To Hit Financial Goals, Trick Yourself into Saving More

Use these psychological hacks to control your spending and save enough

Nilanjana Chakraborty

How many times have you resolved to wake up early, go for a jog, eat a healthy breakfast? Instead, you hit snooze several times, rushed through your morning routine and went to work without achieving any of the personal goals set the previous night.

Often, our financial goals receive the same treatment. All of us know that spending sensibly and saving regularly ensures financial security in the future. Yet, many people are not able to save as much as they want to. Some just don't have the required surplus while others put-off savings for later. Delhi-based psychologist Prerna Kohli says, "Young people often think there is an entire lifetime ahead of them to save for old age or retirement. They understand the importance of saving, but it is superseded by the desire for the instant gratification they get by spending."

Just like we set our clocks 10-15 minutes ahead to ensure that we don't run late, there are tricks which can be helpful in financial matters too and help you save more.

INVEST THE INCREMENT

Have you got your annual increment? Some of the increase will be nullified by the rise in expenses due to inflation, but chances are you will still have a higher surplus. Don't give yourself time to adjust to it. Increase your investments and put them on auto mode. Commit to a monthly investment plan like an SIP in a mutual fund or a recurring bank deposit. A word of warning, though. Do not to commit the entire increment in your zeal to save. Leave some to deal with the inevitable rise in expenses and some for treating yourself.

SEPARATE YOUR ACCOUNTS

Too many bank accounts can get a bit confusing and difficult to manage. Yet, sometimes an extra account can be just what you need to manage your savings better. Have a separate bank account for all your investments and savings. Don't use a debit card for the designated 'saving and investment' account. This strategy can be very effective for those who can't seem to put any money away.

ROPE IN HELP FROM TAX DEPARTMENT

Ritwesh Mishra, 42, (see pic) pays no heed when his company asks its employees to declare tax saving investments for the financial year. "I utilise the entire ₹1.5 lakh deduction under Section 80C and also pay house rent. But I don't declare this to the company immediately," says the Delhi-based marketing professional. As a result, his salary is subjected to a very high tax deduction at source. He submits his declaration along with actual documents only in December, by which time, the entire tax payable during the financial year has already been deducted. The remaining three months, Mishra gets his full salary without any tax deduction.

Be careful when you use this strategy. If you miscalculate, you might end up paying more tax than required. Though it will be refunded when you file your tax return, the process could take several months. Also, your take-home pay will be significantly higher in the latter half of the year. But you stand to gain only if you invest this surplus.

LEVY LUXURY TAX ON YOURSELF

We work hard to be able to enjoy the good things in life. It doesn't make sense to deny yourself simple pleasures such as a nice holiday with family, a dinner with friends, clothes of your favourite brand or a feature-packed mobile phone. But when you treat yourself to these, remember to put an equivalent amount in your savings. Treat this as a luxury tax or penalty for indulging in unplanned shopping. Do this a few times and it will eventually become a habit. This works in two ways: first, the money you put away will keep growing in your investment account. Second, since you will be matching the expense with investments, your shopping spree will cost you twice as much. This might discourage you from splurging on unnecessary things.

KEEP PAYING THE EMI

When you are paying off a long-term loan, the EMIs turn into a habit. You become so used to the monthly outgo that you hardly feel it. So, what do you do when the loan is paid off? The first instinct is to enjoy the additional surplus and reallocate it to other expenses. But like automating your savings, the end of EMI payments is a great opportunity to redirect the surplus into savings without really noticing the difference. When you have a few payments left, decide where you want to invest the EMI amount. After the last EMI is paid, start investing the same amount in the instrument of your choice. For instance, you can start an SIP in a mutual fund or a recurring deposit in your bank. Since the monthly outgo will not change, you will not feel the difference while your savings will witness a huge inflow.

LOCK YOURSELF INTO INVESTMENTS

Locking yourself into an investment that doesn't allow a quick exit might seem like a bad idea. But it is also a great way to remain invested for the long term. AMFI data shows that nearly 70% of the money invested in equity funds is redeemed within two years of investment.

It is here that the lack of liquidity can prove useful. Put your money into long-term saving options that disallow or discourage early withdrawals. The PPF is for 15 years, but allows withdrawals after five years. The National Pension Scheme cannot be touched before retirement. Insurance policies have very long lock-in periods of 15-20 years, and the fear of lapsation forces the policyholder to pay premiums every year. "When exploring investment tools, customers often look for those offering liquidity. It is strange that one should want liquidity of funds when building assets like for a child's education," says RM Vishakha, CEO, IndiaFirst Life Insurance.

GET A SAVING BUDDY

Sometimes you need a monitor to break out of a bad habit. Involving someone close to you can provide the checks and balances that you need to keep your financial decisions on track. If you can't get on a grip on your finances yourself, get a friend or family member involved. They can serve as a regulator, keeping tabs on your spending and saving, and confront you if you veer off track.

Alternatively, you and your 'saving buddy' can act as friendly competition for each other. Set saving goals and try to beat them to it, or see who can exercise better control when it comes to frivolous spending. You can even work out a system of rewards and penalties.

