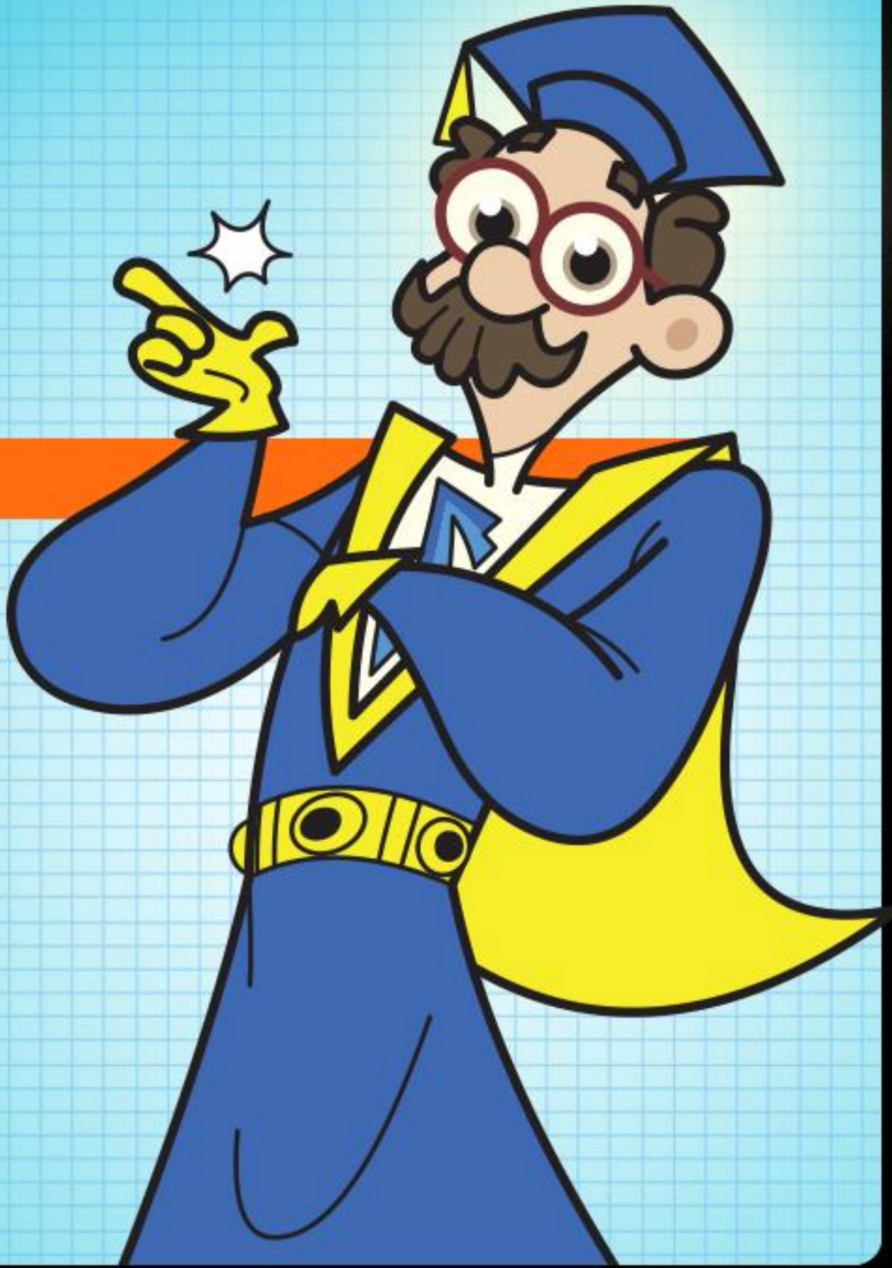
SAVINGS RATIO



SAVINGS RATIO

In the last lesson we had discussed about the liquidity ratio and I hope you understand the explanation.

We would now discuss about the “Savings” ratio.

So what is savings ratio?

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It's a very simple concept and stands for the amount of money that one saves at the end of every month expressed as a percentage of the monthly earnings

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Just as the measure of our blood pressure gives us an idea about our health, in the same manner "savings ratio" gives us an indication about our financial health

So how is saving’s ratio calculated?

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- It is a very simple calculation
- All you need to do is divide your savings per month by the income per month
- Let’s say your income per month is Rs 100,000 and your savings per month is Rs 10,000
- Then your saving’s ratio is (10,000/100,000)%=10%

How much should our savings ratio be?

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The percentage of saving's ratio depends upon one's age. For a young person of 30 years who has lifestyle and EMI expenses a savings ratio of 10% would be good enough. As one grows older and as salary level goes up, the savings ratio of 25% would be reasonable. However after 50 when one would've finished the EMI cycles a savings ratio of more than 30% would be healthy.

In contrast a savings ratio of less than 5% would suggest that one's financial health is fragile.

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Hope this lesson has succeeded in clarifying the significance of “savings” ratio

Thinking of Investment

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