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A STUDY ON PERSONAL FINANCIAL PLANNING WITH SPECIAL REFERENCE TO NEEDS AND CAPACITY APPROACH

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ABSTRACT

Personal Financial Planning is the need of the hour. The formal education in schools, colleges and universities cannot give full pledged financial education. This creates financial illiteracy among even educated persons in spite of their degrees like MBA, M. Com, M. Phil, Ph. D. Indians are struggling to face the high inflated economic conditions. So, it is our duty to take up financial education and financial planning. Financial education is the process of getting awareness about financial activities such as expenses, incomes, savings and investing surplus funds. Personal financial planning includes planning future individual financial activities independently. This helps individuals to enjoy financial freedom in future. The present paper is done based on secondary sources which is collected from text books, newspapers, journals and other internet sources. The concepts discussed in this paper are family roles in personal financial planning, Need and capacity based financial model to buy luxuries such as car and other branded items, Financial philosophies from Warren Buffet, Benjamin Franklin and Albert Einstein. The main findings are, only 10% Indian people do financial planning, Indian youth have huge opportunity to enjoy the advantage of power of compounding; Indians must be passionate to get more and more financial education which is helpful for their financial planning.

Key Words: Financial Model, Power of Compounding, Need and Capacity, Warren Buffet Etc.

INTRODUCTION

Personal financial planning is the process of planning future incomes and expenses based on the historical data. It helps to have financial freedom in future. It includes assessing present financial position, fixing fact full financial goals, and developing a detailed financial plan. The main components of personal financial planning includes budgeting, monitoring cash flows, savings and investment, retirement planning, tax saving, and insurance coverage for risk management. Financial planning is done for short term and long term. The main sources of regular incomes are

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salary, profession, business or investments. Some of normal expenses includes rent, vegetables, cloths, travelling, insurance, entertainment etc.

Ex: Mr. Naveen is 35 years old and earns Rs. 1,00,000 a month. He can save up to Rs. 25,000 per month after meeting all the expenses of his family, paying the loans for his house, car and other requirements. The following financial plan is suggested to Naveen.

- Keeping three months' salary as emergency fund to face future contingencies.
- Undertaking term insurance to cover life risk of accidental death.
- Family pack of health insurance to cover the health expenses of father, mother, children and grandparents if any.
- Naveen has to create a large fund for big tasks in future such as house construction, children education and marriage etc.
- He should increase the future incomes and decrease expenses to the possible extent by applying alternatives.
- He should develop the hobby of savings and investments.
- The investments can be diversified in the field of bank fixed deposits, post office recurring deposits, real estate, electronic gold, systematic investment plans, systematic equity plans etc.

METHODOLOGY

STATEMENT OF PROBLEM

In spite commerce degrees like MBA, M. Com, MFM, many among us are financially illiterate. This is not a developing trend. On the other hand some people though they never turned into any school or college, they are excellent in savings and investments. They control the expenses, save hard earned money and invest in traditional ways. They have financial freedom in future. The magic of these people is just financial planning. So, the present study is under taken to motivate literates and illiterates to make financial plans for better future.

OBJECTIVES OF THE STUDY

1. To study basics of personal financial planning.
2. To study the factors influencing the personal financial planning.
3. To give valid suggestions in the field of personal finance.

TYPE OF THE STUDY

The present study is descriptive one. So, the data has been collected from the library sources such as text books, newspapers, journals, hand bills, and internet sources.

FAMILY ROLES IN PERSONAL FINANCIAL PLANNING

1. **Father's Role** – Father is playing a pivotal role in family financial planning. In addition to earning, he has to concentrate on what are 'Dos' and Don'ts'. He must increase the earnings and decrease the expenses list. He should not waste money on luxuries like car, liquor, costly furniture etc.

2. **Mother's Role** – In Indian economy, Mother is playing a key role in family upliftment. We have numerous examples where irresponsible father who does not plan properly but his wife has taken the responsibility and rescued the family from the huge family trouble.
3. **Children's Role** – It is said that children are photo copy of the parents. They just follow their parents. They waste money on un-necessities if their parents waste their hard earned money. They save the money if their parents financially discipline. Age is the huge capital. Children can take advantage of power of compound interest. They can start their savings and investments from the teenage. Warren Buffet is one of the famous example for this case. He started his savings and investments from the age of eleven.
4. **Grand Parent's Role** – Family structure plays a believable role in financial development. Grandparents will mould the financial discipline of their grandchildren. They make their grandchildren life very grand. Two examples can be referred here. The whole family is in the process of earning and savings. They invest their savings with financial love. The heros in first innings will be zeros in second innings and vice versa. It means those who enjoyed on their luxuries in their adult age will be called as heros in their adult age (first innings) and the same people become grandparents, they become zeros in their old age (second innings) as they don't have financial freedom.

