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PERSONAL FINANCIAL PLANNING TOOLS FOR MANAGING INDIVIDUAL AND FAMILY FINANCES

Dr. Rengarajan Veerasamy
Assistant Professor, Faculty of Business Studies,
Arab Open University, Oman

ABSTRACT

Personal financial planning is the need of the hour for individuals and families to manage their financial needs and to plan out about using surplus funds. Individuals and families have their own needs and wants, for which they are working hard. Hard earned money must be spent wisely so that desired savings can be maintained, and lifestyle practices can be sustained. It is a fact that individuals must be earning a good amount of money to keep up their existing lifestyle practices and have an investment out of savings. Investments and savings are made keeping in mind about the objectives that individuals want to achieve in future like funding the education of their own kids, buying an asset, or investing for getting a big amount of money post-retirement period.

Individuals and families struggle to keep their expenses intact, as there is inflation. Similarly, individuals must also think about having a second source of income, so that inflation gets compensated. Individuals must have a plan to ensure that things are proceeding in accordance with the financial goals and policies of an individual. Financial goals are set by individuals after carefully evaluating the investment market scenario and the earning potentiality, thus goals remain active and lively. Individuals must flameout investment strategies that take care of financial goals of an individual. Savings the only source of revenue available for all salaried individuals to carry on with their investment goals. A plan must be prepared by an individual to reflect upon the revenue and expenses, and ascertain the surplus/deficit, accordingly the further decision can be made.

Key words: Target Savings, Personal Financial Planning, Tools for Personal Financial Planning.

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1. INTRODUCTION

Savings and investments are surplus in an individual's and corporate's have in their hands, which is regarded as excess of money earned over the expenses incurred. Individuals and families are aiming for maximizing returns on investment/savings as returns are going to be their future lifeguards, as they will assure lifestyle sustainability. At the same time, if income earned is not spent well and savings are not made of them, then, borrowing is the only tool available for individuals to manage their future financing needs, which will in turn make them indebted and liable for stream of repayments. So, individuals and families will have to perceive savings as one of their core financial family goals and must work hard to achieve them, so that their future is somewhat saved. Savings must be kept as one of their major expenses like medical expenses, monthly provisional expenses, leisure, and holiday expenses etc, so there will not be any excuse given for not being able to save money.

To save money, individuals and families will need to adopt a financial planning policy and apply certain tools and techniques in personal financial practices so that earnings are well utilized, and the future is also well safeguarded. Individuals save money and make investments, but they may do so without having sound knowledge of investment objectives and personal financial goals. So, individuals must have good knowledge on various investment options that are available before him, thus, he can compare and decide. For investment decisions, there are tools available like Price Earnings Ratio (P/E ratio), Earnings Price Per Share, Market value of a share etc. Similarly, individuals must apply certain tools and techniques in personal financial management tools. Using such tools, an individual must be able to plan about utilization of available funds, so that personal savings are not sacrificed.

2. PERSONAL FINANCIAL PLANNING – CONCEPT AND DEFINITION

It is a planning process wherein individuals and families make an estimate of the revenues to be earned and expenses to be spent efficiently, so that the savings and investment arising out of earnings made is not compromised. Personal financial planning is also a tool for estimating a realistic investment objective and determining the investment strategies to achieve those objectives. Thus, it is a plan which will guide individuals and families to proceed with implementing so the objectives in terms of savings and investments are achieved.

3. IMPORTANCE OF FINANCIAL PLANNING

Financial Planning is very important for an individual and households since planning helps in many ways to achieve investment goals. Enetlearning (2023)[1] presents that personal financial planning is the process of managing money to achieve certain level of satisfaction in economic and financial terms. It is so important for an individual on the following grounds:

(i) It helps individuals and families to make an estimate about their spending and revenues to be earned. Accordingly, individuals can spend. So, it acts as a guide in ensuring control over the expenses to be spent or incurred.

(ii) It facilitates individuals to achieve a certain level of savings in their earnings. Thus, the habit of savings is well promoted.

(iii) Financial planning also makes an individual think in advance about the future expenses both capital and recurring, so he/she can plan about the amount of money to be saved or expended in a particular period

(iv) Financial Planning helps individuals achieve their financial and investment goals in a more effective manner. Thus, individuals are motivated to make investment in all markets, say primary and secondary.

