taxed because it comes from interest. If there are any capital gains, though, they are taxed.
4. Senior Citizen Savings Scheme- This is a good bet for investors over 60 who want a steady income stream and are in a low tax bracket. This investment will last 5 years, but it can be extended for another 3 years. The most that can be invested is INR 15 lakh.
5. Pradhan Mantri Vaya Vandana Yojana (PMVVY)- The PMVVY, which is run by the Life Insurance Corporation of India (LIC), is a way to protect seniors aged 60 and up from a future drop in their interest income that bad economic conditions could cause. This year, the amount you could invest in this was raised from INR 7.5 lakh to INR 15 lakh. The good thing about this plan is that it guarantees a pension based on a guaranteed rate of return of 8% per year for 10 years.
6. Sukanya Samriddhi Yojana (SSY) is a small savings plan for girls. It was started as part of the "Beti Bachao, Beti Padhao" campaign. It has an interest rate of 8.1% and income tax breaks. Your daughter can take advantage of the program from the time she is born until she turns 10. The least you can put into the scheme is INR 1,000, and the most you can put in is INR 1.5 lakhs during the current financial year. The account can be used for up to 21 years after it is opened or until the girl gets married after she turns 18.

Commodities are another lucrative investment in India. It does not have any intrinsic value, it does not generate any cash flow, but its value increases merely due to supply and demand. Indian are obsessed with Gold and Silver. It is rooted in our traditions to buy gold and festivals. But we buy gold in the form of jewelry that burns money by making charges, taxes, locker charges, etc. There are various other methods of investing in gold in India, such as-

1. Buying physical gold - There are two ways to do this. The traditional way is to buy gold jewelry from a store you know and trust. But when buying, you should be careful about how much it costs to make, how pure it is, how safe it is, and how good it is. One can also buy gold from a bank or a jeweler in the form of coins and bars.
2. Sovereign gold bonds - The RBI gives out sovereign gold bonds (SGBs) in parts. These bonds are sold in grams of gold at the current price, and the interest rate is fixed. The investor gets the value of gold at the rate that was in effect at the end of the term. You can invest in SGBs at banks, post offices, and stock exchanges. This is a long-term investment you can get back tax-free when it's done.
3. Gold ETFs- Investing in gold through gold ETFs is easy and cheap online through a broker platform. These ETFs buy gold bars, SGBs, gold companies, and gold funds.
4. Digital gold - Digital gold is an investment in pure gold in digital form. Here, the seller keeps the same amount of real gold in a safe vault, which is reflected in the investor's digital gold account. The investor can also get the goods in person.
5. Out of these, Sovereign Gold Bonds are the best through cost-benefit analysis as we are losing money while purchasing other gold instruments in the form of making charges, brokerage, etc. Here we are getting 2.5% p.a. just to keep that bond with us while the capital appreciates concerning gold prices. Not to mention the tax breaks we will get from Long Term Capital Gain Tax.

Real Estate is another traditional way of investing popular in almost the entire world. Rent is just an expense paid towards the property owner, but a mortgage is part of payments towards building equity in an asset. A mortgage may be a little more than rent in the short term, but in the long term, after putting capital appreciation in mind, buying is better as you will also get a residence and an investment property.
An even more aggressive way to make money in real estate is building a nice cash-flowing property portfolio that makes you collect rent every month, this is the best in metropolitan and student cities. The rent collected will increase every year, but the EMI will be the same. The only precaution here would be not to buy overvalued properties. This can be done by discounted cash flow analysis. After a certain point, the rent will cover the entire EMI, and even later, when the entire loan is paid off, the entire rent will be our income. This doesn't even account for the capital appreciation the property would get. Everybody can not get into this kind of investment. One may have some ancestral property that one can sell to start their first real estate investment.
Through a real estate investment trust (REIT), a company that holds a portfolio of income-producing real estate, one can invest indirectly in real estate. There are several types of REITs, including equity, mortgage, and hybrid REITs, and they are classified according to how their shares are bought and sold, such as publicly traded, public non-traded, and private REITs. The most common way to invest in a REIT is by purchasing publicly traded shares. This makes REITs highly liquid and transparent. REITs generate income through dividend payments and the appreciation of their shares. Investors can also trade real estate mutual funds and real estate exchange-traded funds (ETFs) in addition to individual REITs (ETFs).
Stocks are still a very non-conventional way of investing in our country. People deem it as gambling and never bother even understanding it. But with the current boom after the drop caused in 2020, stocks have begun to gain popularity.
A stock, also called equity, is a type of security representing ownership of a part of the company that issued it. "Shares" are the units of stock. The number of shares a person owns gives them a certain amount of the company's assets and profits. Corporations sell stock to get money to run their businesses. A person who owns stock is called a shareholder, and he or she may have a right to some of the company's assets and earnings. Shareholders are considered owners of the issuing company based on how many shares they own compared to the total number of shares. If there are 1,000 shares of stock in a company and one person owns 100 of them, that person owns 10 percent of the company's assets and earnings. A corporation is not owned by its stockholders but is a special business because the law treats it as a legal person. Corporations pay taxes. can get loans, own property, and be sued. If a corporation is considered a "person," it owns all of its assets. The chairs and tables in a business office belong to the business, not the shareholders.
Returns in stock are mainly due to capital appreciations and dividends, the former being the majority of it. When the company earns profits and grows, so does the stock price. The key to investing in stocks is to find the right companies. The problem today is that people rely on tips, half-true news, and even astrology for investing in companies. They put not even 1% of research done to purchase a new refrigerator for their home.
An individual investor has a better chance to succeed in the stock market than a very huge investment house. A working individual having a job in a certain field has an edge; he/she knows how the industry works and what's happening in the companies in that sector. For example, you are an accountant for a supplier of auto parts. Your company supplies to, let's say, Mahindra & Mahindra, and lately, you see a lot of invoices for the same. You can see how their new cars are doing, they have gained popularity, and their road presence has increased. This is the first part. Now we go see the company's financials, where we check the level of debt in the company, the levels

