FINANCIAL LITERACY OF DEFENCE PERSONNEL: FROM FINANCIAL READINESS TO FINANCIAL WELL-BEING

A Dissertation Submitted to the Panjab University, Chandigarh for the Award of Master of Philosophy in Social Sciences, in Partial Fulfillment of the Requirement for the Advanced Professional Programme in Public Administration (APPPA)

by

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48th ADVANCED PROFESSIONAL PROGRAMME IN PUBLIC ADMINISTRATION
(2022 – 23)

INDIAN INSTITUTE OF PUBLIC ADMINISTRATION,
NEW DELHI

CERTIFICATE

It is hereby declared that this submission is my original piece of work and to the best of my knowledge and belief, it contains no material previously published or written by any other person. I am aware of the University's norms and regulations regarding plagiarism including the disciplinary action that it may invite. Any use of works by any other author, in any form, is adequately acknowledged at their point of use or in the Reference.

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I have the pleasure to certify that Air Commodore Deepak Kumar Vats VM, has pursued his research work and prepared the present dissertation titled 'Financial Literacy of Defence Personnel: From Financial Readiness to Financial Well-Being' under my guidance and supervision. The same is the result of research done by him and to the best of my knowledge; no part of the same has been part of any other monograph, dissertation or book earlier. This is being submitted to the Panjab University, Chandigarh, for the purpose of Master of Philosophy in Social Sciences in Partial fulfillment of the requirement for the Advanced Professional programme in Public Administration (APPPA) of Indian Institute of Public Administration (IIPA), New Delhi.

I recommend that the dissertation of Air Commodore Deepak Kumar Vats VM is worthy of consideration for the award of M.Phil degree of Panjab University, Chandigarh.

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ACKNOWLEDGEMENT

At the outset, I would like to express sincere gratitude to my guide, Dr Mamta Pathania, for her continued support, guidance and enthusiasm in my pursuit of this dissertation. Her vast field experience and knowledge has been instrumental in the compilation of this study in this short period of time. Thanks to Dr Mamta Pathania's regular advice and suggestions, the focus of the study could be maintained. It would not have been possible to complete this study without her sustained mentoring and supervision.

I would like to thank the IIPA for providing me this opportunity to pursue this topic, which I am extremely passionate about. Without the extensive infrastructural facilities provided by IIPA it would not have been possible to complete this study. Gratitude is also due to all other faculty members at IIPA/ subject experts for their valuable inputs/ comments during the research proposal presentations, which helped in focusing the thrust of this research work. I also want to thank the IIPA library staff for their patient and ever forthcoming assistance in making the relevant reference material available. Appreciation also needs to be made of the assistance provided by the APPPA administrative staff members, Shri Anil, Shri Manish and Shri Rajesh.

The contents of this course have decidedly widened my knowledge base, whilst enhancing my understanding of public policy and governance. The interaction with officers from civil and defence services has been an enriching and enlightening experience, which I shall always cherish.

Finally, I thank my wife Neeru, and daughters, Tanvi and Anushka, for their encouragement and patience in my pursuit of this report.

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ABSTRACT

This Dissertation presents the findings of a survey of Financial Literacy of Defence personnel and whether it is imparted at any stage in their career. The dissertation also looks into the initiatives taken by financial regulators to improve Financial Literacy, the investment options chosen by the Defence personnel and suggest a plan to improve their financial well-being by improving the Financial Literacy. The study grew out of the observation of lack of awareness amongst Defence Personnel of various financial products suited to their lifestyle and the difference that Financial Literacy can have on the Financial Well-being. Primary data was collected through a questionnaire to the personnel in the Indian Air Force and a personal interview of a Certified Financial Planner dealing with financial management of service members. The findings supported the proposition that defence personnel lack adequate knowledge about managing their finances and want to improve their financial literacy. The financial regulators are making efforts to improve the financial literacy of general public that needs to be extended to defence personnel. The MoD and the individual Services need to focus on improving the financial literacy of the members to improve their financial well-being.

Keywords: Financial Literacy, Defence Personnel, Financial Well-being, Certified Financial Planner

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CHAPTER 1

FINANCIAL LITERACY: A CORE LIFE SKILL

"*The most important thing we can do to ensure long-term financial security is to educate ourselves." - Warren Buffett*

INTRODUCTION

Starting at a young age of early twenties, a career in the defence forces teaches a person to command hundreds of soldiers onto the battlefield and manage millions of dollars' worth of military hardware. An individual learns the best of men, resource management techniques, and leadership qualities during their training in the defence forces. The soldiers are educated to always be prepared to risk their lives in the service of the nation, and defence officers are trained to lead men into war. To ensure financial stability during their years of service and financial freedom at the time of retirement, it is also necessary to provide these defence personnel with training on personal financial management at some point.

Personal financial management is a must for everyone, not just the wealthy. According to Robert Kiyosaki, the personal financial management is taught to the public at home, which is the reason the gap between the have and have not has been continuously widening. The majority of us learn financial skills from our parents. The emphasis in schools is on academic and career skills, but not on the financial literacy. Although the youngsters may be good at academics, they will likely graduate with a poor person's financial programming and perspective.

While excessive materialism shouldn't be supported in the military for professional reasons, it's also never a good idea to forgo using the available funds to support one's personal needs, goals, and dreams.

The Organization for Economic Co-operation & Development (OECD) defines Financial Literacy as a combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being (OECD, 2012). Hence, financial literacy is a core skill to take effective and informed money management decisions. It improves the quality of life an individual can afford, as it helps to equip persons with fundamental tools for budgeting, facilitates them to attain the discipline towards investing and thus make sure that they can benefit and can plan a good life post retirement.

Being able to make wise financial decisions is crucial in the age of digital transformation and easy access to financial markets. This is especially true for defence personnel, who have the unique problem of being frequently posted to remote locations and border regions. It is necessary for the defence professionals to be knowledgeable about financial security and fundamental financial concepts. The goal of the research project "Financial Literacy of Defence Personnel: From Financial Readiness to Financial Well-being" is to examine the degree of financial literacy among military personnel and to recommend ways to raise it, as doing so will have a positive impact on their well-being.

STATEMENT OF PROBLEM

Defense personnel are not provided with institutional training on managing their personal finances, and there are no rules designed specifically to protect them from being missold inappropriate financial goods. According to the surveys, people who have trouble managing their money are more likely to be unhappy with their pay, their co-workers, and the military lifestyle as a whole. Defence personnel's lack of financial literacy can lead to financial instability and negatively impact their well-being, morale, productivity, and job performance.

JUSTIFICATION FOR STUDY

For a service member's financial well-being, financial literacy is regarded as a crucial factor. Due to the increased complexity of the financial market, financial innovations and the resulting development of new products, expanding access to credit, and the use of financial instruments, the idea of financial literacy is gaining ground. Consumers are now more accountable for managing their money for a secure financial future. Furthermore, financial ignorance comes at a high cost that could cause financial instability for households. Under these situations, it becomes crucial for the defence personnel to understand financial principles and to have enough financial literacy to make wise financial judgements.

RESEARCH OBJECTIVES

The broad objectives of the research are as follows:

(a) To explore the initiatives taken by financial regulators in our country for financial literacy.

(b) To explore whether financial literacy is imparted to defence personnel at any stage in their career.

(c) To assess the level of financial literacy of the defence personnel in the digital world.

(d) To find out the saving/ investment options selected by the defence personnel and suggest plan for improving financial well being.

RESEARCH STRATEGY AND DESIGN

Research Strategy. Mixed research strategy was employed for the study, comprising elements of both Quantitative and Qualitative strategies.

Research Design. Since the research is not based on theories, there are no hypotheses and the study was based on convergent research design where both quantitative and qualitative data was collected, analyzed separately, and depicted. The study employed content analysis and survey to generate data.

RESEARCH QUESTIONS

Towards meeting the objectives stated above, the study attempted to answer the following Research Questions:-

(a) What are the initiatives taken by the financial regulators in our country for financial literacy?

(b) Is financial literacy imparted to defence personnel at any stage?

(c) What is the current status of financial literacy of defence personnel?

(d) What is the suggested plan to improve the financial well-being of the defence personnel?

SCOPE OF THE STUDY

The scope and limitations of the study were as follows:

(a) The study was restricted to assess the financial literacy of personnel in the Indian Air Force.

(b) The respondents were selected by convenience random sampling method.

(c) The study tried to identify the measures adopted by developed countries to improve the financial literacy of their service members.

(d) The study suggests plan to improve the financial well-being of the defence personnel.

RESEARCH METHODS APPLIED AND DATA SOURCES

In the absence of any such study carried out for the defence sector, primary data was collected through responses to questionnaires by defence personnel, spread across various ranks and seniority brackets, as well as personal interview with expert. Secondary data for this study was obtained from analysis of relevant content, including the initiatives by the financial regulators to enhance financial literacy and measures adopted by the developed countries like USA to ensure financial well-being of their service members.

CHAPTER 2

LITERATURE REVIEW

“Financial literacy is not about being rich; it's about being responsible with your money." - Unknown

Lending institutions are constantly adding new members in this age of immediate satisfaction and credit addiction. Despite the fact that some members of the armed forces must already be heavily indebted, they are constantly faced with new offers of quick, simple loans. Because they have access to seemingly endless funds, they sometimes find it difficult to plan ahead for large expenditures, which further their dependence on credit. Many deployments, assignments to high-cost living areas, and frequent migrations only make the situation of soldiers, sailors, and airmen worse.

According to a 2019 survey by the National Center for Financial Education, India has the lowest level of financial literacy among all the BRICS countries. Similar to this, only 27 percent of Indians are financially literate, according to a recent survey by the Securities and Exchange Board of India. Financial literacy is swiftly becoming recognised as a fundamental ability, crucial for consumers navigating an ever-more complex financial environment. Therefore, it should come as no surprise that governments all over the world are looking for ways to raise the level of financial literacy among their citizens. Many of them are also developing or directing national strategies for financial education that will offer opportunities for learning throughout a person's life.

Organisation of Economic Co-operation and Development (OECD) defines Financial Literacy as a combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve one's financial well-being. People achieve financial literacy through a process of financial education.

Financial Education is defined as the process by which financial consumers/ investors improve their understanding of financial products, concepts and risks and through information, instruction and objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being and protection (OECD 2005).

The global credit crises of 2007 onwards have brought to light the need of financial literacy as a global issue on the public agenda (Williams & Satchell, 2011). Finances play a significant role in everyone's life, and financial literacy can provide the best defence against indebtedness. Tomaskova et al. (2011), people who are financially literate are knowledgeable about financial matters and have the capacity to responsibly handle their own budgets. Those who are more financially literate are better able to understand financial concepts, process financial data, and make informed decisions regarding their personal finances.

According to Michael et al. (2010), financial literacy is essential to comprehending the fundamental financial challenges that the majority of people and families in today's society face. Even if a person has a defined benefit plan that should cover most of their financial needs in retirement, they will still have to deal with managing their personal finances, paying required taxes, and other financial concerns that come with modern living in our society.

Thanawala. H, (2022) published an interview with Col Sanjeev Govila (Retd) who is the founder of Hum Fauji Initiatives that exclusively helps the armed forces personnel in managing their finances. As per Govila, our service members singular aim is to defend our nation's borders. They have no inclination and time for planning finances. Also without knowledge, it is hard for the service personnel to manage finances. Transfers of duty station frequently mean missed investment opportunities. Further, considering their pay rather than networth as indicator for financial health, the service members realize the importance of financial literacy late in life. The excerpts of the interview are placed as **Appendix A**.

US MILITARY FINANCIAL READINESS PROGRAM

Kamarck et.al (2022) Department of Defence (DOD) identified financial readiness as one of the major components of military family readiness and, ultimately, operational readiness. It was defined as, "the state in which successful management of personal financial responsibilities supports a service member's ability to perform their wartime responsibilities".

US Congress, under its authority provided by the constitution for military regulation, can intervene in Department of Defence (DOD) matters. Over the past several decades, Congress and Department of Defence (DOD) have ensured US military readiness with help of regulation and law.

