Case study on financial planning

[Economics](), [Money]()

Financial planning is the process and various steps that lead to the proper management of available income and better management of expenditure. Managing personal and family finances demands thorough estimation of the incoming revenue and outgoing expenses on a daily basis. Efficient management of family or personal finances demands budgeting of total monthly expenditure and income. This enables one to determine his/ her spending and saving. Many couples live long without taking a view of their finances. This is the beginning of future money problems that strain the marriage and possibly turn catastrophic if one spouse dies or is incapacitated.

According to the article " Family budget and family investment", budgeting begins with breaking down the monthly expenditure and income and then sticking to it. However, the revenue should be more than the expenses. Some amount aside for unexpected items in a " safety net". With a limited budget, everyone in the family needs to be comfortable. A set of principles like prioritization of expenses, personal privacy and the family money pool are employed for better family financial management.
Based on the case, the family lacks good financial management. A set of principles like prioritization of expenses, personal privacy and the family money pool are missing. Sidelining of the family's major source of income other than finance from employment, i. e. website development business, is poor planning of the revenue. The family should work together in generating income.

Payment of insurance bills which do not cover hospital expenses is of no essence. This expenditure can be avoided by factoring in medical bills expenditure in the expenditure budget. To avoid such cash flows, some amount of money should be budgeted for medical emergency bills. The family should have opted for a HMO or PPO through Dabs employer to cater for the medical bills as the deductions made are cheaper than the premium for traditional coverage. In addition, drawing of money from savings puts the family in a dangerous position as there isn’t equivalent incoming money. The secondary costs incurred which drained family its finances ought to have been factored in the family contingencies.

Acquiring loans from home equity, car loans and mortgages besides debts makes the total expenditure higher than the revenue. The family should adopt a mechanism of calculating the total savings and expenditures. They can hire finance planner to help the family understand the benefits of postponing retirement to 65 years. The family business needs to be operational alongside the employment to boost the family revenue.

Short term, medium term and long term financial management is of great essence. Expenses should be grouped as those demanding urgency or for future responses. For instance, life insurance policy expenses and the retirement benefits deductions in this case should be put in a long term finance planning. The family should budget for these expenses while focusing the future. Medium expenses, like sourcing for family assets on loan, mortgage or home equity college fees should only be opted for after determining the rate of return these expenses. Where the rate of interest charged is higher, the expense needs to be avoided as this will automatically lead to cash flow in the family. Short term family obligations like urgent medical settlements and school fees of children are such expenses that need short term finance planning. In general, funds set aside for college should be money available after meeting routine household expenses and other savings, including retirement. Therefore, the family need to list down all the expenses and revenue sources to evaluate which is long term, short term or of medium.

The type and amount of insurance needed is a good starting point for making a detailed financial plan. Since the family depends on the two incomes, from employment and the family business, there is need to use insurance to cover medical costs and to replace at least a portion of the lost income since the spouse can no longer work. The family should think about getting the kids through college. Loans, scholarships and part-time work probably won't cover all expenses but it can be made successful through college savings plan.

Four steps involved in financial planning, according to Prude in the article " Financial Planning", include: Analyzing and identifying the objectives and documenting them, for example, children's education, buying a new car, constructing a house, going on vacation, clearing your credit card debts, planning your retirement, and health insurance. This is followed by breaking down each objective into smaller slots such as short term (less than 1 year), medium term (1 to3 years), and long term (5 years and more) and use various information sources to formulate an action plan. Evaluate the progress at convenient intervals; for instance, 3 or 6 months and review the process and take corrective action where necessary.

I therefore recommend that the most vital action that needs to be taken is to start the savings plan as early as possible to obtain the full advantage of compounding. This is not difficult in the early years of one's life while still single and free of family problems. The determining factor in the growth of savings is the length of time available. As a matter of fact, the time value of an investment is more crucial than your age or the size of your contribution to the savings account.

Works Cited

Family budget and family investment. Retrieved from http://www. familyfinancesource. com/family-budget

Plude, M. Financial Planning. Retrieved at http://www. articledashboard. com/