of inventory, profitability, and the current valuation.
There are basic research parameters for a good stock. you should have a deep understanding of the business whether you be an individual working in that sector or even as a consumer. Then you should know how to study the financials of the company, which are quite easy and consists of the following –

- Debt – Debt is when companies borrow money to fund new projects, expand or meet the working capital requirements. A company with too much debt is like a time bomb waiting to explode as the interest eats away a lot of the earnings. The trouble is near if the company goes through a recession with a huge debt pile. A good company should have manageable debt measured with the Debt-Equity ratio.
- Inventory - A company should be able to actively get rid of its inventory in the form of sales, or else it will just sit and deteriorate in value. Next, we see that a competitor with a better product causes our inventory to be entirely worthless. This also calls for the importance of being in a less competitive sector where the company can have an easy, competitive advantage over its competition.
- Profitability – The company's main motive is to earn and grow profits. A company with a good track record in increasing its profits is a good one. This should not be mistaken with companies that hit wonder and generate 30% or over profitability for a year, but do we think this percentage is sustainable? The company should be consistent in increasing its profitability at a sustainable rate.
- Valuation – The most common and most effective way of determining whether a company is undervalued or overvalued is by determining and comparing the P/E ratio. The price-to-earnings ratio shows how much an investor would have to put into a company to get Rs.1 of that company's earnings. This is why the P/E is sometimes called the price multiple because it shows how much investors are willing to pay per dollar of earnings. If a company trades at a P/E multiple of 20x, an investor is willing to pay Rs.20 for every Rs.1 the company is making now. The P/E ratio helps investors determine how much a stock is a worth based on the company's earnings. In short, the P/E ratio shows how much the market is willing to pay for a stock based on how much it has made in the past or will make in the future. A high P/E could mean that the price of a stock is high compared to its earnings, which could mean that it is overvalued. On the other hand, a low P/E could mean that the stock price is low compared to earnings. The key here is to compare the P/E of the company with the sector P/E and the P/E of the same company in the past.
- Management – the people running the company are really important because they are responsible for the entire operations that the company undertakes. Good management can keep the company making good decisions that grow and help it fight bad times like a recession or a decrease in demand.

Stocks can be risky sometimes, but if we treat stocks the same way we buy electronics for our house or the same way we decide which school to put our children into, we can surely succeed and generate superior returns to grow our savings. Understanding the business is the key here. We should completely ignore what we don't understand.

Mutual funds are also a better option when done right. A mutual fund is a type of investment fund that pools its shareholders' money to buy stocks, bonds, money market instruments, and other securities. Professional money managers run mutual funds. They decide how to use the fund's assets and try to make capital gains or income for the fund's investors. The investment goals in a mutual fund's prospectus are used to set up and manage the fund's portfolio.
Mutual funds let small or individual investors buy stocks, bonds, and other securities managed by professionals. So, each shareholder similarly gets a share of the fund's gains or losses. Mutual funds invest in a large number of different securities. A fund's performance is usually measured by the change in its total market capitalization, which is based on the performance of the investments it holds.
But in the long run, most actively managed funds struggle to beat their benchmark. The benchmark is an index in most cases. In India, it is the Nifty 50 index. Then why not invest in the index itself? This is where index funds come into the picture. Index funds are passively managed funds that duplicate an index.

Duplicating nifty gives a lot of benefits like –

1. Diversification
2. Low cost of investing
3. Little to no research
4. Relatively safer than stocks

Mutual funds also don't require a lot of money to invest with. A common practice in mutual funds is investing in a systematic investment plan, also known as SIP. This involves putting small sums of money and buying mutual fund units which give us the advantage of rupee cost averaging, and in the long run, these small sums compound to a pretty huge sum.

Insurance: We can't stop bad things from happening, but we can sometimes protect ourselves and our families from the worst financial effects. There are many kinds of insurance, but no one wants to pay more than they have to. The type and amount of insurance you choose should always be based on your situation. Children, age, lifestyle, and job benefits all play a role. Such things also put a heavy burden on one’s finances if not planned.