Due to the nature of military life, service members in USA were found to have difficulty in achieving their financial well-being. As per research, financial problems were more a function of spending patterns and financial management knowledge, rather than service pay. A service member’s timely payment of bills was more a factor of their financial behavior and attitude.

The Department of Defence (DOD) was required to create a programme of training as the standard for all services in order to properly integrate financial literacy into the military culture. It was essential that professional financial planners participate in the course to guarantee its applicability and reliability. These planners were hired from the Department of Defence (DOD) rolls, the private sector, or a combination of both. For both enlisted and officer personnel, instruction was started at all initial entry training and continued throughout their careers.

Financial instability can have a negative impact on a service member's health, morale, productivity, and job performance. According to Department of Defence (DOD) studies, people who have trouble managing their money are more likely to be unhappy with their pay, their coworkers, and the military lifestyle as a whole. Severe monetary problems, such as excessive debt and bankruptcy can result in administrative penalties, lapse of security clearance for duty, or even compulsory departure from service. Department of Defence (DOD) has been required by law to survey service members on an annual basis since 2015. This has become the primary tool for measuring financial readiness across the force in USA.

Two areas of military financial readiness have been the subject of legislation explored by the US Congress: (1) service member consumer protection; and (2) financial literacy initiatives. Congress has passed financial market regulations over the past few decades to safeguard service members from specific marketing techniques used on military installations, to impose restrictions on the sale of high-interest credit/loan products to service members, and to set debt liability ceilings for personnel while on active duty. Initiatives to promote financial literacy and education for service personnel and their families aim to improve consumer financial product decision-making and support military households' development of sound money management practices.

Department of Defence (DOD) has formulated policies to ensure protection to service members from deceptive/ coercive sales pitches for financial products. In 2000, Department of Defence (DOD) had carried out a study on financial services issues at military bases. It was observed that in the military bases, the commercial behavior of service members is affected to a large extent by service authority. Subordinates take advice from their seniors in regards to their personal financial matters. Military seniors play a important role in financial matters of their juniors. It was also observed that the service members were more accepting of financial products when sales were carried out in the military bases.

A Government Accountability Office (GAO) report that was commissioned by Congress in 2005 found evidence of unethical or deceptive insurance company sales tactics on and near military installations. It was discovered that some businesses and brokers were specifically targeting young service personnel with expensive life insurance and other financial items. The National Defense Authorization Act (NDAA) of 2006, with a section on "Consumer Protection Issues" for military service personnel was passed by Congress shortly after the GAO's report was released.

The Military Personnel Financial Services Protection Act (MPFSPA) was introduced in September 2006 with the aim of protecting service members from unethical practices regarding sale of toxic financial products. With help of these legislations the sale of financial unethical products on military bases were contained.

A complicated selection of financial products is now available to consumers as a result of recent technical advancements. More financial literacy is consequently needed. In order to help service members make educated decisions regarding financial matters, the Department of Defence (DOD) offers financial education programmes and counselling. Throughout a service member's career, DOD is expected to offer financial literacy training at key pivotal life stages. These occasions include basic entrance training, arrival at the first duty station and each succeeding station, the member's promotion date and significant life events such as a child's birth, divorce, marriage etc.

The Department of Defense (DOD) is required to offer service members and their spouses certain financial counseling services. A full-time financial services counselor must be available at sites with 2,000 or more service members assigned, according to the law. Military personnel in uniform, federal government employees, contracted workers, or certified financial planners of non-profit organizations (NGOs) through agreements with the Department of Defence are all eligible to work as counselors.

The military services are required by Department of Defence (DOD) regulations to provide one-on-one personal financial management counselling services. Military and Family Support Centers (MFSCs) offer these services in person, while Military OneSource is an online service that offers support remotely.

With their educational resource programmes, individual military branches also aid with personal finances. During training sessions or in response to the individual needs of the member, some teaching is provided in person. Moreover, education is offered online so that military members can access the information whenever they choose. Army OneSource is an online programme that the Army uses to provide financial education and help.

Similar services are given by the Navy's Fleet and Family Support Programs (FFSP), which can be accessed online or in person by a Command Financial Specialist (CFS). Depending on the needs of the sailors, these specialists offer financial advice and information. The Air Force also gives financial information to its members, albeit it seems that they advise them to seek out education from non profits organizations (NGOs).

The Consumer Financial Protection Bureau (CFPB) offers financial education and support in addition to the financial literacy programmes provided by the Department of Defense and the military branches. It also campaigns for stricter regulations governing how service members and veterans are treated financially.

Some non-profit organisations also offer financial education tailored to the requirements of military personnel. Resources for financial educators are offered by the Financial Industry Regulatory Authority (FINRA), particularly those aimed towards serving members of the military. Another nonprofit, InCharge Debt Solutions, offers financial education workshops to service members with a focus on helping them manage their debt. The Military Families Learning Network (MFLN) offers development training through webinars and social media.

INDIA'S NATIONAL STRATEGY FOR FINANCIAL EDUCATION

The framework of the National Strategy for Financial Education encourages a more seamless and long-lasting partnership between regulators and stakeholders, prevents resource duplication and enables the creation of roadmaps with specific, measurable, and achievable goals based on focused national assessments. Under the National Strategy, we needed a multi-tiered approach to raising consumer awareness of basic financial goods, empowering current consumers to make educated decisions, and guaranteeing that all consumers of financial products and services are protected.

In order to help the public develop the knowledge, attitudes and behaviors necessary to manage their money in a better way and make future plans, the NSFE document aims to support the goal of the Government of India and Financial Sector Regulators. The document also assesses the work being done by various stakeholders and proposes a strategy to ensure Indians' financial security.

The financial education efforts are aimed at:

(a) Being aware of the essential financial items one would require throughout their lives.

(b) Being aware of fundamental financial concepts like risk, protection, diversification, annuities, present and future worth of money, compound interest etc.

(c) Learning skills to analyse and manage risk and to make profitable investments.

(d) Making good financial choices about various facets of financial life.

The consumer protection efforts are focused on:

(a) Raising awareness of Consumer Protection Fora and facilitating quick and simple access to these organisations for consumers of financial products and services.

(b) Providing quick and easy access to various financial sector ombudsmen and strengthening their network and reach across country.

Through a greater role for financial institutions (both banks and non-banks), educational institutions, industry bodies and other stakeholders, NSFE focuses on various aspects of financial education across banking, insurance, pensions, and investments with the ambitious goal of creating a financially aware and empowered India. The vision, mission and objectives of NSFE 2020-2025 are as enumerated below.

Vision - A financially aware and empowered India. The vision entails provision of financial education for all Indians that could enable individuals, at their level of need, to understand the role of money in their life, the need and use of savings, the advantages of using the formal financial sector and various options to convert their savings into investments, protection through insurance and a realistic recognition of the attributes of these options.

Mission - To undertake massive Financial Education campaign to help people manage money more effectively to achieve financial well-being by accessing appropriate financial products and services through regulated entities with fair and transparent machinery for consumer protection and grievance redressal. To conduct financial education campaign across the country for all sections of the population along with awareness campaigns at different levels for existing and potential customers so as to improve the knowledge, understanding, skills and competence of theirs in managing money effectively to improve their financial status by taking informed decision.

Objectives - National Strategy for Financial Education has been prepared with the following objectives

(a) Create awareness and educate consumers on access to financial services, availability of various types of products and their features.

(b) Change attitudes to translate knowledge into behaviour.

(c) Make consumers understand their rights and responsibilities as clients of financial services.

Stake-holders - The strategy recognises the following stakeholders:

(a) Financial Consumers - Individuals resident in India.

(b) Financial Market players

(c) Educational Institutions

(d) Non - Governmental Organizations

(e) Financial Sector Regulators

(f) Government- both Central and State

(g) Multilateral international players like OECD, G-20, INFE, etc.

Role of Regulators in Financial Literacy

One of the top priorities for the government of India and the four financial sector regulators (viz. RBI, SEBI, IRDAI and PFRDA) has been strengthening financial inclusion in the nation. By enabling consumers to make decisions that will improve their financial well-being, financial literacy promotes the goal of financial inclusion.

Initiatives by RBI. A project called "Project Financial Literacy" has been launched by the Reserve Bank of India. This project's goal is to enlighten a variety of target audiences including women, older persons, rural and urban poor people, students in high school and college about the central bank and general banking. The project is intended to be implemented in two modules, one of which will concentrate on the economy, the RBI, and its operations, and the other of which will deal with general banking.

Initiatives by Securities Exchange Board of India (SEBI). The Securities Exchange Board of India has launched a national financial literacy campaign. SEBI has appointed Resource People across India to carry out financial education for a variety of target categories. The Resource People receive training on numerous financial topics and are provided financial market information. These SEBI Accredited Resource People provide workshops for these target audiences on a variety of topics, such as retirement planning, savings, investments, and financial planning.

SEBI runs investor education seminars through investor organisations around the nation. Under the "Visit SEBI" initiative, school and college students are urged to go to SEBI and learn about how it operates. Investors around the nation may now access and seek information for redress of their grievances and guidance on various topics through a toll free hotline.

Initiatives by Insurance Regulatory and Development Authority (IRDA). The IRDA has launched a number of financial literacy projects. Television and radio awareness programmes have been held. Also, through campaigns, simple messages about the rights and obligations of policyholders, avenues for dispute resolution etc. have been disseminated.

The Integrated Grievance Management System (IGMS) of the Insurance Regulatory and Development Authority (IRDA) has established a national central repository for grievances and analysis data indicating areas of concern for insurance policyholders.

Initiatives by Pension Fund Regulatory and Development Authority (PFRDA). The PFRDA, India's newest regulatory body, has been working to educate the public about social security. PFRDA has created Frequently Asked Questions (FAQ) on its website regarding pension-related subjects, and it has collaborated with numerous non-governmental organisations in India to bring pension services to the underprivileged community. PFRDA has published commercials in radio and television as well as print and electronic media. Aggregators are PFRDA-designated intermediaries who are directly in charge of promoting pension awareness, typically in local languages and in keeping with socio-economic sensibilities.

Initiatives by Market Players. The commercial banks have started a number of initiatives to raise awareness of financial literacy in light of the national emphasis on electronic benefit transfer. These centres' goals include providing guidance on how to access the banking system, raising public awareness of financial management, offering counseling to those who are having trouble making their debt payments and helping them find solutions, assisting in the rehabilitation of troubled borrowers, etc.

National Centre for Financial Education (NCFE)

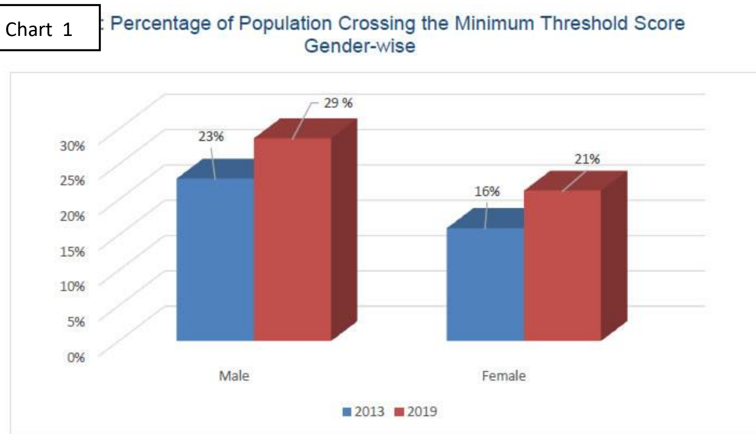
Under the auspices of the Financial Stability and Development Council (FSDC), Ministry of Finance, Government of India, NCFE is a Section 8 (Not for Profit) Company promoted by the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), and Pension Fund Regulatory and Development Authority (PFRDA). The main charter of the Company is:

(a) To develop financial education across all facets of the Indian people in accordance with the Financial Stability and Development Council's National Strategy for Financial Education.

(b) To empower all segments of the people with financial knowledge and awareness through nationwide financial education efforts, including seminars, workshops, conclaves and campaigns.

