

ing to powersaving. The best and the easiest way to powersave is to put savings on autopilot. Identify an instrument that will take out a certain amount from your salary *before* you can lay your hands on it.

Give this strategy some time, and you're on your way to an eight-figure net worth. For instance, if you were able to regularly save Rs 5,000 each month for 27 years in an instrument that pays you 12 per cent interest per annum (the rate for most government-backed securities), you would have Rs 1.01 crore. Compare this with what you have actually put aside in these 27 years: 27 years X 12 months X Rs 5,000 = Rs 16.2 lakh only! And if the instrument you have chosen is the Public Provident Fund (PPF), your Rs 1.01 crore is entirely tax-free!

For the less ambitious, with a smaller investment horizon, the returns are still worth the attention (*see table*).

Suppose you can put away just Rs 1,000 every month, without really missing it, for the next 20 years. That's when your 3-year-old bundle of joy will be ready to fly west to Harvard, or get hitched for life. Or retirement may be a fast-approaching reality. By that time, your 12 per cent scheme would have bloated your total savings of Rs 2.4 lakh to Rs 9.2 lakh.

How would this happen?

The power of compounding. Money has a strong brotherhood; it quickly attracts its kinsmen. Not only does your original investment earn interest, but this interest earns more interest, and the entire kitty is powered by itself. Let's say you start your powersaving plan from 30 June, 1998, and put Rs 1,000 a month in a scheme that gives you an annual return of 12 per cent. This money will earn the full interest, that is 12 per cent, for the entire year, and grow to Rs 1,120. On 31 July, 1998, you put Rs 1,000 more into the same account. At the end of the year, this will earn 12 per cent, but for 11 months, giving you Rs 1,110. And likewise for the remaining 10 months. By 1 July, 1999, you would have put Rs 12,000 in the account, and it would have grown to Rs 12,780.

Now Year 2 begins. You save Rs 1,000 a month all through 1999-2000 as well. That will earn interest in exactly the same way as the previous year. At the end of this year, you would have another Rs 12,780.

But that earlier Rs 12,780 from Year 1 has not been sitting idle: it has been working hard and, at 12 per cent, has grown to Rs 14,313.60. So in June 2000, your total investment of Rs 24,000 becomes Rs 27,093.60 (Rs 12,780 + Rs 14,313.60).

Do this for 30 years, and your total investment of Rs 3.6 lakh will turn into Rs 30.84 lakh. And you can do this by powersaving just Rs 1,000 a month: the num-



THE SETHI FAMILY

Sanjay, 33, a go-getter who is head of telecom and power at IL&FS, and his wife Sujata, a beauty consultant for Avon India, are saving to buy a house and to put their children through college. Sanjay gave up dabbling in stocks for steadier returns. He saves over a quarter of his monthly income.

ber grows substantially if you increase that to Rs 5,000 a month.

Early bird gets the worm. Starting early is crucial. Here's why: assume two sets of parents, X and Y, both of whom are blessed with a daughter on 1 January, 1998. Both want some money stacked up for their daughters when they turn 21. X starts immediately and puts in Rs 1,000 a year for six years into a savings instrument that fetches a 12 per cent return. Y, on the other hand, starts when his daughter turns five. He goes on investing Rs 1,000 a year in the same instrument till his daughter turns 21.

In 2019, when both the girls turn 21, X's daughter has Rs 49,749, while Y's child gets Rs 47,884. This is after X has invested

Rs 6,000, and Y has put in Rs 16,000. If X had carried on with his annual investment as long as Y did—for 16 years, that is—his daughter would have been sitting on Rs 84,378 at age 21.

This simple principle has caught the fancy of many families across the country (*see boxes*). All of them have clear goals, save regularly, and are on their way to becoming powersavers. You can do it too. Just remember these tips: **OBJECTIVES.** A goal helps you move from merely thinking about saving to actually doing it. It could be anything:

money for your child's education, cash to fuel your post-retirement comfort, or a house.

SPLITS. But objectives are time-bound. For