FINANCIAL MODEL

Explanation for the above Model with an Example

Costly materials like Car can be purchased as per the above model.

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1. First box (Green color) says that an individual can buy car when there is a need as well as capacity to bear car expenses. High profile and high income people like Managers and CEOs have need and capacity, so they buy the costly car such as BMW, Ferrari, Mercedes Benz. They have capacity since their annual salary package is in crores.
2. Second box (Pink color) says that an individual can buy car since there is a need. But he has no capacity to bear expenses, so he cannot buy the car since he is not in high profile job. But, a suggestion can be given to buy a basic cheap car. An old car is better to him to fulfill his need.
3. Third box (Blue color) says that an individual can buy car since there is a capacity. But he has no need to use car, so car buying can be analyzed twice or thrice and it can be postponed to buy. But, a suggestion can be given to buy a basic cheap car. An old car is better to him to fulfill his capacity.
4. Fourth box (Red color) says that an individual cannot buy the car when there is no need as well as no capacity to bear car expenses. Low profile and low income people like blue collar employees have no need and no capacity, so they not buy the car. They are suggested to use public transportation such KSRTC, BMTC, Metro trains, Ola cars.

Further Explanation: This model can be applied to buy branded cloths, home appliances, hotel eating, etc.

WARREN BUFFET'S QUOTES FOR FINANCIAL PLANNING

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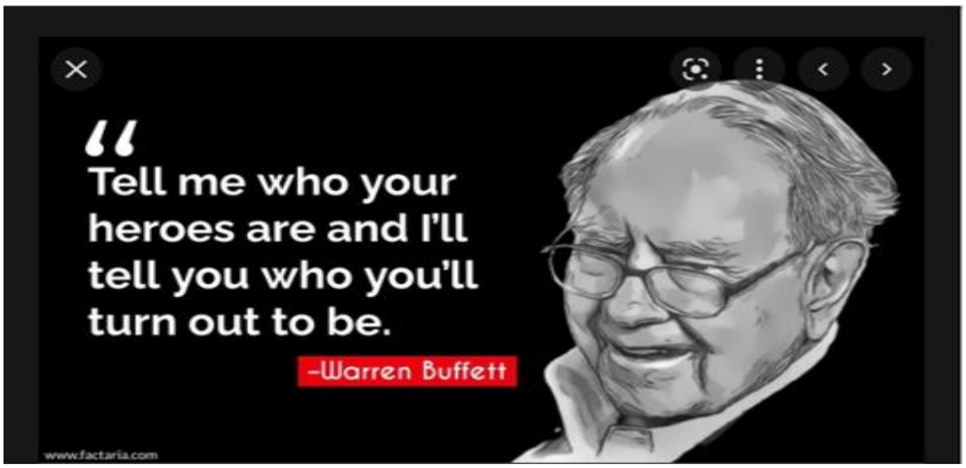

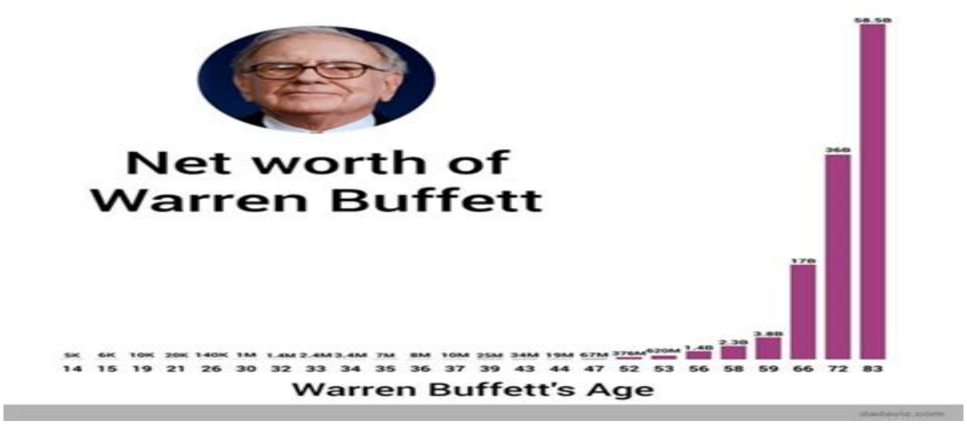

EXCERPTS FROM EXPERTS

1. If you buy things you don't need, soon you may have to sell the things you need - W. Buffet.
2. Money is not everything. Make money before making this non-sense sentence - W. Buffet.