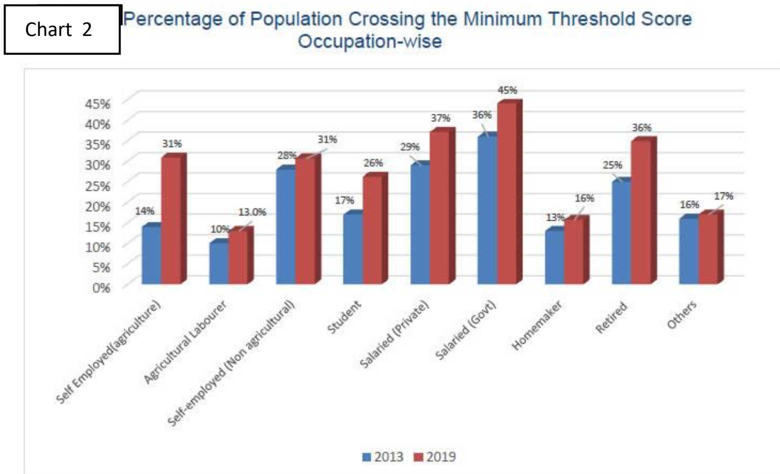
In order to determine the level of financial literacy in India, the National Centre for Financial Education (NCFE) conducted an All India Financial Inclusion and Financial Literacy Survey in 2019. It should be noted that a survey quite similar to this one, modelled after the OECD-INFE toolkit, was conducted in 2013. Using a series of household questionnaires, 75000 adults between the ages of 18 and 79 were questioned in 14 national/regional languages. In comparison to 20 percent in 2013, the survey performed in 2019 found that 27.18 percent of the respondents had met the minimum target score or minimum threshold score for each of the OECD-recommended INFE's financial literacy components. The important findings of the Survey are illustrated below:

Chart 1



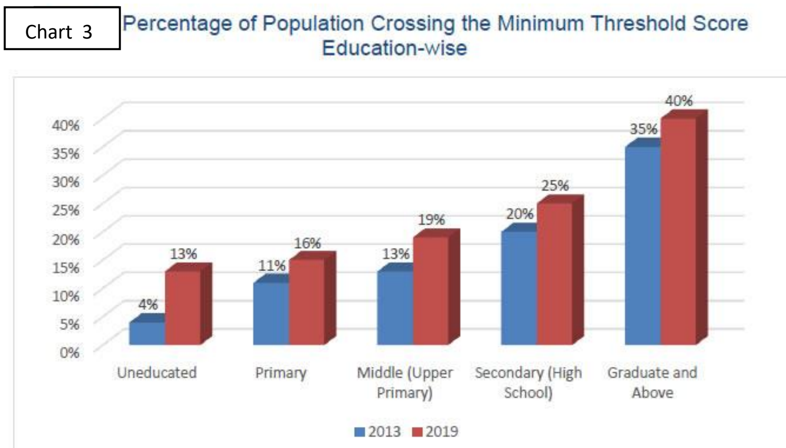
Source: All India Financial Inclusion & Financial Literacy Survey 2019, NCFE

Chart 2



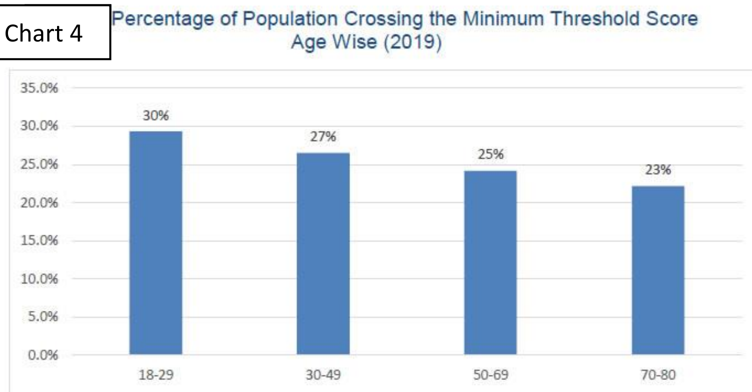
Source: All India Financial Inclusion & Financial Literacy Survey 2019, NCFE

Chart 3



Source: All India Financial Inclusion & Financial Literacy Survey 2019, NCFE

Chart 4



Source: All India Financial Inclusion & Financial Literacy Survey 2019, NCFE

The following focus areas for enhancing financial education activities have been determined based on the illustrative charts mentioned above:

(a) Although there has been progress over the years, both men and women still need to work more to enhance their financial literacy.

(b) The salaried (Govt) class has the highest percentage crossing the minimum threshold score but there is still lot of scope for improvement.

(c) The population with lower levels of education needs more financial education programmes.

(d) The age 50 and above group requires higher financial knowledge.

CHAPTER 3

FINANCIAL LITERACY OF DEFENCE PERSONNEL

The study was conducted by data analysis of questionnaire circulated to the research participants who were the Indian Air Force airmen selected through convenient sampling and a personal interview with an expert who is involved directly with the service members in managing their finances.

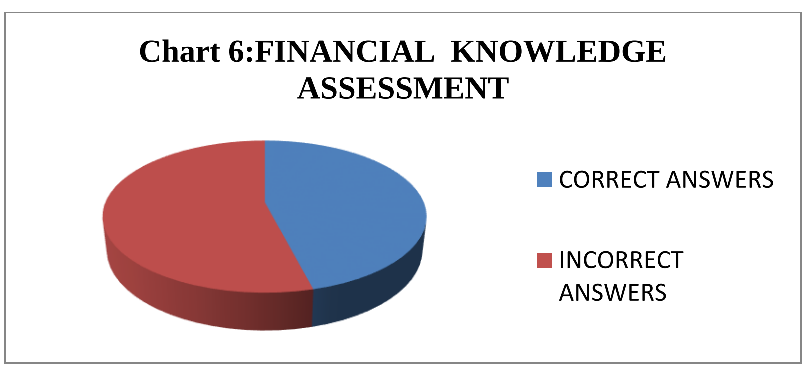
The survey included useful questions taken from Organisation for Economic Co-operation and Development (OECD) financial literacy tests that are currently in use. The choice of financial products, short and long-term financial plans, budgeting and money management, and other aspects of financial literacy were among the major topics covered by the survey's core questions. The questionnaire distributed to the research participants is attached as **Appendix B** and the questions asked from the certified financial planner engaged in educating and managing finances of the defence personnel is attached as **Appendix C**.

Financial Knowledge - A person who is financially literate will be able to apply their mathematics skills in financial situations and will understand important financial concepts. Therefore, the questionnaire had questions to assess various knowledge levels. The questions were selected to include a range of financial issues and complexity; none of them were extremely difficult or required specialised expertise. To calculate each respondent's score for financial knowledge, the number of correct responses was counted. Concerningly, a sizable portion of people were unable to calculate or recognize the impacts of compounding over time. Also little was known about the right financial solutions for different financial objectives and time frames. There were nine knowledgetesting questions in the main questionnaire. To prevent the potential for unwarranted biases brought on by various information processing techniques; these differed in style and content. Others supplied a list of potential answers from which the respondent was to select their response, but some knowledge questions permitted a person to give a completely free response. Also, the questionnaire urged respondents to admit when they were unsure of the response to prevent them from speculating.

According to the survey, only 25 percent of the respondents have received some kind of financial management training during the course of their service careers.

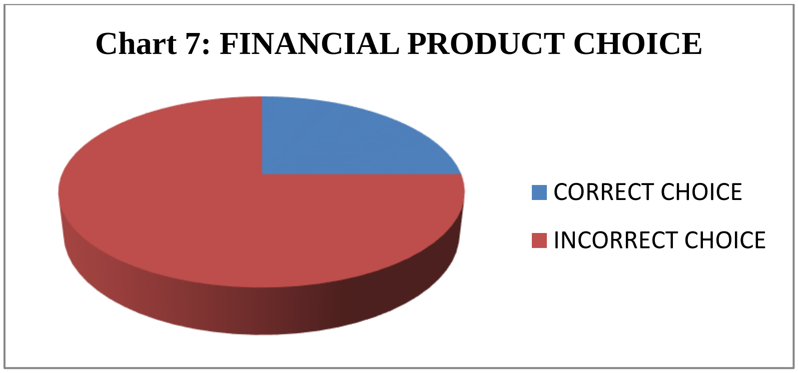
Source: Survey Results 48th APPPA

Only 46 percent of respondents properly responded to the knowledge assessment questions.



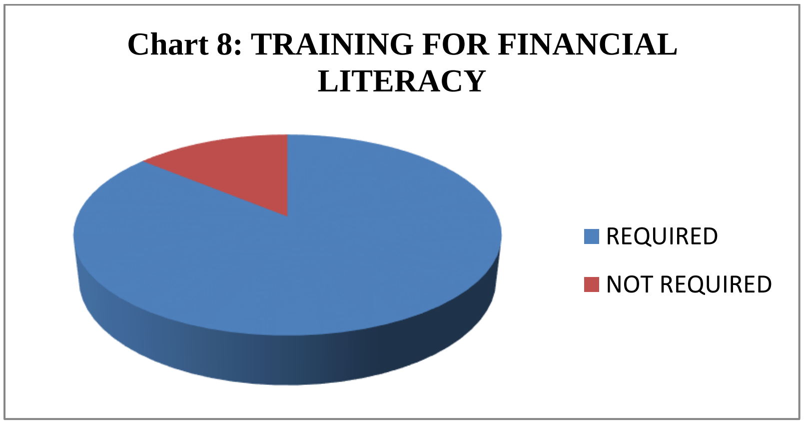
Source: Survey Results 48th APPPA

Concerningly, only 25 percent of respondents chose the correct financial product for different time frames, demonstrating a lack of awareness about the best product for various time frames.



Source: Survey Results 48th APPPA

86 percent of respondents agreed that financial management training should be provided in the service profession and that service employees should have access to trained financial planners as counselors for advice on financial issues.



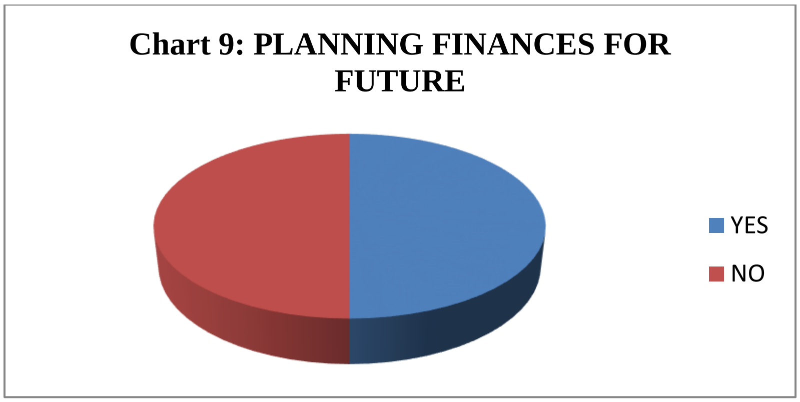
Source: Survey Results 48th APPPA

The majority of respondents avoided investing in stock market and invested mostly in real estate that was difficult to manage due to frequent transfers and being an illiquid product. Most respondents were not aware of the variety of products available in the mutual fund industry to meet various financial goals, and goal-based investment was found to be deficient.

Financial Behavior - One crucial component of financial literacy and possibly the most significant is behaviour. The benefits of financial literacy are fueled by actions like budgeting for expenses and creating a safety net; on the other hand, certain actions, like excessive credit use, can negatively impact financial well-being. Thus the focus of the study was concentrated on a variety of behaviours in this area, with a focus on those parameters that can increase or decrease financial well-being. The responses to these questions revealed information about how people handle their money, including whether they carefully consider whether they have enough money to pay for something, whether they typically pay bills in time and whether they kept a close watch on their finances.