THINK IT OVER

The urge to spend can sometimes be overwhelming. Though it's okay to indulge yourself once in a while, giving in to each impulse can burn a hole in your finances. The best way to deal with this is to give it time. You might have been eyeing that new smartphone, dress or piece of furniture for months, but just before you make the purchase, take some time off to really think it over. Leave your purchase in your online shopping cart, or ask the seller to hold out for a couple of days. During this time, weigh the pros and cons of your purchase and figure out whether it's a need or just something you want to own. If it's the latter, think about whether it is worth the price you'd be paying for it. If you still want it in a week or so, go ahead and make the purchase. You might change your mind about wanting it, or forget about it altogether.

PICTURE THE FUTURE

It pays to start saving for retirement early in life. Yet, so many of us fritter away the early bird advantage. One reason is that young people don't foresee themselves in their old age. The culprit here is what behavioural economics terms 'present bias'. Most people tend to prioritise payoffs that are closer at hand when considering trade-offs between two future moments. This means that you are naturally more inclined to spend your savings on the trip to Europe next year, than to put it in retirement savings.

If you are in your mid-20s, retirement seems such a distant event that saving for it doesn't feel like a priority. To deal with this mental block, try to picture your goal as clearly as possible. Write it down, make an Excel sheet, or even a mood board laying out how far away your goal is, how much money you need to save and how.

Picturing your future self might also help you get started on saving for retirement. Use a photo aging software to see what you will look like in old age, and save with that person's needs in mind.

SAMIR PUROHIT
33, Software Engineer, PUNE

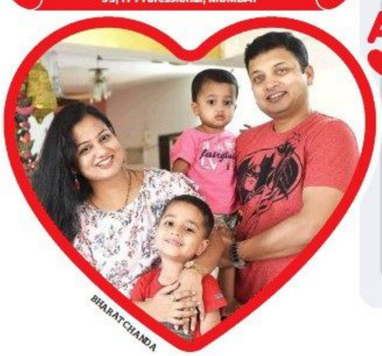
HIS TRICK
Invest in illiquid instruments
Has locked himself into long-term investments with low liquidity which prevents him from early withdrawals. For instance, the NPS will not allow him to withdraw before he retires in 2045.

SHAHNAZ POHOWALA
54, Educationist, MUMBAI

HER TRICK
Have separate buckets
She divides her income into three different buckets: one for payment of EMIs and bills, the second for household expenses and the third, for savings and investments. So, even if expenses are higher in a particular month, her savings and investments are not impacted.

BHARAT CHANDA

TRUPTI LOKHANDE
33, IT Professional, MUMBAI

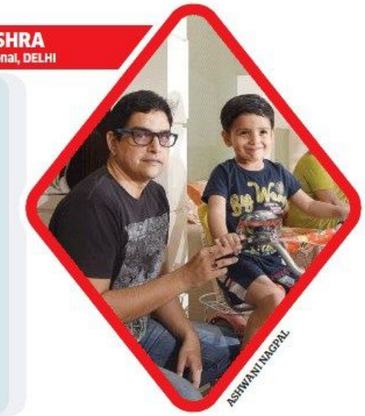


BHARAT CHANDA

HER TRICK
Get a saving buddy
She and her husband periodically check each other's investments and saving targets. They also take money decisions jointly, deciding in advance how much to spend under a particular head to avoid needless expenditure.

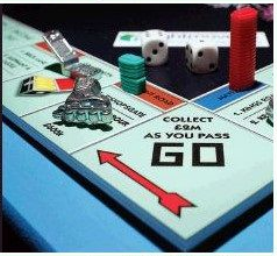
RITWESH MISHRA
42, Marketing Professional, DELHI

HIS TRICK
Save by paying tax
Does not declare his tax saving investments to his company at the beginning of the financial year. Instead, he submits them in December, by which time the TDS for entire year has been deducted. The next three months, he gets a higher surplus which is then invested.



ASHWANI NAGPAL

GAMIFY YOUR SAVING PLAN
Play these mind games on yourself to make saving seem fun and effortless.



TREAT YOURSELF TO CHEAT DAYS
Like a strict diet, a restrictive spending plan might seem difficult and tedious after a while. To give yourself a break, plan a 'cheat day'. Set aside a budget and indulge yourself with a shopping spree or an expensive meal.

TAKE THE 52-WEEK CHALLENGE
Start by putting away just ₹10 in the first week of the year, and then gradually increase your savings by ₹10 a week throughout the year. By the time you finish, you'd be saving more than ₹500 a week.

HIDE YOUR CREDIT CARD
Set a budget on a weekly or monthly basis, withdraw the amount and then restrict yourself to spending only in cash for the period. Don't touch your credit or debit card unless there is an emergency.

SAVE NOTES OF A PARTICULAR DENOMINATION
Choose a denomination, like ₹50 or ₹20, and at the end of the day, sift through the contents of your wallet and pick out all notes of that denomination and put them away.

START

HAVE NO-SPEND DAYS OR WEEKENDS
Car pool or drive to work and pack your own lunch to keep from spending. For no-spend weekends, you can plan movie nights at home or picnics in the park.

SEE WHO CAN GO LOWER
Get together with a friend and decide on a few flexible spending categories such as groceries and eating out. Compete with each other to see who can spend less on