

What is financial planning

[Finance](#)



Abstract Financial planning may mean different things to different people. For one person, it may mean planning investments to provide security during retirement. For another, it may mean planning savings and investments to provide money for a dependent's college education. Financial planning may even mean making career-related decisions or choosing the right insurance products. In reality Financial Planning is the process of meeting financial goals through the proper management of finances.

It is generally seen that people have a misconception that financial planning is about saving more and spending less but that is not the case, it is more about saving the right amount so that future goals can be met. The objective of financial planning is * To ensure that the right amount of money is available in right hands at right point of time in the future to achieve the desired goals and objectives. It * Provides direction and meaning to your financial decisions. * It allows you to understand how each financial decision you make affects other areas of your finances. Financial planning and investments can be undertaken by anyone with a clear assessment of one's inflow of funds and the goals that need to be achieved from time to time.

Keywords: Financial planning, wealth management, investment instruments, real estate Introduction Financial planning is achieving your financial goals in the most efficient manner. The broad areas of financial planning include - | | | 1. 2. | Investment planning -Your wealth will only grow over time if you have invested it in assets. Investment planning deals with the kind of investments an individual should invest in to get the best out of his wealth.

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In this the risk and return profiling of an individual is done based on his life stage, spending requirements with respect to his income and wealth, time horizon and liquidity requirements and various individual specific constraints. Investment Planning is important because it helps you to derive the maximum benefit from your investments. | Cash flow planning - In simple terms, cash flow refers to the inflow and outflow of money. It is a record of your income and expenses. Though this sounds simple, very few people actually take time out to find out what comes in and what goes out of their hands each month.

Cash flow planning refers to the process of identifying the major expenditures in future (both short-term and long-term) and making planned investments so that the required amount is accumulated within the required time frame. Cash flow planning is the first thing that should be done prior to starting an investment exercise, because only then will you be in a position to know how your finances look like, and what is it that you can invest without causing a strain on yourself. It will also enable you to understand if a particular investment matches with your flow requirement| | 3. Retirement planning - Retirement planning means making sure you will have enough money to live on after retiring from work. Retirement should be the best period of your life, when you can literally sit back and relax or enjoy your life by reaping benefits of what you earn in so many years of hard work. But it is easier said than done. To achieve a hassle-free retired life, you need to make prudent investment decisions during your working life, thus putting your hard-earned money to work for you in future. Planning for retirement is as important as planning your career and marriage.

Life takes its own course and from the poorest to the wealthiest, no one gets spared. We get older every day, without realizing. However, we assume that old age is never going to touch us. The future depends to a great extent on the choices you make today. Right decisions with the help of proper financial planning, taken at the right time will assure smile and success at the time of retirement. Retirement Planning acquires added importance because of the fact that though longevity has increased, the number of working years haven't. | | 4. Tax planning - Tax evasion is illegal but tax minimization is legal. Thus you can reduce your tax liability by planning effectively. With proper tax planning you can increase your after tax income. | | 5. | Children future planning- It is essential to plan for the future of your children. The purpose of Children's Future Planning is to create a corpus for foreseeable expenditures such as those on higher education and wedding and to provide for an adequate security cover during their growing years. Savings alone is no longer enough.

For ensuring adequate funding of your child's education, you as a parent need to invest appropriate amount systematically and at regular intervals to provide for a financial security to cover any casualties. | | 6. | Insurance planning -Insurance Planning is concerned with ensuring adequate coverage against insurable risks. Calculating the right level of risk cover require considerable expertise. Proper Insurance Planning can help you look at the possibility of getting a wider coverage for the same amount of premium or the same level of coverage for the same amount of premium or the same level of coverage for a reduced premium.

Insurance, simply put, is the cover for the risks that we run during our lives. Insurance enables you to live your lives to the fullest, without worrying about the financial impact of events that could hamper it. In other words, insurance protects you from the contingencies. So insurance planning is very important. | | 7. | Estate planning- Every individual acquires a considerable amount of estate during his lifetime which after his death or during his lifetime is transferred to either his heirs or to institutions or to charities.

Planning this transfer in the most efficient way is termed as Estate planning. | Who requires financial planning and how is it different from wealth management Almost everyone requires financial planning. As the old adage goes-If one is failing to plan, they are surely planning to fail. Good and thoughtful investment planning is the cornerstone of an individual's good financial health. Although similar fundamentally, Financial planning defers as compared with wealth management.

Wealth management though similar to financial planning is dissimilar in the sense that To do wealth management a considerable amount of wealth is required. Financial planning on the other hand is required by everybody as it deals with planning related to achieve financial goals in the most effective manner. It is wise to seek expert advice from professionals such as a financial planning expert because in the attempt to save on the fees, you could end up with poor financial information and decisions that can prove disastrous for family funds.