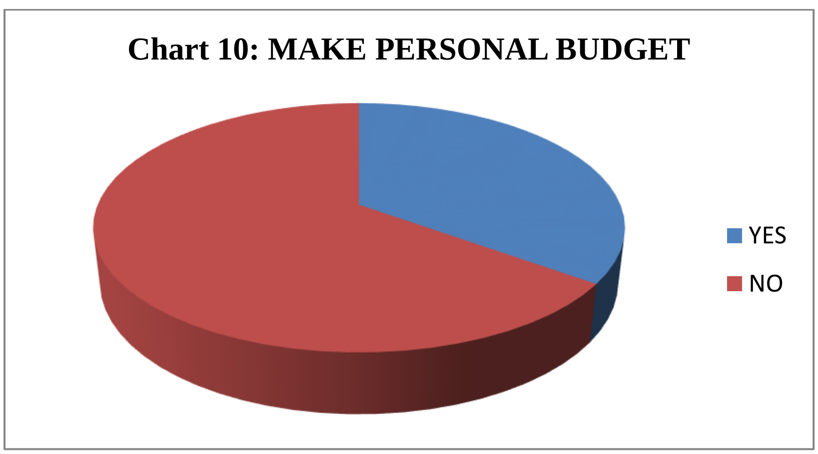
Additionally, it also looked into whether they make an effort to save money and set long-term objectives, whether they were responsible and made household budgets, how they selected financial products, and whether they have recently borrowed money to make ends meet. The behavior of a person towards money will have a noticeable impact on their financial well-being and so it was important to capture evidence of behaviour.

This was analysed via the questions to elicit information related to behaviours such as planning before buying a product, paying bills in time, and using a budget, savings and borrowing to make ends meet. The lack of active, knowledgeable budgeting and monitoring financial flow is concerning. For various time frames, the majority of respondents did not heed advice to choose a financial instrument. Just 50 percent of respondents said they were currently conducting any form of financial planning for the future, indicating that long-term financial goal setting could use some improvement.



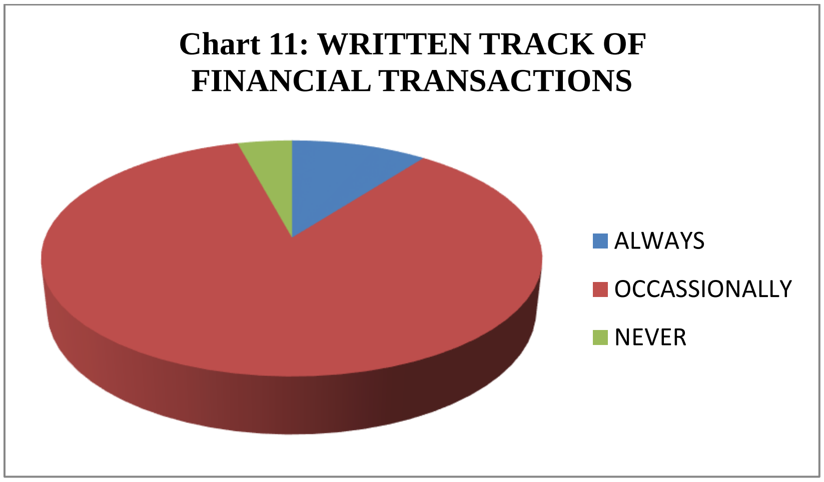
Source: Survey Results 48th APPPA

Financial literacy involves several different skills, including planning and budgeting. Only 35 percent of respondents of the survey created a personal budget.



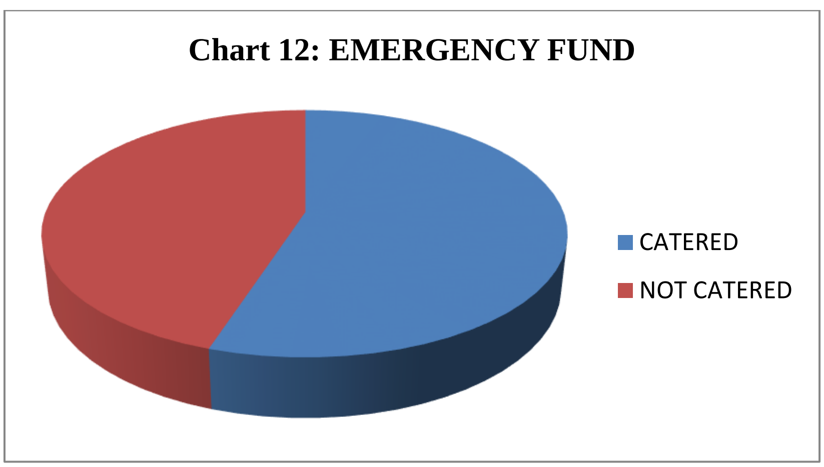
Source: Survey Results 48th APPPA

Only 10 percent of the respondents kept a written record of their financial transactions. The majority of respondents, 82 percent, occasionally kept tabs on their financial flow and 8 percent never bother to keep a record.



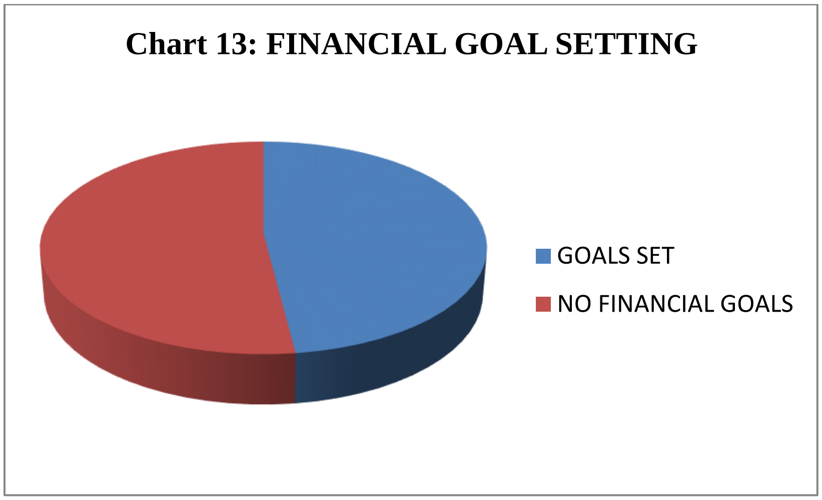
Source: Survey Results 48th APPPA

One can avoid using credit cards or expensive loans at a time of need by keeping emergency reserves, which act as a financial cushion. Just 55 percent of respondents have set aside money for an emergency fund.



Source: Survey Results 48th APPPA

Only 48 percent of respondents have approximately outlined their financial goals and the timelines for reaching them.



Source: Survey Results 48th APPPA

About 55 percent of respondents own a credit card, and 82 percent engage in online transactions while being informed of what to do in the event of an online fraud. The fact that defence personnel were converting to digital transactions while being mindful of security issues was really encouraging.

Attitudes - Financial literacy is thought to be strongly influenced by attitudes and preferences. For instance, it is claimed that people will be less likely to engage in such behaviour if they have a relatively negative attitude on saving for their future. Similarly, if they choose putting short-term desires first, they are unlikely to save aside money for emergencies or to create long-term financial plans. Five attitude statements were included in the financial literacy survey to get a sense of how respondents felt about money and future planning. In order to gauge people's attitudes or preferences, the attitude statements questioned participants whether they agreed or disagreed with specific claims. An overall index of attitude is provided by the response to these attitude statements. Just 35 percent of people have a favorable outlook in the long future, indicating that attitude need improvement for delayed gratification.

Interaction with Expert

Hum Fauji Financial Services is a private limited company established by Col Sanjeev Govila (Retd), a Certified Financial Planner, with the aim of providing financial advice and management of finances of the armed forces personnel. A personal interview was done with Mr Jatin, Certified Financial Planner, the second in command at the company and the one who is deeply involved with the financial affairs of the service members. The following points were brought out regarding financial literacy of defence personnel:

(a) There is no structured financial education programme for the defence personnel. The lectures by the team are conducted on personal request basis by some of the Military Commanders. These are conducted as part of Investor Awareness Programme of some Asset Management Company.

(b) It is extremely important to have a written financial plan. However, only 10-20 percent of the defence personnel are doing it at present.

(c) Majority of the personnel invest in real estate without knowledge and thereby commit a large part of investible surplus in an illiquid product that they are not able to manage due to frequent postings. Investment should be goal-based after assessment of risk profile of the investor.

(d) Some of the service members are investing directly in stocks on tips to make quick money and are in turn losing money. They have no knowledge that investing in stock market should be for long term in a diversified portfolio to hedge risk. Mutual funds have options for all time frames and as per the risk taking ability of an individual.

(e) There is still mis-selling of toxic financial products to the service members and more efforts are required to put a check on mis-selling.

(f) The new recruits are aggressive in their approach about finances, however, without proper risk assessment and goal setting they do not plan their finances properly and do not achieve their goals.

(g) The service members are in the habit of taking too many loans at high rate of interest for long term, thereby making compounding work against themselves.

(h) Very few military members actually seek financial advice, and those who do are unaware of how to go about getting it from a professional. As a result, military members should be financially literate.

The financial regulators are making concerted efforts to improve the financial literacy of the masses as was brought out in the previous chapter. However, this effort need to percolate to the service members as no structured financial literacy is imparted at present in the defence services as is brought out in the survey results. Whatever little is happening is on request basis of the individual Commanders and as part of Investor Awareness Programmes of Asset Management Companies as came out of interview with expert.

Certain areas of concern are highlighted by the research when it comes to financial literacy. For instance, there is a lot of space for development in the financial knowledge. A sizable majority of people lack a basic comprehension of words like compound interest, time value of money and diversification. Budgeting and goal planning along with knowledge of the best financial product for short; medium and long-term financial goals can all be improved. The results also show that a significant number of people could profit from campaigns intended to alter their behavior and attitude.

CHAPTER 4

IMPROVING FINANCIAL LITERACY

"It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for." - Robert Kiyosaki.

In order to determine the country's level of financial literacy, NCFE conducted a Pan India Financial Inclusion and Financial Literacy Survey in 2013–2014. After the first NSFE's tenure was through, a poll was again conducted in 2019 to empirically assess the advancement made over the preceding five years. ***It is recommended that one time military sector specific survey be conducted by NCFE to realistically assess the status of financial literacy of service members and thereafter Ministry of Defence (MoD) should conduct annual survey to assess the financial readiness of service members as is being conducted for the members of US Military.***

The Government can create ***law like Military Service Personal Financial Services Protection Act*** of USA to protect service members from unscrupulous practices regarding sale of unethical insurance, financial and investment products. Further, MoD can make policies to safeguard members from deceptive sales tactics of toxic financial goods.

The Ministry of Defence (MoD) may follow the US Department of Defence (DOD)'s lead and offer financial education and counseling support to military personnel for making informed decisions about financial matters. A ***military website on financial education*** can also be made and military members should be able to access information about personal finances management on the military website. All military personnel, including spouses and kids, should be eligible for the programme as soon as they enlist.

The following financial topics ought to be covered: insurance, basic budgeting, home and family finances, savings and investing strategies, goal-based financial planning, safeguarding financial health, financial fraud, taxes and compensation and survivor benefits.

Members should be able to get information straight from the website, as well as ***additional information upon request or the ability to connect with a certified financial advisor for urgent help***. Both service members and military families should be able to access the site's archive of personal finance webinars.

Personal finance management should be taught to all defence members at the initial induction training and at regular intervals along with various milestones like marriage, childbirth, postings, promotion and retirement.

Important Content of Financial Education

Attitude. Financial education should include attitude training. Living in the present without thinking about the future could be harmful to one's financial situation. Such viewpoints are detrimental to long-term financial security. Responsible attitudes must be ingrained through financial education.

Risk Analysis and Management. People are prevented from obtaining financial well-being most of the time because they are unable to appropriately assess the underlying risk in a investment opportunity. They are not confident enough to take sensible risks, and their financial resources frequently underperform. Strategies for risk analysis and management should be part of financial education.

Suggestions for Financial Health

One should not focus only on achieving the best rate of return on their investment. The Cash Flow management should be focused upon and one should separate one's money according to its function. Therefore, the following is recommended:

(a) Have two account systems that separate income/ expences and savings/ investing.

(b) The daily living cost ***should not be more than 40-50 percent*** of one's take home income.

(c) The EMI payments ***should not be more than 25-35 percent*** of one's take home income.

(d) The savings/ investing are ***at least 15-25 percent*** of one's take home income.