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3. If you don't find a way to make money while you sleep, you will work until you die - Warren Buffet.
4. The price is what you pay, the value is what you receive - Warren Buffet.
5. Investment must be rational, if don't understand, don't invest - Warren Buffet.
6. Don't keep all your eggs in one bag, instead keep in different bags - Warren Buffet.
7. Rich invest in time, poor invest in money - Warren Buffet.
8. The rich invest their money first into assets instead of purchasing liabilities - Warren Buffet.
9. The eighth wonder in the world is the power of compounding, one who understands it will enjoy, one who does not, he pays for it – Albert Einstein.
10. A penny saved is equal to a penny earned – Benjamin Franklin.

DIFFERENCE BETWEEN FINANCIAL PLANNING & NON FINANCIAL PLANNING

Financial planning leads to classify all our expenses into three categories such as needs, wants and wastes. A wise person with a beautiful plan will invest his money needs and ignore his expenses on wastes. This habit will save him in future during any kind of difficulties. A person without proper financial plan will be forced to spend on un-necessities, he struggle in future for arranging money for children education, hospital bills and daily essentials.

STEPS IN PERSONAL FINANCIAL PLANNING

1. **Goals -** The first step is setting goals. These goals must be SMART. It means they must be Specific, Measurable, Achievable, Realistic and Time bound. Example, Mr. Sujay is starting his SIP now for 10 years keeping in his mind the purpose of house construction.
2. **Analysis** - The second step is analysis of fixed goal keeping the reality in the mind. The resources must be analyzed while analysis of financial plan. Our incomes and expenses must be compared in this process.
3. **Planning -** After setting goal and analysis of situations, a proper plan must be created based on certain factors such as risk taking capacity, age, short term and long term.
4. **Plan execution -** The fixed plan has to be executed as per the time constraint without delay. Incomes must be increased and debts must be decreased, savings must be increased and the surplus must be invested in short term and long term assets.
5. **Monitoring -** The plan which is executed must be tracked. The observation helps us to re-plan for further changes.
6. **Adjust -** Since change is the law of nature, for all kind of changes, adjustments must be done. Example, the invested money in SIPs can be re-checked to confirm whether it is performing better or not.
7. **Repeat -** There is no end for any plan. So, the executed plan must be reviewed and watched always for the best execution.

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FINDINGS AND SUGGESTIONS

1. It is found that there around only 10% of Indians are doing financial planning. So, it is suggested to people to invest their more time on financial education in addition to formal education.
2. Life is like a coin, how it has only two faces like head and tail, similarly life has only two things like savings and investments. Both are important.
3. What I do, “It is best”, What my son do, “it is better”, and what others do, “It is Worst”. So, it is suggested to people to have financial knowledge and thereby they can handle their investments on their own behalf.
4. Depending on others is not a good sign. So, financial knowledge helps people to invest in systematic investment plans, mutual funds etc.
5. Age is the huge capital, so, parents must educate their children in savings and investments. Todays’ children can enjoy the advantage of power of compounding
6. Short term goals are dangerous in future, so it is suggested to keep long term plans for future.
7. It is found that only 27% of Indians have financial literacy compared to 50% in America. So, it is suggested to Indians to have more focus on financial literacy activities.
8. It is further suggested to Indians to shift the time and other resources from social media to financial education.
9. Use of Alternatives is a best policy to save money from branded items, this saved money can be invested on education and investments for future.
10. Monthly budget is helpful for controlling monthly expenses such food, clothing, rent, travelling expenses.
11. We must change from emotional thinking to rational thinking to have financial freedom in future.
12. The entire family people must involve in multiple income sources. Then only we can beat inflation otherwise it is very difficult in live in India.
13. Debt can change your life – both for the better and for the worse. Don’t let debt destroy your life and determine your future.
14. Interest is your friend – if you are receiving it. Interest if your enemy – if you are paying it.
15. Save and invest as early as you can. Small savings today can create enormous opportunities in the future.

CONCLUSION

From the above discussion it can be concluded that financial education and planning are the best education. There is no age limit to have financial education. Everything cannot be taught in formal universities and colleges. A few subjects like financial management, investment banking, economics etc subjects must be learnt with lots of passion. This knowledge must be applied by individuals to have better financial education. It is individual responsibility. Parents plays a pivotal role in children financial habits like savings and investments. It is further suggested to people to

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work out always use alternatives. For example, instead of wasting our budget on gadgets, let us invest our budget on subjects. Personal Financial Planning is a mind game. Once started, you will be champion tomorrow or day after tomorrow.

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