Life insurance - Your family will be taken care of if you die unexpectedly. This is important, especially if your family depends on your salary. Experts in the field recommend getting a policy that pays out 10 times your annual income. 1; not everyone has the money to pay for it. Fun funeral costs should be considered when figuring out how much life insurance you need. Then figure out how much it costs your family to live each day. Some examples are mortgage payments, outstanding loans, credit card debt, taxes, childcare costs, and the cost of college in the future.

1. Term Plan - The death benefit from a term plan is only available for a limited time, such as 40 years from the date the policy was purchased.
2. Endowment Plan Endowment policies offer assistance in the form of maturity benefits, death benefits, and periodic bonuses.
3. Unit-Linked Insurance Plans, or ULIPs, are similar to endowment plans in that a portion of your insurance premiums are invested in mutual funds, and the remainder is applied to the death benefit.

There must be a combination of term and endowment plans. In India, ULIPs are a poor investment vehicle because the investment component of these schemes is typically expensive, and the coverage is inadequate.

Motor insurance refers to policies that provide financial assistance in automobile or motorcycle accidents. Motor insurance is available for the following three categories of motorized vehicles:

1. Car Insurance - This type of auto insurance policy covers personal four-wheeled vehicles.
2. Two-Wheeler Insurance - These plans cover privately-owned two-wheeled vehicles, including bikes and scooters.

Health Insurance - Health insurance is general insurance that provides policyholders with financial assistance when admitted to hospitals for treatment. In addition, some plans cover the cost of treatment administered at home, either before hospitalization or after discharge. The rising cost of medical care in India has made purchasing health insurance mandatory.
A mix of all these insurances is required to secure the future of middle-class insurance. Insurance will ensure that we are secured from the risks associated with life and not lead the family into financial ruins.

Retirement: Retirement is a subjective term. For some it means quitting working altogether and spending time with the family, for some it may mean retiring early and being able to do what they love like cooking, gardening, etc. whatever the reason may be to retire, money is an important aspect of each and every case as we may not be working but there still needs to be food on the table, maintenance of lifestyle, etc. But in India, the majority of people produce children for a retirement plan which is not that good of a plan as we do not know if they are going to take responsibility or not and we cannot force them into it. A survey tells us that 7 out of every 10 Indians plan to rely on their children during retirement.

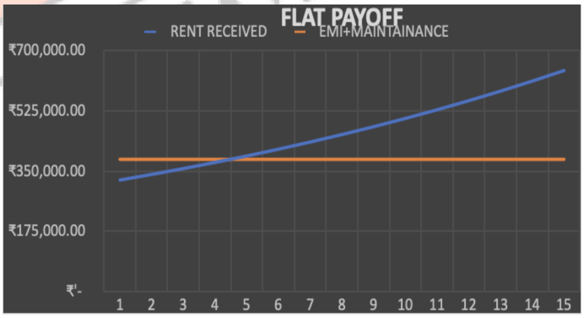
“More than 51% of Indians who participated in the survey stated that they had not planned for retirement. With average life spans increasing and traditional family structures collapsing, Indians heading for retirement are a worried lot.” - PGIM India Mutual Fund and Nielsen
A good start for a retirement plan would be never to spend the gratuity amount received when switching jobs, National Pension Scheme and the investment corpus built throughout the years. A more practical approach will be shown in the case study.
By the time a person retires, they should have a fully paid house over their head or a much less due mortgage. There should be no debts, ideally. It is the time when the person should have zero exposure to risk so almost all of the focus should be to liquidate risky investments and time-consuming assets like equities. After liquidating them, they should be put in an instrument that pays interest or coupons monthly or quarterly and it can be considered as a paycheque for the rest of the life.

Case Study: This is the part of the paper where we take an entire comprehensive example of a person's professional and financial journey.

The example takes a person named Raj who graduated in engineering at the age of 21. He is the second child of his parents who paid for his college tuition and now he is going to start off his life's new chapter.

The starting job that he got by sitting in the placements in his college pays him about Rs.15,000/month in hand. He gets an Employee Provident fund and ESI (insurance). As it was his first job, he works hard and gets a raise of 10% a year up to Rs. 25,000. He works there for 6 years and decides to switch jobs which pay him Rs. 30,000/month with an increment of 7% p.a. up to Rs. 50,000. Then at the age of the switched for the last time to a job that pays him Rs. 50,000/month with an annual increment of 4%. He wishes to retire at the age of 50 which is 10 years less than the usual retirement age which is 60. (Note – this is the salary in hand)

Now let's say that he lives at his parent's house till he is 27 who let him have his own house after they get him married at their own expense. He plans to buy a house till he has retired so he decides to go for a mortgage to a warm 2BHK flat worth Rs. 60 lakhs. He talks to his father and he arranges 20 lakhs by selling a barren old land they had and 10 lakhs out of his parent's savings. He still lives with his parents but rents out the flat. Rent for a decent 2BHK apartment in Pune goes for Rs. 25,000-30,000 and the mortgage after putting Rs. 30 Lakhs down, 15 years tenure, and 7% interest p.a., comes out to be Rs. 26,000 a month.