Emergency Fund. Everybody must have an emergency fund. This is the fund that should be used only in case of financial emergency. A rough Rule of Thumb says five to six months living costs in the emergency fund. However, in a secure govt job with medical facilities a minimum of three months living cost should be kept aside for emergencies. Depending on the risk to the household this amount can be adjusted. The higher post tax return as compared to bank FD makes debt fund a better choice for an emergency fund.

Medical Cover. Getting a good medical cover is important. It is prudent to have a medical cover apart from the one provided by the department as the family members may outgrow to be dependent on a service member while they are still searching for a job. As a rule of thumb, a 10-15 lakh family floater medical cover for a family of four will provide the requisite cover.

Life Insurance. One need's a life insurance cover to protect one's family's financial health in case of untimely death. Home loan, education loan, car loan, personal loan, credit card dues etc will have to be paid along with some regular income to add to the reduced pension for the family. Endowment plans destroy wealth over the long term and are mis-sold sugar coated to the service members. One has to separate investment and insurance product and a pure life insurance policy called a 'term plan' be selected for life insurance. The rule of thumb says that insurance amount should be at least 8 to 10 times one's take home annual income.

Around age of twenty eight, when one gets married, should be a good time to buy a term insurance as the cost of life cover rises exponentially as one age. Buy the term plan online to reduce the cost of the premium after checking the claims settlement experience of the insurance firm which should be at least 95 percent. The role of life insurance is till one is debt-free and financially independent. Once that happens, one can stop term insurance plan.

Saving/ Investing. Not beginning to start investing because one doesn't have a large corpus in the first place is like waiting to learn swimming before one enters a pool. The important thing is to start early rather than wait for the moment when one has a big amount. FDs, land, gold and insurance plans have been Holy Grail of investment over the years. Shifting from these into financial products such as mutual funds will be getting out of one's comfort zone. Mutual funds once thought to be the investment instrument of the elite are now available to common public. Gold is also being sold digitally. One can start investing in a completely paperless, presence-less and cashless manner.

We should plan our investments with short, medium and long term horizons. Any planned expense that will happen approximately in next 2 - 3 years will be short term. The medium term expenses will be from 3 - 7 years. Any expenses beyond seven years will go into the category of long term expenses. It is very important to calculate the future cost of the expenses taking inflation into account and match our financial need with the suitable financial product.

Financial Product Selection. Before selecting a financial product for investing, it is extremely important that one carries out a risk assessment to understand one's risk taking ability. There are risk assessment tools available on the internet to help an individual assess his risk taking ability. An example of the same is placed as **Appendix D**. The second most important issue ignored by most of the people is goal based investment. Unless we define the objective/ goals for which we are investing, it will be extremely difficult to stick to the plan. Defining objectives/ goals is extremely critical for someone serious with taking charge of his financial life. An example of goal based investing is placed as **Appendix E**.

Each financial product has a period over which it works best. A product that is very safe in the long run becomes very risky in the short term. The product which is very safe in the short term becomes a drag on returns in the long term. So, it is very important to draw a investment plan, write down the short, medium and long term goals, put a monetary value to these goals and understand what amount one needs to put today.

Short Term. The role of debt products in one's portfolio is to provide liquidity (money at short notice) and to provide a rock-solid core to the long term portfolio. Debt products are good for stability but not for growth. So, for any expenses in the short term the savings should be in the debt products.

As a rule of thumb, the amount invested in debt product should be equal to one’s age. So, at age 30, the money invested in debt product should be 30 percent of the portfolio and at age 70, this value should be no more than 70 percent. The rest should be invested in equity for growth.

Medium Term. The expenses in the medium term can be taken care by investing in the mix of conservative hybrid mutual fund and aggressive hybrid mutual fund which invests part in equity and part in debt. This will give the security of the debt and growth of the equity. So, returns will be better than pure debt product with requisite safety.

Long Term. Equity investing is the product for the long term. It has its own rules and in case one follows them, one can beat inflation by large margin and grow one’s money reasonably. An index fund linked to a broad market index is the safest way to get the average market returns over the long period. With financial education, one can invest in mix of diversified equity, large-cap, mid-cap and small-cap funds for long term. Not investing in equity should not be an option. One may as well learn the road rules of investing in equity.

Adding Glitter to Portfolio. Diversification and an inflation hedge are provided by holding gold in one's portfolio. A five to ten percent investment can be made in gold. The Sovereign Gold Bond Program has been initiated by the government. Additionally, the government offers a rate of interest and sovereign guarantee at no expense to the investor. The ideal method for investing in gold ought to be that.

Selecting the right product for the long term investing is important as the difference of just 1 percentage point in costs can reduce the final corpus by more than 25 percent over a forty year period. So, it is prudent to select direct mutual fund for long term investing after gaining knowledge about the different kinds of mutual funds through financial magazines like Mutual Fund Insight and articles on the internet. One should never be obsessed with maximising the returns and should focus on decent returns for long periods of time.

Additional Measures

New financial management literature and paraphernalia should be made available in each military unit to allow easy access to financial management tools. To guarantee that unit personnel have unrestricted access to it in their region, there should be a ***centre for personal finance management training***. ***Bulletin boards*** can be a useful tool to provide recurring updates inside these designated locations.

There should be a focused attention to finances like “Money Management Week” to engrain the advantages of right way to manage once finances. Members may directly ask ***questions about financial management to a group of professional financial planners*** that MoD has educated and hired. Planners can provide guidance in person, electronically, over the phone, or by mail after evaluating the service member's inquiry.

CHAPTER 5

FINANCIAL WELL-BEING: THE WAY FORWARD

"Money is not the most important thing in the world. Love is. Fortunately, I love money." - Jackie Mason

Financial literacy is a must to make informed and effective decisions regarding financial matters. There is a need to educate service members about personal financial management during various touch points like entry into service, promotion, postings, marriage, childbirth and retirement etc. They should also be made aware of the new age financial products for investing and the importance of right behavior and attitude towards money. Topics like use of credit, asset and liability, budgeting and cash flow management, compound interest, time value of money and goal based investing should be ingrained along with 'tham, khali ek doo'. Commanders should be watchful about who is giving financial advice to service members. Some reasons why financial literacy is important are listed below:

(a) **Better Financial Decision Making.** Financial literacy helps individuals make informed and effective decisions regarding their money. With a basic understanding of personal finance, individuals can create budgets, manage debt, save for emergencies and retirement and invest wisely.

(b) **Improved Financial Well-Being.** Financial literacy can lead to improved financial well-being, reducing stress and anxiety about money. When individuals have control over their finances, they are better equipped to handle unexpected expenses and plan for the future.

(c) **Avoiding Financial Scams.** Financial scams are prevalent and can cause significant financial harm. With financial literacy, individuals can identify and avoid scams, protecting their financial resources.

(d) **Empowerment and Confidence.** Financial literacy empowers individuals to take control of their finances, giving them the confidence to make informed decisions about their money.

(e) **Positive Economic Impact.** Financially literate individuals can positively impact the economy by making wise financial decisions and investments, contributing to economic growth and stability.

Overall, financial literacy is an essential life skill that can lead to improved financial well-being and overall quality of life. Specifically to defence personnel financial literacy is essential for several reasons as given below:

(a) **Unique Financial Circumstances.** Defence personnel face unique financial circumstances, including frequent relocations, deployments, and allowances. Financial literacy can help defence personnel navigate these circumstances, make informed financial decisions, and ensure their financial stability.

(b) **Long-term Planning.** Many defence personnel retire at a relatively young age after serving for several years, and a lack of financial literacy can result in inadequate savings, investments, and retirement planning. Financial literacy can help defence personnel plan for the long-term and prepare for retirement.

(c) **Avoiding Debt.** Defence personnel are often targeted by financial predators and scams, which can lead to debt and financial instability. Financial literacy can help defence personnel identify and avoid these risks, reducing the likelihood of debt and financial problems.

(d) **Improving Mental Health.** Financial stress can impact mental health, and it is essential for defence personnel to maintain good mental health for optimal performance. Financial literacy can help defence personnel manage their finances, reduce financial stress, and maintain good mental health.

(e) **Protecting Families.** Defence personnel often have families, and financial instability can have a significant impact on their well-being. Financial literacy can help defence personnel protect their families' financial interests, plan for their future, and make informed financial decisions that benefit their families.

Thus it is quite evident that financial literacy is essential for defence personnel, as it can help them navigate unique financial circumstances. Defence personnel can benefit from financial education, including financial planning workshops, budgeting courses, and consultations with financial advisors.

Here are some recommendations to be covered to build upon the personal finance literacy of defence personnel:

(a) **Create a Budget.** A budget is the foundation of good personal finance management. One can start by tracking one’s income and expenses, and use this information to create a budget that accounts for all of the expenses and sets aside money for savings and investments.

(b) **Build an Emergency Fund.** Unexpected expenses can derail even the best budget. There should be an emergency fund that can cover at least three to six months of one's expenses.

(c) **Reduce Debt.** High-interest debt can be a significant drain on one's finances. One should prioritize paying off debt with the highest interest rates and consider consolidating debt to reduce one's interest payments.

(d) **Save for Retirement.** It's never too early to start saving for retirement. The defence personnel have the unique advantage of personal pension after retirement. However, with the reduced pension amounts there will be requirement to save and invest for retirement in case one wants to maintain the same lifestyle as one enjoyed during active service.

(e) **Invest Wisely.** Investing is a critical component of long-term financial success. Investing in a diversified portfolio of low-cost index funds or ETFs is a good option. One should keep in mind that investing involves risk, so it's important to do adequate research and consult with a financial advisor before making any investment decisions.

(f) **Live Below One's Means.** Living below one's means is the key to building wealth. One should avoid overspending on things one doesn't need, and prioritize spending on things that truly add value to the life.

(g) **Review and Adjust Finances.** One should regularly review one's budget, savings and investment goals, and adjust as necessary. Life changes and one's financial plan should reflect those changes.

One needs to remember that personal finance management is a lifelong process. By following these recommendations, one can take control of one's finances, reduce stress, and work towards achieving one's long-term financial goals.

Mis-selling of financial products is a significant problem that affects many individuals, including defence personnel. Here are some steps that defence personnel can take to avoid succumbing to mis-selling of financial products:

(a) **Do Research.** Before purchasing any financial product, research and gather as much information as possible. This will help one make an informed decision and avoid purchasing a product that is not suitable for one's needs.

(b) **Seek Professional Advice.** Seek advice from a reputable financial advisor who has experience working with defence personnel. A good financial advisor can help one understand one's financial situation, identify one's financial goals and recommend suitable financial products.

(c) **Read the Fine Print.** Before signing any financial product contract, read the fine print carefully and ensure that one understand all of the terms and conditions. If there is anything one does not understand, ask questions before signing.

(d) **Avoid High-Pressure Sales Tactics.** Be wary of high-pressure sales tactics, such as limited-time offers, free gifts, or unsolicited phone calls or emails. Take time to consider one's options and do not feel pressured to make a decision.

(e) **Avoid Products with High Fees.** Be aware of the fees associated with financial products, such as mutual funds, insurance policies and bank accounts.

High fees can significantly reduce the returns on one's investment and can be a red flag for potential mis-selling.

(f) **Report Suspected Mis-Selling.** If one suspects that he has been mis-sold a financial product, report it to the appropriate regulatory agency. This will help protect other individuals from falling victim to the same mis-selling practices.

Therefore, defence personnel can avoid being mis-sold financial products by taking these steps and can make informed financial decisions that are in their best interests.

Financial literacy is not a skill that can be learned in a single session. Instead, it is the result of lifetime learning that is constant and repeating. The ultimate goal is not to produce financial experts; rather, it is more crucial to provide people the knowledge they need to make sound financial decisions. The key to effective field-level programmes is the personal finance trainer, who can train and assist service members in order to carry out their responsibilities within the units. The financial trainer can help service personnel and they can also help commanders to mentor their subordinates. To complete their job, these people must be given a sufficient number of assignments and sufficient training. The goal of financial readiness is to teach personal self-reliance to service members in financial matters.

The need to change military culture about personal finances is maybe the most crucial factor. In military culture, it's kind of taboo to talk about money. Although the culture is aware of the negative impact poor money management may have on a service member's career, service members often put off getting help until there are few other options. Although there isn't a single answer to this problem, encouraging service members to keep up solid financial management habits and raising their knowledge of these practices can help.

