Personal Financial Management and Planning

Prepared By :- CA Manish Malu

Financial Management

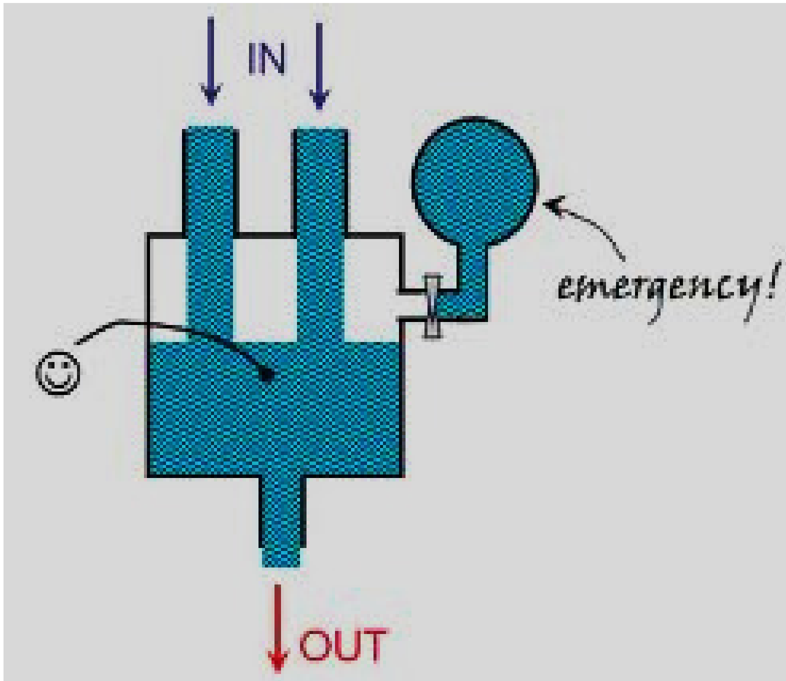
Financial Planning

Contents

Financial Management – Meaning and Importance.

- **Meaning :-**

- "Financial management is nothing but to manage cash out flow by considering the cash inflow and future obligation towards family."



Financial Management – Meaning and Importance.

- **<u>Why financial planning required ?</u>**

- Long term and short term objective.
- Secure the future of yourself and family.
- Unpredicted events.

Impact of Inflation on Personal Finance

- If inflation remains high household budgets is not the only thing that will be affected.
- **In the long run it is going to adversely affect the common man's savings which are largely dependent on fixed income instruments.**
- It looks like **investors might have to settle for negative returns**, considering that inflation rates have been consistently higher than provident fund rates (8.5%), small saving rates (8%) and bank deposit rates (less than 8%).
- **Real return** on fixed income securities like bonds and fixed deposits **decreases**. For example , (Real return = Rate of return from investments – Inflation rate). So, a bond which pays say 8.5% interest rate actually gives a real return of just 1% if the inflation is 7.5%.

Savings Habits

- A proverb says ***"Money saved is the money earned"***. So we have to save our money which increases our income.
- It's not only how much money you make, it's how much you keep. As cash flow comes in, you have to be watchful not to spend it as fast or faster than you make it. Track and control your finances.