In the case of the working individual, insufficient or random saving for retirement can lead to a reduced lifestyle later, while in the case of the businessman, poorly managed tax preparation could culminate in

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unexpected tax debt and a loss of carefully accumulated wealth. Most popular Investment Avenues in India 1. Public Provident Fund 2. Life Insurance Policy 3. Housing Property 4. National Saving Certificate 5. Gold & Precious stones 6. Equity 7. Fixed Deposit 8. Mutual Fund 9. Systematic Investment Plan 10. Exchange Traded funds Source : Economic Times. Objective: 1.

Spread awareness about personal financial planning among individuals. 2. To know the degree of financial planning awareness and its implementation by individual. 3. To know the most popular investment instrument among individuals Conceptual framework Financial Planning is all about preparing a sequence of action steps to achieve a specific financial goal. A financial plan is a roadmap to achieve your life's financial goals. It is like a map, where you can always see how much you have progressed towards your projected financial goal and how far you are from your destination.

Financial planning is a process consisting of the following activities- | * Assessing present assets and resources to understand the current situation | | * Setting objectives- Both in terms of returns and risks | | * Determining constraints and financial planning areas like Taxes, Legalities, time horizon, liquidity, unique circumstances | | * Determining appropriate plan and strategy to achieve financial goals. | | * Evaluating the plan in a timely manner. | | * Adjusting and modifying the plan if change in conditions. |

Review of Literature

Elaine King, discussed that you should identify your senior parent's core values and priorities (i. e. financial lifestyle and potential health care costs) and proactively plan to integrate them seamlessly into your

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multigenerational family's financial objectives. He also discussed know who your aging parent's physicians, financial planners, and legal and tax professionals are, and become well-versed in the advice and information your parents are receiving. Who should make financial, legal, and medical decisions for your elderly parents, if they are no longer capable of handling their own affairs?

Tim Sobolewski, CFP® said that Choosing a financial planner is as important as choosing a doctor or lawyer; it's a very personal relationship. In addition to competency, a financial planner should have integrity, trust and a commitment to ethical behavior and high professional standards. You want a planner who puts your needs and interests first. Jessie Foster, Lincoln Financial Advisors, Where does the Money Go? Said that many people would rather do anything else than attempt to understand or set a budget for themselves and their families. The standard advice from most financial planners when it comes to budgeting is to “ spend less and save more”. But for most families this is easier said than done, no matter what their income level. And exactly what do we mean by “ spend less”, less on what? Most people do not even know where their money goes never mind where to cut back Doug Lennick provides a simple and clear four-step method, known as the 4Rs, for making wise financial and life decisions based on your core values. When you find yourself in a highly charged event, such as the Dow Jones plummeting, rash decisions often follow-like selling out your entire stock portfolio at record lows!

Madhu Sinha has explained Financial Planning is meant for lay investors, financial planners and students pursuing courses on financial planning. It

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simplifies financial mathematics to enable an investor map financial goals that she would like to achieve. The book includes solved problems on retirement planning and over 350 questions and answers on time value of money. Besides these, it dwells on mutual funds and other investment products that are currently available. The book also discusses the process of constructing and revising a financial plan on the basis of an investor's financial goals.

STEPHEN'S states some things that financial planning consist of is investments, insurance, credit cards, scholarships, tuition, and housing. Investments are basically a method of putting money away in the expectation that it will grow into a larger amount. Insurance is a form risk management used to negate the risk of loss in which the provider covers the monetary loss of an object in the case of an event in exchange for a premium paid by the customer. Research Methodology

The main investigation of the study is to identify the degree of awareness about financial planning and how many people are actually doing financial planning for achieving their financial goals. The study covers both primary and secondary data . Primary data is collected by distributing questionnaire to the individuals ; secondary data collected from various journals, articles, websites This is an empirical study based on survey method. The techniques of questionnaires, discussion, interviews and observations were followed to obtain the required information.

All the selected individuals were given the questionnaire to get the information their financial standings. A questionnaire containing a set of 18 questions have been distributed among the individuals who are working with the IT firms in Pune. The study is conducted within the Pune specifically in

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and around Hinjewadi area. The respondents were particularly in the age group of 30-40 years and are higher middle class people. Hypothesis 1. Individual is aware about personal financial planning and is implementing the same. 2.

Life Insurance plans are most popular among the investors. 3. Fixed Deposits are most popular among the investors. 4. Wills are current of Individuals 5. Individuals take professional help for their financial planning. Findings: 1) All the 50 respondents were in the age group of 30-40 years which falls in accumulation stage and needs strong financial planning. Among them 70% of them wanted to retire in 15 years and 27% wanted to retire in 20 years and only 3% wanted to retire after 20 years. 2) Majority of the respondents i. e. 0% of them didn't know how much they would require at the time of retirement and only 10% of them had an exact calculation of how much they would require. 3) 5% of the respondents are taking professional help for their financial planning. 4) Almost everyone was aware about all the avenues available in the market. But only 60% of the people are investing only in Real estate, gold, Life insurance and Fixed deposits. 5) Most popular investment options among the investors are as follows most popular follow by least popular from top to bottom: a. Real estate . Public Provident Fund c. Life insurance d. Fixed Deposit e. National Saving Certificate f. Gold g. Mutual fund h. Equity i. Systematic investment plan j. Exchange traded funds 6) 95% of the respondents have not done a will and 100% of them have a home loan with home loan insurance as it is mandatory by the housing loan providing banks. 7) 60% of the people have an additional insurance cover over and above the cover provided by its employers. All these 60% i. e. 30

respondents have a term plan. 8) None of the individual interviewed had made their Will.