The right kind of financial knowledge can have a phenomenal positive effect in a service member’s financial well-being. For example, saving in a provident fund for the long term is the norm amongst defence personnel. If someone invests rupees ten thousand per month in provident fund assuming 8 percent Cumulative Annual Growth Rate (CAGR), over 30 year period he would add approximately Rs 1.5 Cr in his net worth. However, with knowledge that investing in the stock market index fund over the long term is almost equally safe, the same amount of investment could increase at 12 percent CAGR and the corpus will amount to Rs 3.5 Cr. So, financial literacy can make a huge difference in an individual’s well-being.

The ultimate goal is to improve soldiers' financial management skills. A reliable savings strategy is essential for achieving financial success. Discipline is essential for saving to develop over time after it has been established. Most warriors in today's culture want to be affluent, but they don't build a foundation to get there. Service members can accumulate wealth and develop independence if planning is constant and investing is disciplined over time.

There have been some efforts by the government to improve financial literacy amongst defence personnel. In addition, the Indian Armed Forces off and on provides training to service members on financial management and investment strategies. However, more needs to be done to ensure that defence personnel receive comprehensive financial education and are equipped to make informed financial decisions. Overall, the financial literacy of our defence personnel is an important issue that requires attention and ongoing efforts to improve their financial well-being.

To conclude, it is recommended that MoD should develop an in-depth financial management training program for military personnel. This training should be thorough and consistently observed by supervisors at all levels. To ensure a surplus of finances rather than a deficit, MoD should explicitly create the programme to teach service members how to manage their money and live within their means. Military pay increases and bonuses are fantastic, but personal financial management is the key to success. A service member has qualities like decision making and discipline that can do wonders if properly used in managing one's money. With these qualities in their personal financial life along with protecting freedom of the country, they can also achieve financial freedom.

Future Work

The current study has been subjected to several limitations and therefore calls for future research. Further, a larger spectrum of service personnel from all defence services being subjected to the survey would bring about a better assessment of the issue. Additionally, with the respondents from Army and Navy, there could be larger percentages that are in need of financial literacy for their financial well-being.

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<u>**Appendix A**</u>

<u>**Interview excerpts of Financial Expert**</u>

Source: https://www.moneycontrol.com/news/business/personal-finance/bullets-to-budgets-a-retired-colonel-who-learnt-from-his-mistakes-and-now-helps-defence-personnel-with-financial-planning-9002801.html

After serving in the Indian Army for three decades, Col Sanjeev Govila (retd) opted for voluntary retirement in April 2010. However, even though he bid goodbye to his career in uniform, he wasn't yet done serving the country. Over the years, Govila observed that the main aim of most service members was to defend the nation, which meant that they paid little attention to securing their personal finances during their years of active service. Two years before retirement, Govila decided that he wanted to become a financial advisor, and his services would be reserved exclusively for those who serve in the armed forces and their families. Along with his wife Bindu Govila, he set up Hum Fauji Financial Services, a SEBI-registered financial advisory firm. Today, his firm boasts of 3,300 clients in India and abroad, with assets under management of Rs 870 crore.

According to Govila, it's challenging for military personnel to handle their finances. Investment opportunities have to be lost due to frequent transfers. Financial illiteracy caused by a lack of understanding and poor reading skills made members prone to mis-selling. Govila spoke with Moneycontrol about his definition of financial independence, his financial journey, the lessons he's learned, and how he disseminates financial literacy through the company he co-founded with his wife, Bindu Govila.

Edited excerpts from the interview:

What could 'financial freedom' be in the context of the armed forces?

Financial Freedom is having the appropriate sum of money available when one needs it. Many of the financial decisions by service members are rash and made with little knowledge or comprehension. Those in the military must use goal-based planning if they wish to achieve true financial independence. Sadly, not many people are aware of it. Given their current fair pay scales, if they properly plan for their goals, there will undoubtedly be enough money when they leave the forces.

What were your biggest challenges in managing money when you were in the armed forces?

Transfers were very frequent at the young age when I had joined the army. I've been posted to places where an entire week's newspapers would all come together, if at all. It was not the internet era, so there was no continuity in financial news and advice. All financial decisions were literally taken in a vacuum, based on outdated inputs.

Frequent transfers meant that we would lose touch with our financial planning, if we ever had one. People in the armed forces do not usually discuss personal finances with their seniors. Consequently, nobody was guiding us through important financial decisions. Even important decisions were taken more on hearsay and whims than knowledge and analysis.

What were your biggest financial mistakes and what were the lessons learnt?

My first big mistake: I had combined insurance with investment. An insurance agent mis-sold me an insurance policy that he claimed would give 12 percent annual returns. After 20 years, when I did my own calculations, I realised that I had only earned 3 percent. I was shocked. My big lesson from this episode: If you are not financially savvy, your money will go to dust in no time.

My second mistake: I followed my parents' investment pattern. I did not bother to check if that suited me. My father used to directly buy equity shares. Therefore, I too started to buy shares. Unknowingly, therefore, I invested without proper research in a lot of initial public offers (IPOs), which turned dud within a couple of years of listing.

My third mistake: Investing without goals. At that time, I only knew that I wanted to grow my money. But I never really thought about why I was saving. So, whenever I needed any money, I would either withdraw from my provident fund or sell equities. There was no thought process; withdrawals were random. Later, I realised that until I set financial goals, impulsive withdrawals will not allow my wealth to grow.

The equity market is going through a turbulent phase. What should retail investors do in the current scenario?

As far as the market is concerned, it is volatile, that's why it is called a market. An investor shouldn't take long-term investing decisions based on how the market is doing today.

Before getting started with investing, one should understand their risk profile and financial goals well. Accordingly, the investments can be categorised under core portfolio (long-term) and satellite portfolio (short-term). The satellite portfolio should be made for very short-term goals, with money that you can play around with.

What would be your advice to an investor who is looking to invest a lump-sum of Rs 10 lakh?

If the goal is more than five to seven years away, then the entire amount can easily go into equity. However, this is where one's risk profile also comes in. If one is risk-averse, then one might not want to go full steam ahead into equity. In that case, one can consider hybrid funds.

What should be the ideal asset mix for an investor in the current scenario?

There is this rule of thumb of 100 minus age (which is used to determine the ideal exposure to equities), but I don't subscribe to it. I associate investing with goals and risk profile. If your investment horizon is at least five years, and you are in your 40s, then 70 percent of your investments should go into equity. If you are even younger and fall in the age bracket of mid 20s to late 30s, allocation to equity can be even higher at 80-85 percent. But then the risk profile has to be dovetailed into it suitably, so that market fluctuations do not result in losing one's good night's sleep!

What is your view on commodities like gold? And digital assets like cryptocurrencies?

One should not try to time the crypto market, no one has been able to. You should only invest in crypto with any surplus 'mad money' that you won't require in the near future. And as far as commodities are concerned, gold, too, has been quite volatile in the past. One cannot classify it as a safe haven per se. However, you can consider a little exposure to sovereign gold bonds.

What should be the ideal asset allocation for someone right now, in the context of rising inflation, interest rates and a volatile equity market?

For someone in their 40s, who has time on their side, exposure to gold and crypto can be around 5 percent in each of these asset classes. However, one should just stick to crypto currencies such as Bitcoin and Ethereum. More importantly, you should direct 60 percent of your investible surplus towards equities, across large-cap, multi-cap, balanced advantage and index funds. You can allocate 30 percent to debt ultra-short funds or low-duration banking/PSU funds till the time interest rates stabilise.

How do you invest your own money?

I am more on the aggressive side, as I don't have any responsibilities anymore and have a good appetite for risk. Close to 60 percent of my portfolio is allocated to equity—40 percent through mutual funds and 20 percent through direct equity. Debt instruments comprise 20 percent of my portfolio, with international funds and crypto making up the balance 10 percent.

What is your one big investment mantra?

Don't let emotions guide you. Emotions are the biggest stumbling block in our investing journey. When one retires with a big corpus in hand, it is very easy to get complacent.

That is where the 4-bucket strategy comes in. The buckets would be as follows:

Bucket-1 — Emergency Bucket

Prudent financial planning always demands this bucket be created first. This caters to the emergencies that may come up and needs a careful assessment of the amount required. General emergencies will not demand more than Rs 5 lakh for most people if health insurance is taken care of. However, circumstances like older dependents, loved ones abroad (hence, sudden costly travel) and medical conditions not covered by health insurance could demand a bigger bucket. The best place to invest is a few small FDs of Rs 1-2 lakh each, sweep account linked to savings bank accounts or liquid funds. For most people, an emergency fund of Rs 5-10 lakh would suffice.

Bucket-2 — Monthly Income (Short-term) Bucket

This is the bucket that caters to monthly household expenses for the next five years of living. In addition, lifestyle travel plans (domestic and international), payment of premium for insurances (health, car, life, house, disability and critical insurance, etc), maintenance costs (house, car, appliances, etc), social obligations (festivals, events like family marriages) and miscellaneous regular requirements like replacement of white goods and house repairs would also be there.

Typically, this bucket would be about 20 percent of the total corpus and the best place to invest this would be a sweep account or liquid fund for the requirements of the next two years and Ultra Short-Term Fund for three years beyond that. If one so wishes, part of the monthly funds requirement can also come from Senior Citizen Savings Scheme and PM Vyaya Vandana Yojana investments.

Bucket-3 — Medium-term Bucket

This bucket is an intermediate bucket for growing the money. It would hold the money required for the period 6-10 years from now. It receives money from Bucket-4 and transfers the money to Bucket-2 on a yearly basis. It takes slightly higher risks than Bucket-2. This bucket would also hold about 20 percent of the total corpus and the best place to invest this would be longer term fixed deposits (FDs), hybrid mutual funds and conservative balanced advantage funds. A review would be required every year in this bucket wherein the next one year's funds requirement would be transferred to Bucket-2 and the same amount would be transferred into it from Bucket-4.

Bucket-4 — Long-term Bucket

This is the long-term investment bucket which caters for the requirements beyond 10 years from the date of retirement. It would hold the rest of the money (left after filling Buckets 1 to 3). A very careful risk assessment and preferably a discussion with a financial planner would be required to set up this bucket. This is the bucket which shields one's life-time savings from the drastic effects of inflation and feeds the previous two buckets. It could take as much as 40-60 percent equity exposure, depending on the retiree's comfort level. On every yearly review, one year's requirement of funds goes from this bucket to Bucket-3, and the risk profile of the retiree may need to be reviewed.

Finally, a few important points that need to be kept in perspective, while creating and managing the buckets:

(a) The buckets have been created with the premise that adequate corpus has been built for the entire retirement period of 25-35 years. In case the amount is lesser, expenses will have to be carefully calculated and taken out from Bucket-2. Some modifications to allocations will be required to various buckets.

(b) Risk profile of the retiree is an important ingredient in creating the buckets. An experienced financial planner would be able to align the buckets' holdings carefully. Nevertheless, the tendency to put everything in the 'safety' mode should be avoided since returns would then go down, taxation would be heavy, and the purchasing power of the corpus would deplete significantly.

<u>Appendix B</u>

<u>QUESTIONNAIRE FOR PARTICIPANTS</u>

This questionnaire is intended to collect data for a research paper on **'Financial Literacy of Defence Personnel: From Financial Readiness to Financial Well-Being'**. The objective of the study is to assess the level of financial literacy, the requirement for personal finance education and suggest measures to improve the financial well being of defence personnel. The study is mainly for academic purpose and participants are assured confidentiality with regards to information provided by them.

Name (Optional):

Rank:

Yrs in Service:

Educational Qualification:

Trade:

General instruction: *Please indicate your response to each question by selecting (tick mark) the most appropriate answer.*

1. Due to inflation the purchasing power of 1 Lakh Rupee will reduce after one year.

True/ False

2. You deposit Rs 10,000/- in your bank account which guarantees 4percent annual return. You don't deposit or withdraw any amount thereafter for one year. After adding interest, how much will be the amount at the end of the year? **Rs 10,040/ Rs 10,400/ Rs 14,000**

3, You invested Rs 1,00,000 in a product that gave 12 percent compound returns. After 6 years, you will receive approx **Rs 1.72 lakh/ Rs 84,000/ Rs 2,00,000** .