As the EMI is going to be of a fixed amount, it will hardly change over the few years. But, the rent increases every year. According to CPI data, rent increased by 9.5% on average but we only assumed a 5% increase per year. After the 4th year of the loan, we begin to see positive cash flow which goes directly into our pocket. Over the course, till the loan is repaid, the house earns us a net Rs. 12 lakhs and after the 15th year, the entire rent goes into our pocket. Raj can plan for paying off his children's entire higher education and marriage costs from this property.

After milking out this property to fund the education and marriage of his children, Raj can easily sell that property for around Rs. 2-3 crores and relax.

Raj starts earning at the age of 21 and he decides that he will invest 10% of his in-hand salary no matter what into an index fund. It may seem difficult for the first 5 years but after 5 years if his family spends judicially only on the things they need and don't exasperate their standard of living, will seem comfortable. As per historic data, the long-term return on Nifty50 is 12%p.a. but we assume 10% p.a., this will make Raj an additional Rs. 65 Lakhs till the time he is 50 years old.

Not to mention the gratuity and EPF according to his salary becomes Rs. 82 Lakhs.

In total, Raj will amass a whopping Rs. 4 crores as a bottom line. If he takes some time to increase his proportion of money invested in index funds once he starts earning more, he can earn even up to Rs. 6 crores and retire by putting the corpus into a debt fund that gives out 7% interest per annum that they can live from.

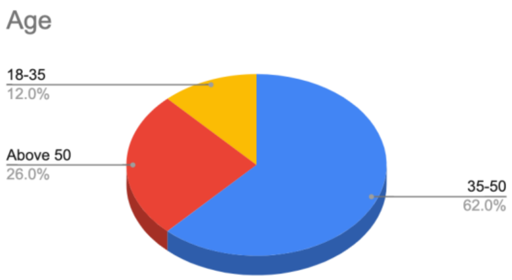
VI. Data Analysis

Primary Data Analysis

We have listed above various effects based on Personal Finance which are used by the the Indian Middle Class People in order to save, invest and plan for their retirement. To test about the investment strategies, their savings and investment, we did a survey of 50 people in which there were questions related to all the effects (see Appendix A for detailed sheet of responses).

The demography of the respondents is shown below:

The following chart illustrates the respondents' demographics:



As illustrated in Figure 1.1, the respondents represented a range of ages, which aided in including diverse perspectives in the findings.

The majority were between the ages of 35 and 50.

Figure 1.1: Pie Chart showing the age of the respondents

As illustrated in Figure 1.2, the opinions of different genders are also considered. This also contributes to the inclusion of diverse perspectives, as gender influences choice and beliefs.

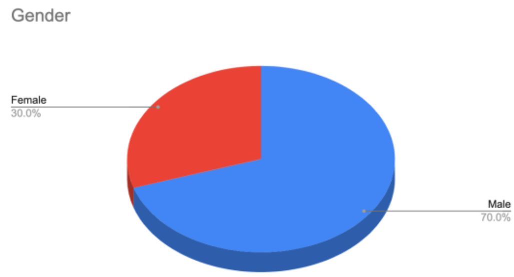


Figure 1.2: Pie Chart showing the gender of the respondents

The survey respondents' level of comprehension of describing a person's job role is depicted in Figure 1.3. As can be seen, the majority of respondents are employed full-time. Out of 50 respondents, 34.0 percent are employed full-time, 30 percent are employed part-time, 12 percent are unemployed and 24 percent are students. This demonstrates that the majority of individuals are working and earning.

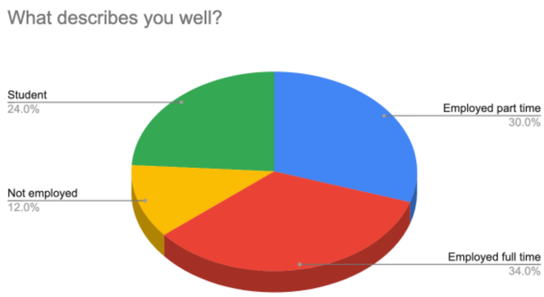


Figure 1.3: Pie Chart showing the degree of describing a person's job role

The survey respondents' level of comprehension of describing a person's intention to retire is in Figure 1.4. As can be seen, the majority of respondents intend to retire at the age younger than 60. Out of 50 respondents, 42.0 percent intend to retire at the age younger than 60, 24.0 percent at the age of 60-64, 18 percent at the age of 65-75, and 16 percent at the age of above 75.

Figure 1.4: Pie Chart showing the degree of describing a person's intention to retire

The survey respondents' level of comprehension of describing a person's possession or status of the house is in Figure 1.5. As can be seen, the majority of respondents intend to retire at the age younger than 60. Out of 50 respondents, 42.0 percent intend to retire at the age younger than 60, 24.0 percent at the age of 60-64, 18 percent at the age of 65-75, and 16 percent at the age of above 75.

