Managing personal finance assignment

Business

Due to the current economy and credit card-oriented lifestyle, It Is vital to understand the importance regarding management of personal finances. Having a budget, ensuring debt is being paid off, readying an emergency fund, preparing for the college education of children, and saving for retirement are all essential portions in managing personal finances.

Because of the mass amount of people In debt there re a decreasing number of Individuals who are prepared for retirement. Managing finances Is simply being a good steward of personal Income. Having a budget Is an extremely important foundation to managing personal finances. Through a budget, an individual can track past purchases and costs incurred, manage how much he can spend today, and take control of his future inflows and outflows. A good budget allows spending to be kept to a minimum and helps maintain control of inflows and outflows which frequently opens up excess cash to be used elsewhere (Violence, n. .). Budgeting is not as difficult as some make It out to be. It Is also advantageous because, although spending cuts may have to be made, there will be more savings and less debt to worry about. Violence discusses the fear people have in attempting the birth of a budget: The biggest fear that most people have when creating a budget is that they will need to suddenly cut back on all of the fun spending things like the occasional coffee or dinner out, movie night, or even the trip to grandma's for the holidays.

While you may find that you do need to cut some spending after putting together a budget, without actually sitting down and creating en, It Is Impossible to know what expenses need to be cut, If any. (Volunteer, n. D.) Although budgeting finances can be a painful and tedious process, it is a process that should be done in order to ensure cash inflows are greater than cash outflows. The first step in creating a budget is computing total income. This includes the salary of a spouse as well as income from shares and dividends or interest on investments.

Once the Income is calculated, It Is necessary to subtract the total expenses. The first money that should be deducted from a salary every week Is the money that belongs to God. Honor the Lord with your wealth and with the first fruits of all your produce. ” (Proverbs 3: 9, ESP.). The Lord gives the strength that is necessary to work; therefore, it is only fitting that He should get a small percentage of the paid wages in order to further his work. After the tithe is paid, it is best to move on to the major expenses, such as mortgages and car payments, and take away the minor expenses last.

Expenses must Include bills, food, gasoline, and any other expenses that are bills can change on a monthly basis, taking an average of these over a few months will help monitor the expenses more closely. Once the expenses are subtracted, the computed number will be either positive or negative. A negative number suggests trouble and requires an individual to start cutting back. Negative numbers require a person to take action and control of his finances.

Once the number is seen, it will be evident as to how much will need to be cut back. If the number is much larger than expected, take action immediately as opposed to worrying and becoming discouraged. By making a few small adjustments, one can easily turn a negative number positive. If minor changes are not enough to gain control of debt, it may be accessory to make a lifestyle change. Too many people live above their means; an individual who lives an extravagant lifestyle with a frugal paycheck will regret his or her unwise choices.

A positive number does not mean that budgeting is being done perfectly, but it does represent income is greater than expenses. There is almost always room for improvement in any budget. When an individual determines his inflows and outflows, he can decide how much he must spend each month and how much he should save. Because the majority of people have debt, it is necessary to discuss how much money should be put towards paying off that debt. Paying off debt is a difficult and tiresome process.

Most times, this is because of people who are in debt as a result of not having money; they now find it nearly impossible to pay off debt because they still have the same income and increasing debt. Minimum payments are all many people can afford to pay. It often seems as if there is never enough money to pay bills let alone pay off debt, but saving dollars here and there can surprise an individual as to how much is accumulated when Just a little money is cut in every area possible (Violence, n. D.). Taking little steps, one at time, towards debt can have a massive impact over a long period of time.

It is not necessary to have thousands of dollars in order to reduce debt; by cutting out a few insignificant expenses every month, it is possible to save thousands of dollars in a few short years due to the severe amount of interest credit card companies and loaning companies charge (Violence, n. D.). Debt should be paid off as soon as possible in order to avoid high interest payments. Some people have so much debt that all they can pay is the interest, which makes it difficult for them to have a savings or retirement fund.

It is important to be responsible with money; God will bless if He is shown faithfulness with which he has given. “ If then you have not been faithful in the unrighteous wealth, who will entrust to you the true riches? ” (Luke 16: 11). Saving money is an extremely important part of managing personal finances. Saving money gives an individual the ability to be financially stable in case of an emergency, to prepare for the future of his children, and to plan for his own future retirement. Having an emergency fund can be the difference between maintaining or losing a home and an entire lifestyle.