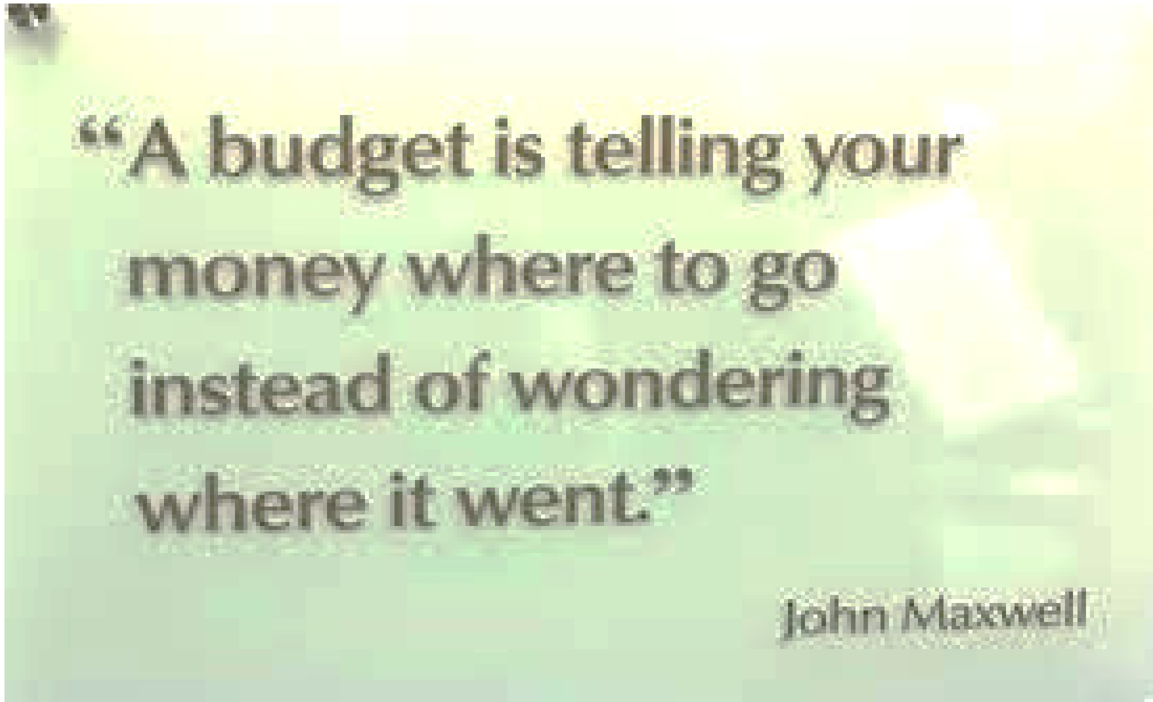
- **Money saving tips**
- Every body in the world wants to earn and enjoy good money. But most of the peoples couldn't know how to save money for future.
- Always try to save 20 % of your earnings.
- First try to satisfy yourself that you have not earned that 20 % money. Then only you are able to save money.

Savings Habits

- **1. Pay yourself first :-** Saving is your first source of capital, so pay yourself first. Spending means you pay others first.
- **2. 80 / 20 Rule**
- **Active Income**
- 80% to fund your needs and living expenses
- 20% to build your wealth
- **Passive Income**

Personal Budget

- To prepare the personal budget is most important for every individual because it helps to manage cash & investment in order to meet short term and long term objective of his & his family.



Personal Budget

Category	Percentage of Net spendable	Annual Amount	Monthly Amount
Net Income			
Less: - Saving (save up to 20% of Income)			
Net Spendable			
Housing Expenses			
Food			
Automobile			
Insurance			
Debt Repayment			
Entertainment and Recreation			
Clothing			
Medical/Dental			
Miscellaneous			
School/Childcare			

Investment Options

- Investment
  - Long Term
    - Income Assets
      1. Public Provident Fund
      2. Tax Saver FD
      3. NSC
    - Growth Assets
      1. Mutual Fund
      2. Unit Linked Insurance Plan
      3. Investment in Shares
  - Short Term
    1. Short Term FD.
    2. Recurring Deposits
  - Retirement
    1. LIC
    2. Pension Plan
    3. Post Office MIS.

Note on Investment Options

1. **Mutual Fund: -** is an investment trust that collects money from investors having a common financial goal.

   Types of Mutual Fund :-

   a) Fixed Income.

   b) Growth.

2. Bank Fixed Deposit :-

i) The tenure can vary from 7, 15, 30, 45 days to 3, 6 months, 1 year, 1.5 years and 5 years.

ii) Investors also have the flexibility to take the interest income as a lump sum amount on its maturity, monthly & quarterly.

iii) interest income earned on fixed deposit is taxable.

iv) It is also possible to get loans.

3. National Saving Certificate : -

i) Investments in NSC are eligible under section 80 C of Income Tax Act.

ii) Annual Interest income qualifies for tax rebate under section 80C of income tax act, if it is deemed to be reinvested

iii) Interest income is taxable but not deducted at source.

Note on Investment Options

4. Public Provident Fund (PPF) :-

i) Investment up to Rs 1,00,000/- per year is allowed.

ii) can take a loan on the PPF account after completion of the third year opening of the account.

iii) Interest on PPF is exempt from tax.

iv) Deduction u/s 80C up to Rs 1,00,000/-.