4. There is a potential that you will lose a lot of money if someone gives you the chance to gain a lot of money. **True/ False/ Don't know**

5. By purchasing a single stock rather than a mutual fund, it is typically possible to lower the risk associated with stock market investing. **True/ False/ Don't know**

6. In finance, the rule of 72 states that one can double one's money in number of years equal to 72 divided by the compounding rate of return of the product chosen for investing. **True/ False/ Don't know**

7. Do you make a family budget and keep a written log of your income and expences? **Always/ Sometimes/ Never**

8. If you use a credit card, do you make the payment of total outstanding amount or minimum monthly due? **Total due on time/ Min due on time/ Mostly late payments/ Never use a credit card**

9. Have you made financial goals? To clarify, have you calculated and written the financial requirements at various important junctures in your life like children higher education, marriage, buying a house etc? **Yes/ No**

10. Which is your favourite product of saving/ investing? (rank order from 1 to 6) **PPF ( ) / Savings Account ( ) / Fixed deposit ( ) / Mutual Fund ( ) / Gold ( ) / Real estate ( )**

11. Which investment product from the following will you choose for short term (3-5 yrs), medium term (5-7 yrs) and long term (7-15 yrs)?

(a) Provident Fund **Short/ Medium/ Long term**

(b) Saving Account **Short/ Medium/ Long term**

(c) Fixed deposit **Short/ Medium/ Long term**

(d) Mutual Fund **Short/ Medium/ Long term**

(e) Gold **Short/ Medium/ Long term**

(f) Real estate **Short/ Medium/ Long term**

12. If you faced a major expense today, do you have emergency fund in savings account equal to about 3-4 times your monthly net take home pay? **Yes/ No**

13. Occasionally, people discover that their income falls short of fully covering their expenses. Has this occurred to you over the last 12 months? **Yes/ No**

14. If you answered "yes" to question 13, what did you do to go through the month the last time it happened? **Borrowed from family/ used credit card/ took loan from a money lender**

15. Do you use online banking services? **Yes/ No**

16. What is your favorite method of payment for routine purchases? **Cash/ Digital payments**

17. Are you aware of the procedure to be followed in case of online financial fraud? **Yes/ No**

18. Have you been trained to manage your personal finances at any stage in service? **Yes/ No**

19. The education on personal financial management is required for service personnel. **Strongly agree/ Agree / Undecided/ Disagree/ Strongly Disagree**

20. A certified financial planner should be accessible to defence personnel (like psychological counselor) for guidance on financial matters. **Strongly agree/ Agree / Undecided/ Disagree/ Strongly Disagree**

Appendix C

QUESTIONNAIRE FOR EXPERT

This questionnaire is intended to collect data for a research paper on **'Financial Literacy of Defence Personnel: From Financial Readiness to Financial Well Being'**. The objective of the study is to assess the level of financial literacy, the requirement for personal finance education and suggest measures to improve the financial well being of defence personnel.

1. How many lectures/ seminar have you conducted for defence personnel on investment/ personal finance management?
2. Did you find defence personnel to be trained to manage their personal finances?
3. Is there a requirement of financial education to the defence personnel for their financial wellbeing and to enable them a decent living after retirement?
4. According to you, what is the best mode of investment for the defence personnel considering frequent postings?
5. Do you think a written financial goal like buying a house, children higher education, marriage etc is an important exercise?
6. What do you suggest as priorty of saving/ investing product from the following for short term (3-5 yrs), medium term (5-7 yrs) and long term (7-15yrs)? (Please rank order from 1 to 5)

	Short	**Medium**	**Long term**
Public Provident Fund	( )	( )	( )
Saving Account	( )	( )	( )
Fixed deposit	( )	( )	( )

Mutual Fund	( )	( )	( )
Gold/ Silver	( )	( )	( )

7. What should be the right stage (at time of enrollment, promotion, posting, retirement etc) to impart financial education to the defence personnel?

8. Do you suggest financial counselors for defence personnel on lines of psychological counselors?

9. Any other recommendation to improve the financial literacy of defence personnel for their well-being during years in service and their financial freedom at time of retirement?

Appendix D

RISK ASSESSMENT TOOL

Source: https://www.moneycontrol.com/personal-finance/tools/risk-assessment - tools.html

Risk Profiling combines two key areas –

(a) Estimating financial risk-taking capacity.

(b) Understanding the (psychological) risk tolerance level of an individual.

Following 20 questions will help one evaluate oneself on both these parameters. Also, based on one's risk profile, an asset allocation structure best suited can be recommended by the certified financial planner.

1. Your age is:

- ○ Under 30
- ○ 30-40
- ○ 41-50
- ○ 51-60
- ○ 60 or over

2. You have saved a long while to buy a car. A week before you buy the car, you lose your job. You.

- ○ postpone your purchase.
- ○ buy a new car but do not buy the expensive car you have saved for.
- ○ go ahead with your purchase plan and buy the expensive new car.

- [ ] buy the car and go on a one week vacation to celebrate the new purchase.

3. Your current annual take-home income is:

- [ ] under Rs100,000.
- [ ] between Rs100,000 and Rs200,000.
- [ ] between Rs200,000 and Rs400,000.
- [ ] over Rs400,000.

4. You are financially responsible for (exclude dependants who can be supported by your spouse's income)

- [ ] only yourself.
- [ ] 1 other person in your household besides yourself
- [x] between 2 and 3 other persons besides youself
- [ ] between 4 and 5 other persons besides youself
- [ ] more than 5 other persons besides yourself

5. Your current job/career/business:

- [ ] Is not dependable.
- [ ] Is secure.
- [ ] doesn't matter because you expect a large inheritance/have enough wealth already.
- [ ] doesn't matter because you expect to change your career path soon.

6. After you have made an investment, your feeling on the decision is:

- excited.
- satisfied.
- doubtful.
- sorry.

7. You are offered a job by a company with a bright future. Which compensation option would you choose?

- A 3-year job guarantee.
- An upfront bonus of Rs1,00,000.
- A 10percent pay increase on your salary of Rs4,00,000.
- employee stock options with a current value of Rs1,00,000 & prospects for further appreciation.

8. What is your practice on saving money

- I don't believe in saving.
- I'd like to save, but my expenses and other financial commitments do not permit me to.
- I try to save whenever and wherever possible.
- I save 15 percent or more of my take-home salary without exception.

9. You invest Rs1,00,000 in a share that goes down by 8percent the next day. You.

- average your cost by investing another Rs1,00,000 at a lower price.

- do not bother because you had done enough research on the company.
- book your loss and invest in fixed deposits or bonds.
- hold on till the share comes back to your cost price and sell it.

10. Which of the following statements would best describe your level of knowledge as an investor

- I don't understand investment terminology at all.
- I am a proficient investor who's able to explain concepts such as EVA, beta and hedging.
- I know how to identify and invest in mutual funds and secondary market debentures.
- I understand investment principles and trade shares in the secondary market.
- I am not very familiar with investment options and financial planning.

11. How would you `honestly' describe yourself as a risk-taker?

- reckless
- willing to take evaluated risks.
- careful.
- low risk taking capability.
- extremely averse to risk.

12. Which would best describe your awareness about finance?

- I read most of the business and investment magazines and watch business updates on television daily.
- I read a financial newspaper daily and regularly read at least one specialized business magazine.
- I read the finance section of the daily newspaper everyday.
- I often look up the market prices of my shares in the newspaper.
- I never read the finance section of the newspaper.

13. In how many years from now will you have saved up for all your future financial commitments and needs?

- less than 3 years.
- 3 to 6 years.
- 6 to 10 years.
- more than 10 years.

14. What is your approach to making a financial decision?

- take a random decision.
- lose sleep over the issue
- seek friendly advice.
- take an educated guess.
- analyse the various options.

15. When you suffer a financial loss, what are your feelings?

- I think it has happened because it was my destiny.
- I blame myself.
- I take it as a personal failure.
- I view it as a hurdle that one needs to cross.
- I almost never suffer losses, because I stick to investments that do not depreciate in principal value.

16. Your company has an attractive Voluntary Retirement Scheme(VRS) open only to 10percent of employees on a first-come-first-serve basis. You:

- enrol for the scheme as early as possible.
- enrol for it only if you had been looking for alternate opportunities and could take one of them.
- do not take up the VRS, but start looking for other work as the company's future does not seem bright.
- do not take the VRS because you intend to spend the rest of your working life in this company.

17. You have invested in shares that you expect will become 5-baggers in 2-3 years. These share prices drop 30percent soon after you buy them. You:

- sell.
- average your cost by buying more.
- wait and watch.

- see your cash flow at the end of the year and buy more if the prices of these shares are still low.

18. Excluding your house, your savings inclusive of employment benefits, add up to:

- nothing.
- less than six months' take home pay.
- between 6-15 months' take home pay.
- between 15-36 months' take home pay.
- more than 36 months' take home pay.

19. What is the status of your accomodation? Those who own a house, choose from last two options only.

- I stay with my parents/ spouse.
- I live in company accomodation.
- I live in an apartment that I have rented.
- I own a house but am saving to buy a better house.
- I own as good a house that I would ever want to.

20. How would you describe your overall income status?

- Just about manage to make ends meet; no monthly savings.
- My PF and other employment benefits are my only source of

savings.

- I put aside atleast 10percent of my take-home salary every month in savings.
- I save more than 30percent of my take-home salary every month.
- My income from my wealth more than adequately provides for my cost of living.

Appendix E

Financial Goals Setting

Source: https://stableinvestor.com/2017/05/financial-goals.html

The two words ‘Financial Goals’ are fairly simple to understand. It’s the ‘WHY’ of one’s investing. It’s the reason why one is ready to cut down one’s spending today and put aside a part of one’s hard earned income for tomorrow. But a lot of people invest without having a clear idea about what they are saving for. They do have some idea about their major life goals but investments are mostly random or in many cases, driven by the need to save taxes.

If one is aiming for beating the market, then one need to get a reality check. No doubt there will be emotional high and increased bank balance when he/she beat the market. But will that *‘beating’* be sufficient to help one achieve his/her goals? Many people have no idea how to answer that question. And this is one important reason why goal-based investing makes more sense for most people.

Financial Goals

When it comes to planning one’s finances, one of the most critical things that need to be done is identifying one’s financial goals. If there are no specific goals that one is targeting, then investment will be random in different financial products without knowing whether it is helping one get closer to one’s goals or not. Unlike a wish, a goal is:

Specific: It’s clear what is to be bought where.

Measurable: It's not using general words like 'big or small'. eg. 3 or 2 BHK.

Achievable: It should be achievable with the resources at one's disposal.

Relevant: It's relevant for the person who has this as goal. It is what he wants.

Timely: A clear deadline is set to achieve the goal.