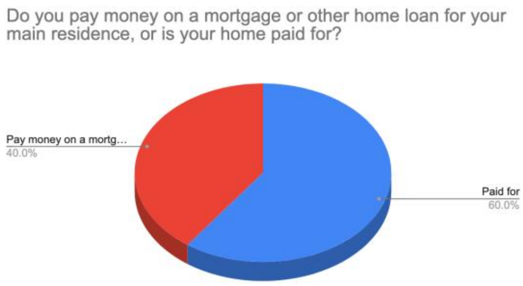


Figure 1.5: Pie Chart showing the degree of understanding of the possession of the respondent's house

The survey respondents' level of comprehension of describing a person's status of the house whether is it on mortgage or is it paid for is in Figure 1.6. As can be seen, the majority of respondents are paid for the house which means they know how to use the real estates effectively where as 40 percent of the people pay for mortgage or any other home for their main residence.

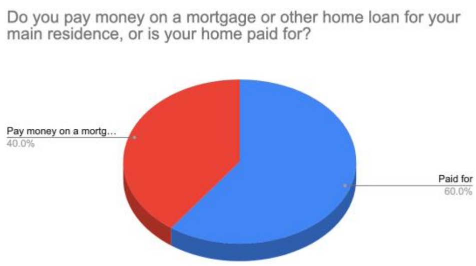


Figure 1.6: Pie Chart showing the degree of the understanding of people's mortgage house

The survey respondents' level of comprehension of describing the persons status of the debt owned by the respondents in Figure 1.7. As can be seen, the majority of respondents owns some kinds of debts. 72.0 percent of the respondents owns some kind of debts and 28.0 doesn't own any kinds of debts. Debts are a great ad one of the most efficient methods of financing if effectively used.

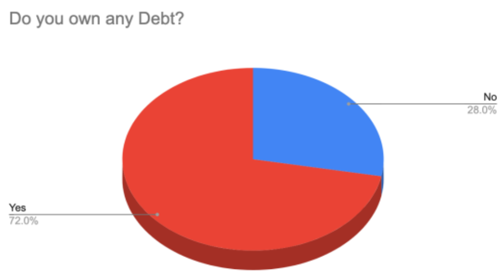


Figure 1.7: Pie Chart showing the degree of the debt owned by the people

The survey respondents' level of comprehension of stating what kind of the debt is owned by the respondents in Figure 1.8. As can be seen, the majority of respondents owns personal loans for themselves. 44.4 percent of the respondents owns personal loans, 33.3 percent owns home loans and the remaining of the respondents, 22.2 percent owns business loans.

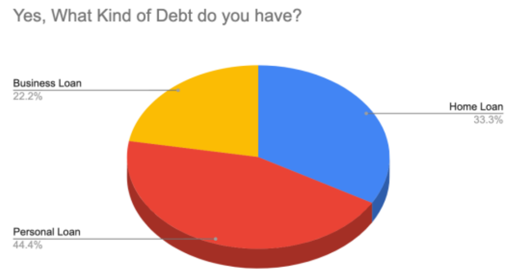


Figure 1.8: Pie Chart showing what kind of debt owned by the people

The survey respondents' level of comprehension of stating how much amount of their monthly pay cheque goes into EMI by the respondents in Figure 1.9. As can be seen, the majority of respondents pays 10-20% of their monthly pay cheque. 38.0 percent of the respondents pays 10-20% of their monthly pay cheque, 36.0% pays 30% and above of their monthly pay cheques and the remaining of the respondents, 26.0 percent pays 10-20% of their monthly cheques.

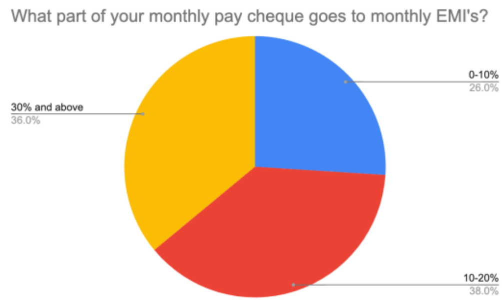


Figure 1.9: Pie Chart showing describing the respondents amount for the monthly pay cheque in the form of monthly EMIs

The survey respondents' level of comprehension of stating whether the respondents has saved or calculated for their retirement or not by the respondents in Figure 1.10. As visible, the majority of respondents had not calculated how much money do they require while retiring or have done retirement planning. 56.0 percent of the respondents haven't planned anything for their retirement while the remaining 44.0 percent of the respondents have planned for their retirement. It's very important to do retirement planning from a very early age.

