

Business Standard

Holiday within your means

Kiran Telang / October 31, 2010, 0:24 IST

Start planning early and do our homework on good deals.

A vacation to wind down can turn stressful at the end, if you do not plan your finances appropriately. Raji and Vishnu Shah experienced this recently after their three-week European vacation. When they took stock of finances, they realised they had overstepped their budget. Apart from asking a friend to wire the money, the couple had also dug into savings kept aside for a new house. It would take a year to get their finances back on track.

The Shahs could have avoided this situation with a little planning.

Saving for vacation: Let's say a family of four plans a month's holiday in the US in about four years. They should start with a tentative list of places they'd like to visit and the cost associated. It would involve a bit of research on the internet.

Compare costs across tour operators can give you an idea of itinerary and costs. You can customise the places and calculate approximate costs. Add about 25 per cent as buffer for local travel, eating, shopping and so on. Let's say this works out to Rs 12 lakh. You need to take into account inflation for the next four years and draw a plan to start saving for this goal through planned investments.

Tour Guide

Current cost	Rs 12 lakh
Inflation	8 per cent
Cost after 4 years	Rs 16.32 lakh
Savings (monthly)	Rs 27,881*

Monthly savings' break-up

Equity	Rs 16,333
Debt	Rs 11,447

*Considering investments in equity-diversified funds would return 12 per cent each year and debt investments (recurring deposit) returns 7 per cent a year.

If you were taking a holiday in the near future, say in about less than a year, equity exposure could be risky.

Keep the money you require for booking flights, accommodation and so on in liquid funds. These will give better returns than a bank account would. Invest the rest in a fixed maturity plan or a bank fixed deposit that matures close to your travel date.

Passion for travel: If you prefer taking smaller breaks at regular intervals, it would help to earmark a holiday fund, which can be dipped into as and when required. Start with putting a lump sum investment and keep adding to it through a systematic investment plan. The monthly savings would depend on your travel requirements and capacity to save for this.

Using leave travel concession (LTC): This is a part of your salary that can be used to fund your holidays after understanding the finer details involved. The rules for claiming this salary component could vary.

Some companies provide LTC for domestic travel only, while some may include international travel. But there could be caveats. For instance,

reimbursement may be only for air or rail, not road travel.

At times, the employer may allow you to claim LTC once in two years. This can be utilised for an expensive travel plan. Depending on how your employers pay the LTC component, you can make the best possible use of the amount. If your employer requires you to take the LTC every year, after deducting tax, invest this amount separately for your future holidays as soon as it comes into your accounts.

If both husband and wife are entitled to LTC from their employers, each can claim their part of the travel cost or each can claim it in alternate years.

Savings while you plan the vacation:

- Avail discounts through advance bookings of hotels and flights;
- Cash backs and other credit card offers can further reduce your costs;
- Cheaper foreign exchange at rates as part of the package;
- Avoid exchanging currency at airport;
- Withdrawing money using an international debit card works out the cheapest;
- Avoid cash. Use a dollar-denominated travel cards;
- Check with friends and family abroad if they can help getting a discount for local bookings;
- Look for travel deals for sightseeing. Getting a Eurail pass while travelling to Europe would help in discounts for sightseeing;
- For domestic travel, hiring a vehicle for the entire trip would work out to be cheaper than booking cars between various destination points;
- Plan and re-plan if need be. It helps to make the holiday hassle-free.

The writer is a certified financial planner