Goals tell where one wants to go. And its only when one knows where one is headed, he can decide what path to take. So when listing down one's life goals, it's imperative that one thinks hard and take time to reflect on all the goals that come to one's mind. Of course major ones are obvious, which include short as well as long-term financial goals – like buying a house, children's education and marriage, retirement, etc. A sample list is given below:

Step 1
Initial List of Life Goals
Buy House
Retirement
Child 1 Higher Education
Child 2 Higher Education
Child 1 Marriage
Child 2 Marriage
Buy 2nd House
Foreign Trip (every 2-3 years)
Holiday Home
Buy Car
Buy Luxury Car / SUV
Modifications in House
Diamond Ring for Wife
Europe Trip for Parents

Having several goals doesn't increase one's chance of achieving them. It's better to focus on fewer goals instead to get the best result. It's also because one's income is limited and it needs to be used to save for the important and correct goals. Also, some of the things that need to be done (like reducing one's unmanageable credit card debt, paying off one's brother's small personal loan, etc.) might not be one's life goals. But nevertheless, they are one’s financial goals. So one’s list of life goals gets converted into list of financial goals. Here is a list of financial goals derived from life goals (with additions and deletions where necessary):

Step 1	
Life Goals	**Rationalize**
Buy House	
Retirement	
Child 1 Higher Education	
Child 2 Higher Education	
Child 1 Marriage	
Child 2 Marriage	
~~Child 1 Business Venture~~	Should self fund it
Buy 2nd House	
Foreign Trip (every 2-3 years)	
~~Holiday Home~~	First buy a basic house
Buy Car	
Buy Luxury Car / SUV	
Modifications in House	
~~Diamond Ring for Wife~~	Saying No is Risky :-)
Europe Trip for Parents	
Reduce Credit Card Debt	Added
Help payoff Sister's small loan	Added

Step 2
Financial Goals
Buy House
Retirement
Child 1 Higher Education
Child 2 Higher Education
Child 1 Marriage
Child 2 Marriage
Buy 2nd House
Foreign Trip (every 2-3 years)
Buy Car
Buy Luxury Car / SUV
Modifications in House
Europe Trip for Parents
Reduce Credit Card Debt
Help payoff Sister's small loan

Having listed down all the goals, one need to identify which are worth planning for and which aren’t. Next step would be to tag each of one’s goals as either Needs or Desires. For example – Saving for one’s retirement is a Need. (You can’t do away with it). But saving for a foreign trip next year is a Desire. It can be postponed or have its budget reduced, etc.

Here is a sample tagging for goal list that was shown earlier:

	Step 3
Financial Goals	Tag as Need or Desire
Buy House	Need
Retirement	Need
Child 1 Higher Education	Need
Child 2 Higher Education	Need
Child 1 Marriage	Need
Child 2 Marriage	Need
Buy 2nd House	Desire
Foreign Trip (every 2-3 years)	Desire
Buy Car	Need
Buy Luxury Car / SUV	Desire
Modifications in House	Desire
Europe Trip for Parents	Desire
Reduce Credit Card Debt	Need
Help payoff Sister's small loan	Need

Ideally, the goals that are Needs (or Essential goals) should get priority over other ones. But that is easier said than done. We are humans and we need to simultaneously take care of multiple goals. You cannot keep saving for just one important goal (like retirement) and not do anything for others. But tagging one's goals like this can help clear one's thoughts about what is important and what is not. All goals are not similar and neither have to be achieved on the same day. Next step will be to categorize all goals (both Needs and Desires) according to their time horizon. One way to do that is as follows:

(a) Immediate Financial Goals (in next 1 year).

(b) Short-term financial goals (1 to 5 years).

(c) Medium term financial goal (5 to 10 years).

(d) Long term financial goal (10+ years).

So this is how goals of previous points can be categorized as per time available:

Step 4	
Categorize Financial Goals	**Need/Desire**
Immediate (less than 1 year)	
Reduce Credit Card Debt	Need
Help payoff Sister's small loan	Need
Short Term (1-5 years)	
Buy House	Need
Buy Car	Need
Medium Term (5-10 years)	
Child 1 Higher Education	Need
Foreign Trip (every 2-3 years)	Desire
Modifications in House	Desire
Europe Trip for Parents	Desire
Buy 2nd House	Desire
Long Term (10+ years)	
Retirement	Need
Child 2 Higher Education	Need
Child 1 Marriage	Need
Child 2 Marriage	Need
Buy Luxury Car / SUV	Desire

This time period based categorization of one's financial goals gives a lot of clarity when doing financial planning. That's because a major factor that decides where one should be investing in (i.e. which assets and financial products) is time available for the goal.

Now one need to assign priority to one's goals. It might look similar to the earlier differentiation of Needs Vs. Wants. But it's not. If it was possible to achieve all of one's life goals at once with the resources one had, then financial planning would be unnecessary. And it would be an ideal world where one's needs as well as desires would be satisfied on demand. Instant gratification would rule. But it's the real world we live in. And we do not have unlimited supply of money. We simply cannot have everything we want and whenever we want. We need to accept tradeoffs, as the resource available (i.e. money to be invested) is limited. So, one needs to prioritize one's goals. It helps to identify important goals even within the categorization we made earlier (Needs and Desires). Once identified, resources will be allocated accordingly. This ensures that important goals are taken care off first. But this also means that money may not be left to satisfy all other less priority goals. This is the tradeoff that prioritization of goals helps in dealing with. One decides what goals will be satisfied first and which will be second, and which won't be done until very last.

Here is a sample prioritization of the goals we are discussing as example:

Step 5		
Financial Goals	**Need / Desire**	**Priority**
Immediate (less than 1 year)		
Reduce Credit Card Debt	Need	-
Help payoff Sister's small loan	Need	-
Short Term (1-5 years)		
Buy House	Need	1
Buy Car	Need	4
Medium Term (5-10 years)		
Child 1 Higher Education	Need	2
Foreign Trip (every 2-3 years)	Desire	8
Modifications in House	Desire	5
Europe Trip for Parents	Desire	6
Buy 2nd House	Desire	7
Long Term (10+ years)		
Retirement	Need	1
Child 2 Higher Education	Need	2
Child 1 Marriage	Need	3
Child 2 Marriage	Need	3
Buy Luxury Car / SUV	Desire	9

The prioritization can be different for different people. Some goals can have similar priority for some people while different for others. For example, many people are of view that children should take care of their marriage expenses. Some think otherwise. So priorities can be different. One cannot move ahead without knowing the costs. What is the cost of these goals today? When one answers that question, only then he/she will be in a position to know the real cost of the goal in future (after adjusting for inflation). An engineering degree that cost Rs 5 lac about a decade ago can easily cost Rs 15 lac today. Fast forward another 15 years when one's child might be starting his higher studies, the cost might have gone up to Rs 50 lacs or even more. So knowing a goal is fine. But one also need to anticipate how much it will cost in future. And the only way to know it is to realistically assess two things:

(a) Cost of Goal today.

(b) Inflation applicable to the goal's cost in future.

If one fails to account for inflation, he/she will end up saving woefully less than what is actually required in future. And that will be a sad as well as scary situation to be in. So here is how one can assign costs to various goals. The figures are hypothetical:

Step 6			
Financial Goals	**Need / Desire**	**Priority**	**Cost Today**
Immediate (less than 1 year)			
Reduce Credit Card Debt	Need	-	
Help payoff Sister's small loan	Need	-	
Short Term (1-5 years)			
Buy House	Need	1	Rs 50 lac
Buy Car	Need	4	Rs 10 lac
Medium Term (5-10 years)			
Child 1 Higher Education	Need	2	Rs 25 lac
Foreign Trip (every 2-3 years)	Desire	8	Rs 3 lac
Modifications in House	Desire	5	Rs 10 lac
Europe Trip for Parents	Desire	6	Rs 5 lac
Buy 2nd House	Desire	7	Rs 75 lac
Long Term (10+ years)			
Retirement	Need	1	Rs 3 crore
Child 2 Higher Education	Need	2	Rs 35 lac
Child 1 Marriage	Need	3	Rs 15 lac
Child 2 Marriage	Need	3	Rs 15 lac
Buy Luxury Car / SUV	Desire	9	Rs 20 lac

Now comes the tough part. One's income is limited and it might not be sufficient to fund all goals. So one will need to pick the goals one want to go after. He might consider saving for some goals first as these are important. Other goals can be postponed. For example – One might want to postpone one's plan to go on a foreign trip every 2-3 years till he has bought a house (and obviously cleared off the loan). One might also consider reducing the targets for some goals. For example – In current example, instead of saving Rs 15 lac each for two children's marriage, you can save Rs 20 lac combined for both of them.

Step 7			
Financial Goals	**Need / Desire**	**Priority**	**Cost Today**
Immediate (less than 1 year)			
Reduce Credit Card Debt	Need	-	
Help payoff Sister's small loan	Need	-	
Short Term (1-5 years)			
Buy House	Need	1	Rs 50 lac
Buy Car	Need	4	Rs 10 lac
Medium Term (5-10 years)			
Child 1 Higher Education	Need	2	Rs 25 lac
~~Foreign Trip (every 2-3 years)~~	~~Desire~~	~~8~~	~~Rs 3 lac~~
Modifications in House	Desire	5	Rs 10 lac
Europe Trip for Parents	Desire	6	Rs 5 lac
~~Buy 2nd House~~	~~Desire~~	~~7~~	~~Rs 75 lac~~
Long Term (10+ years)			
Retirement	Need	1	Rs 3 crore
Child 2 Higher Education	Need	2	Rs 35 lac
Children's Marriage	Need	3	Rs 20 lac
~~Child 2 Marriage~~	~~Need~~	~~3~~	~~Rs 15 lac~~
~~Buy Luxury Car / SUV~~	~~Desire~~	~~9~~	~~Rs 20 lac~~

One have listed one's goals. NEEDs and DESIREs have been identified. They have been categorized into short, mid and long-term buckets and have been prioritized. Their costs today are known and they have been further rationalized. Now one need to know four things:

(a) Cost of goals in future?

(b) How much you need to invest for these goals (monthly or lumpsum)?

(c) Where to invest for these goals?

(d) Whether any existing investments can be earmarked for these goals?

So after going through all the steps, one's financial goals worksheet will look something like this:

Step 8						
Financial Goals	Need / Desire	Priority	Cost Today	Inflation adujsted Cost in Future	Monthly Required Investment	Equity / Debt Ratio
Immediate (less than 1 year)						
Reduce Credit Card Debt	Need	-				
Help payoff Sister's small loan	Need	-				
Short Term (1-5 years)						
Buy House	Need	1	Rs 50 lac			
Buy Car	Need	4	Rs 10 lac			
Medium Term (5-10 years)						
Child 1 Higher Education	Need	2	Rs 25 lac			
Modifications in House	Desire	5	Rs 10 lac			
Europe Trip for Parents	Desire	6	Rs 5 lac			
Long Term (10+ years)						
Retirement	Need	1	Rs 3 crore			
Child 2 Higher Education	Need	2	Rs 35 lac			
Children's Marriage	Need	3	Rs 20 lac			

Different goals require different investment plan and strategies. Using single asset allocation and risk tolerance for all of one's goals in the investment plan can be a big mistake. In fact, it can be disastrous. This is what most people get wrong when trying to do things on their own. The question is how much should one invest and how should one distribute across various assets? Goal-based financial planning helps people understand exactly how to invest and where to invest to achieve most of their goals. In general, we have a fair idea about various assets. Equity gives best returns in long term but it can be risky and volatile in short term. Debt gives stable and predictable returns but these can be lower than inflation which defeats the purpose of investing. Cash is good for liquidity and cannot be used for investment as inflation beats it. So let's see which assets are suitable for which types of goals:

Short Term Goals (Up to 05 years) - Risky assets like equities are best avoided for such goals. More so if goals are critical. Some people might still be interested in investing a small part in equity for these goals and it might work for them. But everyone should understand that any losses that you incur on the way may not be easy to recover from in time, given the short-term horizon of these goals. Debt funds or Fixed Deposit is the right choice for short term.

Medium Term Goals (From 05 to 07 years) - Investments can be made in both risky as well as in safe assets in a balanced manner. The idea is to balance the safety of capital with the need for higher returns. Balance mutual funds or hybrid funds should be chosen for medium term goals. It is important to take advice of a trustworthy and certified financial advisor for selection of funds.

Long Term Goals (more than 07 years away) - One can invest in assets that have a higher long-term return potential for the long-term goals. Best suited asset for this is equity. A mix of good quality large, mid and small-cap funds in once portfolio will give the best returns. For someone who wants to play it safer, the index fund can be a good choice for long term goals. Even then, most people fail to realize the potential of equity and invest primarily in debt instruments like EPF/ PPF/ FD etc. for their ultra long term goals like retirement planning. It is important to understand here that a long term goal will not remain long term forever. As the goal date approaches, it will effectively become a short-term goal. For example, when one is 35, one's retirement is 25 years away, i.e. its a long term goal. But when he turns 55, it will only be 5 years away, i.e. its changed into a short term financial goal. When this transition begins, one should ideally start the process of slowly reducing the riskier equity component of one's goal-specific portfolio. This will reduce the risk of large losses as one near goal completion. Hence, goal based investing in the right financial product should be diligently followed to achieve financial well-being.