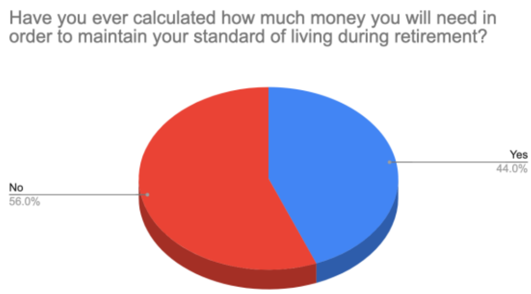


Figure 1.10: Pie Chart showing describing the respondents degree of retirement planning

The survey respondents' level of comprehension of stating whether the respondents have or have bought any Insurance or not in Figure 1.11. As can be seen, the majority of respondents have been Insured or have bought Insurance. 62.0 percent of the respondents have bought insurance where as the remaining 38.0 percent of the respondents are not insured or they have not bought insurance.

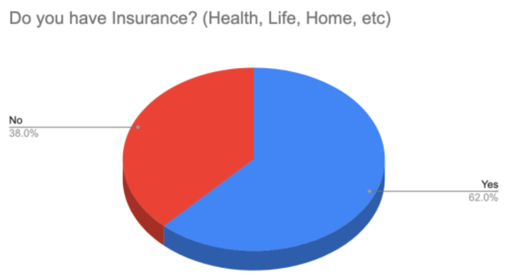


Figure 1.11: Pie Chart showing showing the respondents ownership of Insurance

The survey respondents' level of comprehension of stating whether the respondents have bought the insurance voluntarily or were they sold to them by some agents in Figure 1.12. As can be seen, the majority of respondents have bought Insurance voluntarily. 56.0 percent of the respondents have bought insurance voluntarily where as the remaining 44.0 percent of the respondents were sold insurance by someone.

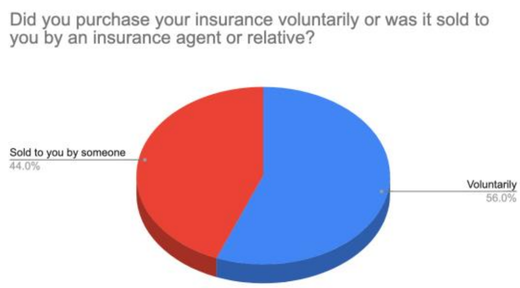
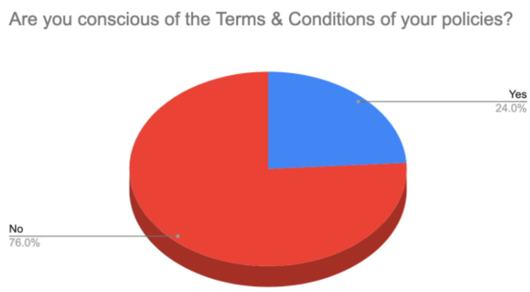


Figure 1.12: Pie Chart showing showing respondents response of how they bought the insurance



The survey respondents' level of comprehension of stating whether the respondents are well aware about the terms and conditions of the Insurance or not in Figure 1.13. As can be seen, the majority of respondents aren't well aware about the terms and conditions of the Insurances. 76.0 percent of the respondents aren't aware about the terms and conditions of the Insurances. 24.0% of the respondents stated that they are well aware about the terms and conditions of the Insurances. It's very important to be aware and understand the terms and conditions befire buying any insurance.

Figure 1.13: Pie Chart showing showing degree of respondents understanding to Terms and Conditions of the Insurance

The survey respondents' level of comprehension of stating whether the respondents are confident about how to manage their money, savings and investment in Figure 1.14. As can be seen, the majority of respondents somewhat confident related to managing their money. 60.0 percent of the respondents are somewhat confident about managing their money, savings and Investments, 16.0 percent are extremely confident, 12% are not that too confident and 12% are not at all confident regarding the same.

Figure 1.14: Pie Chart showing showing degree of respondents confidence about making choices with their money

The survey respondents' level of comprehension of stating of what percentage of their income does the respondents save in Figure 1.15. As can be seen, the majority of respondents save between 10-20% of the their income. 38.0 percent of the respondents save 10-20% of their income, 36.0 percent between 0-10%, 14.0 percent save 30% and above and 12.0% save between 20-30%. Savings are very important for each and every individual. A wise man knows how to manage and spend money.

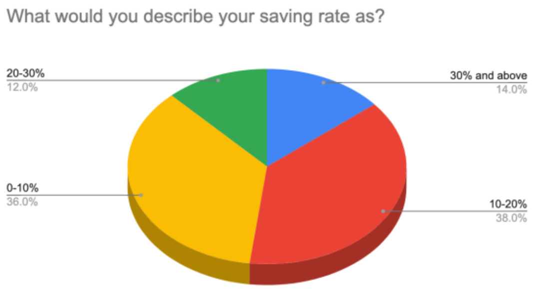


Figure 1.15: Pie Chart showing showing degree of respondents saving rate

The survey respondents' level of comprehension of stating whether the respondents have an active SIP going on or not in Figure 1.16. As can be seen, the majority of respondents doesn't have their SIP going on. 54.0 percent of the respondents doesn't have their SIP going on where as the remaining 46.0 percent have their SIPs going on. SIPs are a great way of building money for future.