(v) Personal financial planning will help individuals to plan out their revenues, savings and expenses efficiently, thus, it reduces the level of borrowing

4. OBJECTIVES OF THIS RESEARCH

Following are the objectives of this conceptual and theoretical paper:

(i) Addressing the importance of personal financial planning for individuals and families, so their savings and investment goals can be envisaged.

(ii) Introducing a few personal financial planning tools that can be used by an individual to plan about their savings and investments

(iii) Suggesting a model in personal financial planning, which can be practiced by individuals.

5. PERSONAL FINANCIAL PLANNING TOOLS

Following are a few personal financial planning tools that can be used by individuals in planning their revenues, expenses, and savings:

(a) Personal Financial Plan

Individuals need to prepare a plan monthly. This plan must list revenues and expenditures and the surplus/savings must be shown. This can be prepared for a month or even for one quarter or for 6 months or for a year. Individuals must make the best estimate of revenues and expenditures, so near to actuals can be achieved. The following can be an example of a personal financial plan:

Personal Financial Plan for the month/Quarter/Year --------------------------------

	Monthly		Expenses		Surplus
Items/Period	Normal Monthly Recurring Revenue	Additional Revenue (expected)	Expenses	Provision for unexpected monthly expense	
Salary Income (a)	(a)				
Investment Income (b)		(b)			
Other Income (c)		(c)			
Total Incomes (A) (a + b + c)	****				
Expenses (B)					
Utility Expenses (d)			(d)		
Monthly Provisions (e)			(e)		
Medical Expenses (f)			(f)		
House Rent (g)			(g)		
EMI (If any) (h)			(h)		
Other expenses (i)			(i)		
Provisions for unexpected monthly expenses (j)				(j)	
Total expenses (B) (d+e+f+g+h+i+j)				***	
Surplus/Deficit (A) – (B)					**

The above plan must be prepared by an individual for a month or for a quarter or for a year. Thus, the statement provides an estimate of income and expenses and the surplus to be earned. By preparing this financial plan, one can easily see what they are spending more and on what they are spending less. By seeing the trend over the months, individuals can find out the standard rate which is expected to be spent on various expense items, like Medical, travelling etc. Individuals can also try to sustain that rate achieved over the year, for subsequent years. Mehta (2018)[2] presents that this financial plan is a forward-looking document where individuals can assume certain things and accordingly savings and investment rates can be achieved which in turn takes care of family expenses event though there is an inflation.

(b) Target Savings Rate

Individuals must determine the savings rate on total revenues. This must be decided in advance and this rate must be maintained by an individual at any cost, so that the habit of savings can be established.

Target savings can be calculated like

Expenses = Total Revenues – Total Target Savings

Where, Total Target Savings in ($) can be calculated like

Total Revenue x Target Savings Rate

Individuals must decide about the savings rate first. Accordingly, individuals can estimate the amount of money that could be spent in a period. By estimating the savings rate in advance, individuals recognize savings as one of their expenses. Savings is not the difference between revenue and expenses, rather it is:

Total Savings = Total Revenue * Target Savings Rate.

This tool will help individuals to have a control over the expenses and achieve the targeted savings Rate.