The unexpected should be expected to happen at some mint; experts agree that an emergency fund should carry enough money to be able to cover living expenses for three to six months. (Violence, n. D.). Violence specifies the reasoning as to why three to six months is ideal: The reason you want to have three to six months of expenses saved up is that the most common reason for the need of an emergency fund is due to a sudden loss of income. If you or your suitable new employment. It is best to plan for a worst-cast scenario so that the smaller emergencies such as replacing the hot water heater that Just went out will be easily covered. Violence, n. D. The unemployment rate is exceptionally high; because Jobs are increasingly uncertain, it is undoubtedly necessary to have an emergency fund. Losing a Job results in a massive reduction in income, and there are still monthly bills, mortgages, and other expenses that must be paid. Without an emergency fund, most of these bills would not get paid forcing an individual to go into debt until he found another Job. The key to starting an emergency fund is simply taking the initiative to start it; everyone has to start somewhere.

It will be a tedious process to save enough money for six months of living expenses, but the time will rive when some of that money is needed. By making small payments frequently, the emergency fund total will add up. Opening up a new savings account at a bank is a great way to start saving for the emergency fund (Violence, n. D.). It is necessary to regularly make deposits into this savings account; choose to deposit per week or month and keep committed to do so (Violence, n. D.). After enough money is saved up, the money that was being deposited every week or month will seem as extra cash.

If children are a plan for the future, investing in the future of their lives is an excellent way to use the excess money. Preparing for children is an exciting yet difficult process. An even more challenging process is preparing for their college education. Because children live with their parents for approximately eighteen years, their expenses are added up over an eighteen year period. However, college only lasts four years, and depending on which college they attend, it can be incredibly expensive. In order to prepare for a newborn baby, a budget process can be used.

Simply approximate the child’s expenses and subtract the expenses, along with all the other expenses, from the total income of the household. If a positive number is computed, the baby is affordable; a negative number implies some cutbacks are necessary. Saving for a child’s college education is a rewarding process. To ensure a child gets a proper education, some parents offer to pay for their child's entire education, while others propose to pay for a portion. Either way, the following example is extremely valuable in showing parents that they should start saving as early as possible.

The following is an extremely useful example given by Violence: Begin investing $5, 000 each year when your child is 10 in an account that earns 11% annually. This would result in a total savings of over $65, 000 by the time they are 18. Total money invested: $40, 000. Begin investing $2, 000 each year when your child is 8 in an account that earns 11% annually. This would result in a total savings of over $37, 000 by the time they are 18. Total money invested: $20, 000. Begin investing $3, 000 each year when your child is born in an account that earns 11% annually.

This would result in a total savings of over $148, 000 by the time they are 18. Total money invested: $51, 000. As you can see, if you begin investing as soon as possible you old save less money annually and only $11, 000 more in total than if you waited 10 years and end up with $83, 000 more! (Violence, n. D.) Parents are wise to start saving even if they do not have any children yet. If they plan to have or adopt children at any time in the future, parents would be able to save more money the earlier they start.

This would ensure a child receives the education that he or she ensure the necessary funds are available at the appropriate time. Retirement age varies by career. Men who work construction may not be able to work as long as an accountant due to the necessities of the Job. Regardless of what age retirement is desired, saving for retirement must be done consistently and carefully. Violence writes: If retirement seems like it is a lifetime away, planning for how you'll spend that time can be difficult. But one thing is certain-?? you'll need to have money in retirement.

If you don't plan on working in retirement, where will this money come from? Most people have three sources of income that work together to fund retirement: Social Security, pensions, and personal savings. (Violence, n. D.) Social Security is completely unstable and it is unknown if it will even exist in thirty years, ND pension plans are rare and the benefit still only satisfies approximately twenty- five percent of pre-retirement income (Violence, n. D.). That leaves the responsibility to save to the retiree. 401 (k) plans are a wonderful way to save money for retirement.

A 401(k) plan is usually an employer sponsored plan in which the user contributes a specific amount of money each week. The employer will match that contribution and the total amount will be added to the 401 (k). The money is invested and gains interest. The holder of the 401 (k) chooses where he wishes to invest his money. It is irrational to put the investment all into one company as a single company, no matter how successful, still has potential to collapse. The old proverb says it all-?? do not put all your eggs in one basket; by following this guideline, it is easy to avoid a devastating loss of investments (Violence, n. .). Separating investments does not allow the collapse of a single company to devastate an entire retirement fund; increasing the number of companies and asset investments made will increase return and decrease risk (Violence, n. D.).