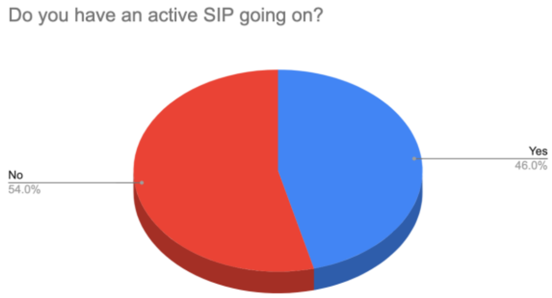


Figure 1.16: Pie Chart showing showing degree of respondents whether the respondents have active SIPs going on

The survey respondents' level of comprehension of stating whether the respondents plan their taxes or not in advance every year in Figure 1.17. As can be seen, the majority of respondents doesn't plan their taxes every year. 60.0 percent of the respondents doesnt plan their taxes where as the remaining 40.0 percent plan their taxes every year. Planning Taxes is very important every year in advance as this saves a lot of money.

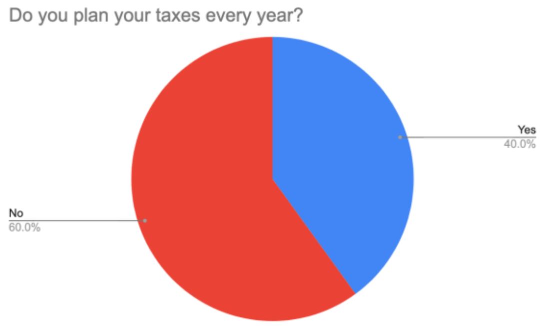


Figure 1.17: Pie Chart showing showing degree the respondents planning to taxes

The survey respondents' level of comprehension of stating whether the respondents are aware of the various deductions provided under the Income-tax Act,1961 under sections 80C-80U in Figure 1.18. As can be seen, the majority of respondents are not aware of the various deductions. 60.0 percent of the respondents aren't aware of the various deductions whereas the remaining 40.0 percent are aware of the various deductions of the Income Tax Act, of 1961.

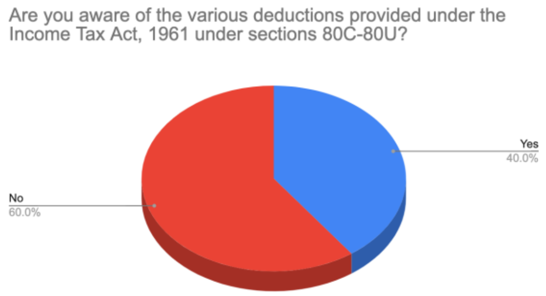


Figure 1.18: Pie Chart showing the degree of the respondent's awareness related

to sections 80C-80U

This question was posed to ascertain the public's planning related to saving and investing for the future. According to Figure 1.19, Majority of the respondents has saved and invested for emergencies, few for down payment of house, few for luxuries, somewhat for the child's education, majority for the parents living or medical expenses and majority for retirement.

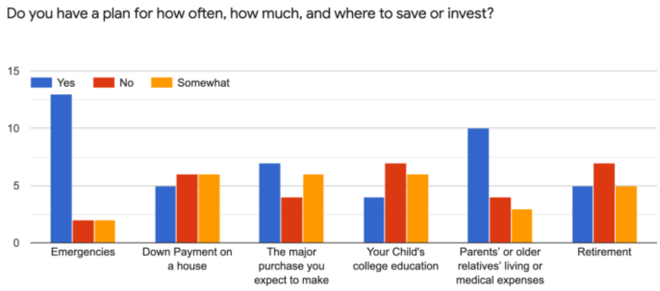


Figure 1.19: Bar Graph showing the respondent's future planning

This question was posed to ascertain the public's planning related to saving and investing for the future. According to Figure 1.20, the Majority of the respondents have saved and invested for emergencies, a few for the down payment of a house, the majority for luxuries, again majority for the child's education, the majority for the parents living or medical expenses, and somewhat for retirement.

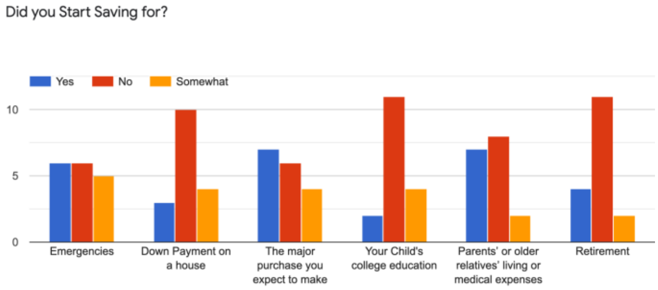


Figure 1.20: Bar Graph showing the respondent's savings for the future

This question was posed to ascertain the public's holding of different types of accounts. According to Figure 1.21, the majority of the respondents have opened A Savings Account, a Demat account, and bank FD. Other accounts have been opened the least.