5. Unit-linked insurance plan (ULIP) :-

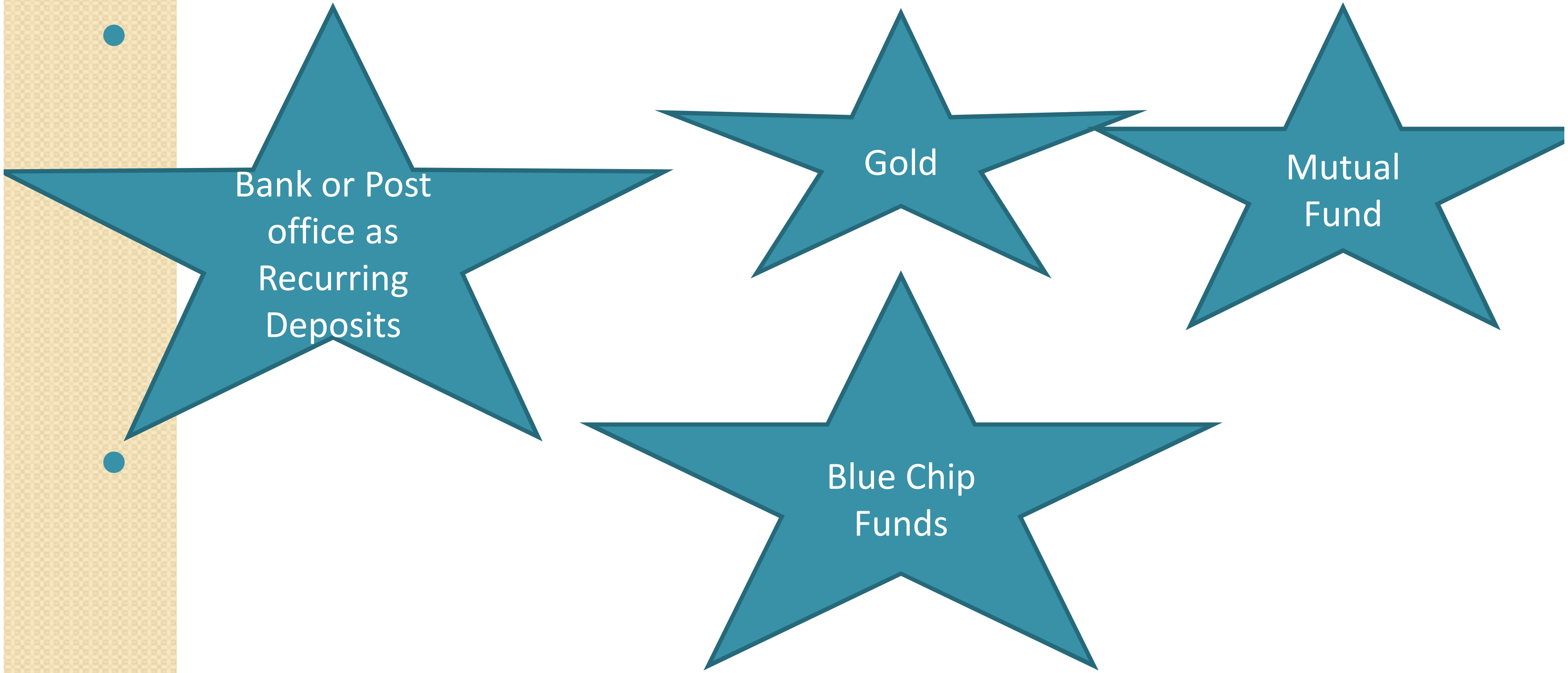
i) A ULIP is basically a combination of insurance as well as investment.

ii) A part of the premium paid is utilized to provide insurance cover to the policy holder while the remaining portion is invested in various equity and debt schemes.

iii) Deduction u/s 80C is allowed.

How much to Invest in each

- Best way to Invest your 20% saving :- The below mentioned is the good portfolio based on risk and return strategy.



Buying Dream Home

- **8 Things to Be Kept In Mind before**
- **Buying a House:-**

1. Conduct your own Survey
2. Find out the current market rates
3. Make your own Budget
4. Get the best rates
5. Security
6. Check on the surrounding infrastructure
7. Keep an eye for hidden costs
8. Check on the property

- **7.Things to be kept in mind while taking Home Loan:-**

1. How much are you expected to pay upfront?
2. How much EMI you can afford?
3. What are the tax benefits?
4. When is the EMI date?
5. How is the rate of interest calculated?
6. Insure your property
7. Don't hesitate to switch

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