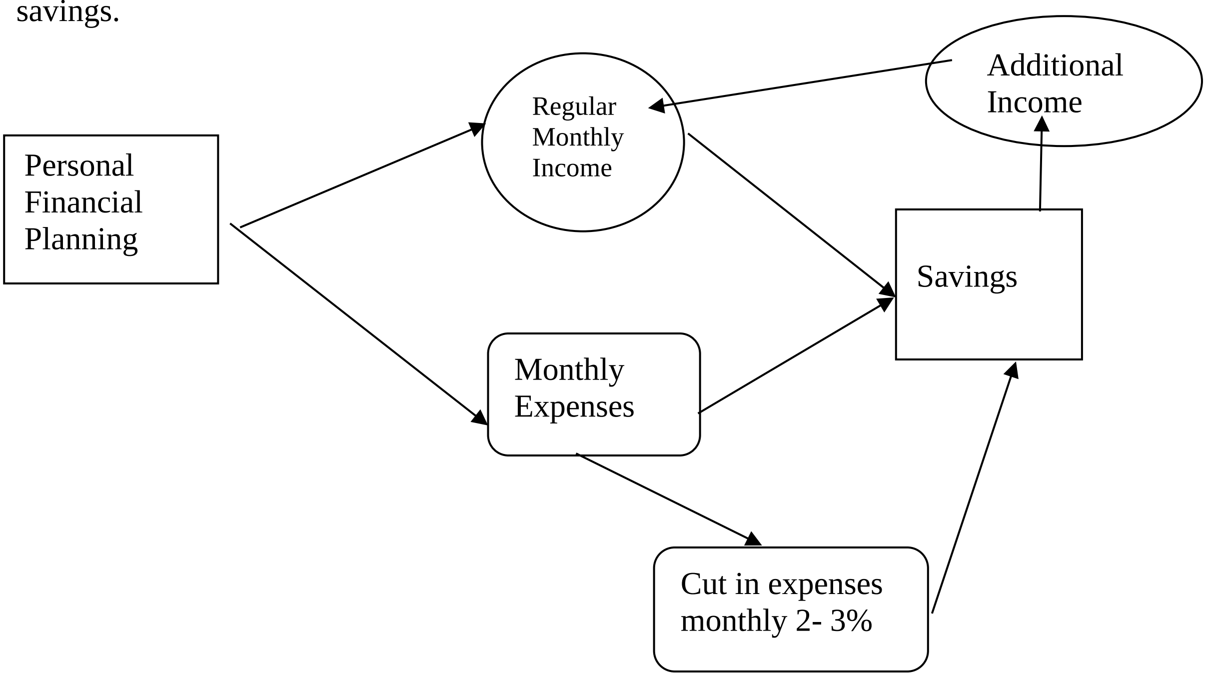
(c) Standard expenses cut by 2 – 3% periodically

Individuals must aim at minimizing expenses by 2- 3%. This percentage can be calculated on the expenses planned for a previous period. For example, if the previous period (July) is $ 20,000, then in the subsequent period, individuals must aim at spending 19,400 (which is 20,000 – 600). This 600 is calculate as

Previous month expenses x Target Cost cutting rate (say 3%). (Like 20,000 x 0.03 = 600). This will help individuals to focus more on cutting certain expenses which are taken care of without knowing more about them. This knowledge less expense is crucial in personal financial planning as this may wipe off the savings. Thus, to have control over all the expenditures, individuals must aim for spending less in a particular month compared to previous months. Kenton (2023)[3] argues that not understanding how to manage finances or be financially disciplined has led many individuals across the world to get trapped in debts. Thus, knowledge on personal financial planning and policies will hele individuals minimizing expenses and saving could be enhanced for improving the revenue base.

6. PERSONAL FINANCIAL PLANNING - A MODEL

The following is the model suggested for an individual in estimating revenue, expenses and savings.



(**Source:** developed by the researcher)

This model suggests that personal financial planning is the plan on revenue and expenses that an individual would earn/spend. It suggests that individuals must focus on two important things such as (1) Enhancing revenues through investments made from the surplus made over the periods and (2) Controlling expenses, which could be controlled periodically, up to 3% of previous period's expenses. By focusing on these two major components, individuals can enhance savings, through which additional revenue could be obtained.

7. INTERPRETATION, DISCUSSION AND CONCLUSION

Individuals must work on two important things to maintain their current living style, that are revenue and expenses management. Investment objectives will have to be formulated first before proceeding with any kind of investment. Investments are made with certain objectives to be achieved. Savings must be perceived as one of the expenses to be made. A fixed percentage of savings rate can be regarded as a standard savings rate and that rate can be regarded as the target rate that must be achieved on total revenue earned every month. Individuals must prepare a personal financial plan where all revenues and expenses can be indicated. Th surplus or deficit arising in a particular period must be well taken care. If a surplus arises, that must be used by an individual for getting some additional revenue for the subsequent period and if deficit arises, then individuals must plan about the ways and means of financing that deficit. Individuals must work hard to enhance their income level, so that the savings portion can be enhanced. Similarly, individuals must work hard to minimize a smaller percentage of current period's expenses,

Personal financial planning is a major tool for an individual and families to establish control over the expenses and for enhancing the revenue base, so investments can be made in the market. Those investments will produce annual returns, which is again increasing the revenue base of an individual, thus the surplus money also keeps increasing.

Thus, personal financial planning is mandatory for every individual, so they can plan out their revenue and expenses wisely and will focus on expanding the amount of difference between revenue and expenses, so the individual's financial goals are well-achieved.

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editor@iaeme.com