Conclusion Awareness of available financial products is high in the target population. However, a number of factors — including a series of high-profile scams, detrimental practices of advisors with a short-term view and the lack of a strong investor protection environment— have contributed to investor insecurity. This is the primary reason why the targeted respondents are taking a myopic view towards investments, largely discarding the option of long-term investments and personal retirement planning unless offered as an additional tax savings instrument.

The most popular investment avenue is real estate among the respondents especially a residential house, as it gives a huge capital appreciation and also a considerable rental income, in addition there is limited risk associated to it. Barring few bad years, property prices in India have been moving upwards. Moreover, loan taken on a residential property has a tax deduction. And the second most popular investment avenue is PPF as it is mandatory to have PPF account and employer's contribution too. Scope of the Study for Further Study 1. Subject matter is related to the investor's approach towards various investment objectives. . People of age between 30-40 (accumulation stage) 3. Whole Pune Area 4. Demographics include names, age, qualification, occupation, marital status and annual income. Limitations of the Study No study is free from limitations. The limitations of this study can be: * Sample size taken is small and may not be sufficient to predict the results with 100% accuracy. * The result is based on primary and

secondary data that has its own limitations. * The study only covers the area of Pune that may not be applicable to other areas. Suggestions 1.

It is suggested to individual to inculcate the habit of financial planning as soon as one starts earning 2. Every individual interviewed was suggested to look into various investment avenues apart from conservation investment options like PPF, FD, and Residential property. 3. Individuals are suggested to take professional help to set and evaluate the financial goals, this will help them to set goals practically and know the proper way to achieve them 4. Individuals were also guided not to fall prey to financial consultants. They should do their through study before making any investment decision. 5.

Individual were suggested to make their will and fill the form for nomination for each investment. Bibliography 1. Sreekant V, CFPCM, Managing Partner, Sabarigiri Institute The Third Inevitable: Impact of Inflation on Financial Planning, 2008 2. Akhilesh Tilotia, CFPCM, Director, Director, PARK Financial Advisors Pvt. Ltd. Why should you think long term? 2008 3. Elaine King, CFP®, CDFATM and Philip Herzberg, CFP®, AEP®, MSF Financial Parenting for Young Adults 4. Elaine King, CFP®, CDFA™, and Philip Herzberg, CFP®, MSF Financial Planning for Your Family's Well-being 2010 5. Tim Sobolewski, CFP®, How to Choose a Financial Adviser 2011 . Financial Planners Association, Build a Solid Financial Plan! August 2009 7. Jessie Foster, Lincoln Financial Advisors, Where does the Money Go? August 20, 2012 8. Lisa Holton, The Encyclopeidia of Finanicail Plannning FPA Press p24 9. Financial Intelligence: How to Make Smart, Values-Based Decisions with Your Money and Your Life Doug Lennick FPA, p82 10. Madhu Sinha Financial Planning McGrawHill Education 11. Stacie Zoe Berg, The Unofficial Guide to Managing

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Questionnaire 1) Please check the range below which includes your age: under 30 30-39 40-49 2) Which of the following best describes your current employment situation? Please choose one: Full-time Homemaker Part-time Temporary Unemployed Retired Working Student 3) Please indicate which of the following includes your annual personal income, before taxes: Under INR 5, 00, 000 INR 5 – 12 LAKHS INR 12 – 18 LAKHS Over INR 18 LAKHS 4) In how

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many years do you plan to retire? I am retired 15 years 20 years More than 20 years 5) Have you planned for retirement YES NO) Do you know how much you need after retirement per annum? 6 Lakhs 12 Lakhs 18 Lakhs 24 Lakhs 7) Are you saving for retirement? Yes No 8) Which investment instruments are you aware of? Life Insurance Policy Equity MF Real Estate ETF FD Gold; Precious stones NSC SIP MF Real estate 9) In which of the following instruments you invest for retirement? FD Pension Plans LIC Health Insurance Real Estate Precious Metals and Stones Any other (please Specify) 10) Can you give a % wise break up of investments from above investment instruments? Life Insurance policy NSC Equitydebt Instruments

MF SIP Real estate Real Estate ETF Gold and silver 11) Do you take a professional help for your financial planning? Yes No 12) Have you started investing in children's education plan? Yes No 13) Have you done the will? No Yes Thinking 14) Do you have a home loan? Yes No 15) Is your home loan insurance covered? Yes No Partly 16) Does your company give you insurance cover? Yes No 17) Do you hold additional personal Life insurance cover apart from what company provides you? YES NO 18) Which insurance do u hold? Term plan Life Insurance policy ULIP Name : (optional) Organization Name: (optional)