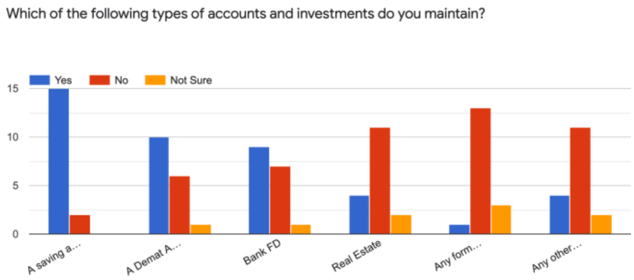


Figure 1.21: Bar Graph showing the respondent's different types of accounts holding

VII. Limitations And Recommendations

During this study, we have assumed that the saving rate to be 10% all along. 10% is the minimum that one must save to be able to make ends meet during retirement. This rate is much below the average rate of saving in India but it is a good start. As we progress in our profession and start earning more, we can do ourselves a favour and maintain our standard of living at a certain comfortable level and increase our saving rate to 30% gradually.

We have taken into account the inflation that will eat away our savings but will also take a toll on our investments. The difference is that while savings just sit and don't earn anything resulting in a negative real rate of return (real rate of return = rate of return – avg. inflation rate) on investments meant for the long term, we have to take into account the inflation as well. We also talk about investing in gold but it should be not more than 10% of our portfolio as gold is just there to hedge against inflation. Gold in itself doesn't do anything. Its value is defined by what the next person in line is willing to offer. During the times of recession, we can see gold rising astronomically as we saw in the crash of 2020.

Real estate is one of the best modes of investments if used as rental properties. Cash flow makes this investment a lucrative one as we only invest the down payment and the EMI can be taken care of by the tenant. But there are a lot of other aspects to be taken into account like furniture, cost of renovations, vacancy issues, property taxes and municipal taxes. This risk is present but even if we take this into account, the return is still pretty good and we can easily value our investment. One thing also to note is that one should have enough for a steady and economical down payment. Ideally the loan should be for only 10-15 years and not take more than 30% of our paycheque. If one doesn't have the means necessary to pay for the down payment then it may get a little difficult to invest into real estate. But once we have paid off one property, increasing the portfolio only becomes easier as we can take a loan against this property but will get cash flow from two properties.

Stocks are one more thing discussed in this report and the risks are plenty. Index funds are a great investment option but what if at the time of our retirement, the market is in a recession? In the long term (30-40 years

invested), even a crash of more than 20% may hardly affect our plan but we can still hold on for the markets to recover and in the meanwhile, either live of our gratuity and EPF or continue to work. Stocks can also be a good option but we should be able to understand what we are buying first. Buying penny stocks, investing using tips from news, friends and family, buying hyped stocks is a mistake that almost everybody makes when they enter the market. One should have a deep understanding of how a business is run and should find undervalued companies with a margin of safety. Speculation of any means can only destroy our wealth. One more important thing would be to always stay in our circle of competence. For e.g.- a person who is a car enthusiast should invest in the automobile enthusiast and should avoid software industry if they know nothing about it. We should also think of nothing of the tips the so-called news channels tell to the retails investors as they cannot be reliable.
Insurance can also be a ruckus. We know atleast one acquaintance that tries to sell us insurance once. We should avoid such schemes and ULIP's in general. We should also be aware of all the details about our insurance, in what situation do they pay or they don't. what diseases are covered or not. Being conscious in general is an integral part of financial independence.
Taxation may also be an issue but we are lucky as investments are the least taxed source of income in almost every part of the world. Most of the investments discussed are subjected to Long Term Capital Gains Tax (LTCG) which is just 10% and in real estate we even get indexation benefits but the rate charged goes to twenty percent which is still beneficial. We can also get various deductions under Section 80C – 80U for our investments in real estate and also for our expenses.
The key would be in general to control greed. Throughout our journey we may see a lot of investment opportunities we miss but we should stay only with what we truly understand. The IT sector may go to the moon, cryptocurrencies may go up 1000% but we should stay away from them if we cannot explain what the asset is to ourselves.

VIII. Findings & Conclusion

Findings:

1. Personal Finance is essential; each individual must know how to manage their Finances.
2. An individual must start saving and keep increasing his savings with time.
3. An individual must segregate his saved money for different types of situations.
4. An individual must be able to invest his money in different Assets keeping the risks in mind.
5. Inflation eats up all the money.
6. An individual must plan for his retirement from an early age to have a good retirement fund with low investments.
7. How Compounding plays a vital role in financial planning.

Conclusion:

It is conceivable to conclude from this work of literature that each individual needs to make a plan for their retirement and manage their own finances to have a happy retirement. Every person must have a financial plan to meet their monetary objectives and obligations, help them retire comfortably, attain financial freedom, make sensible decisions, and make the most of every financial opportunity. Since none of us are born with this wisdom, we must educate ourselves on how to budget and plan for our futures. Not only will this help us live happier lives, but it will also, in the long term, make a valuable impact on the growth of our country.

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