**Rutwik Rameshwar Masne**

Research Student,

SaiBalaji Internationl Institute of Management Sciences, Pune

**Omkar Suresh Mane**

Research Student,

SaiBalaji Internationl Institute of Management Sciences, Pune

**Personal financial Management**

**Abstract**

This study provides information about how efficiently effectively individual manages his/her own Capital. It also involves the concepts such as how to generate income, where to invest, how much amount we must save, what should be the ratio of income to expenditure of an individual. Taking all the above concepts into consideration, this all are contributing to an individual’s financial freedom. One must have some specific goal that they must achieved by the time of retirement. One must also think where to be the retirement fund should invest and what are the rules and regulation that must be followed for paying tax.

 **Key words:**

 Individual, Capital, Income, Invest, Expenditure, financial freedom, fund paying tax.

**Introduction**

* **Budgeting and Saving**
* **What is meant by budgeting?**

Budgeting is art and science of Systematic Analysis of our spending power and making decision regarding how much we have to pay on a particular need, want or desire. It helps us in a way that in future we don’t have to face any economic crises.

* **Saving:**

Saving is act of preserving resources available to us for use in future. It is good practice because saved resource can be used any time.

* **Technique for effective personal budgeting:**
1. **Analyze your financial position:**

This is the most crucial technique for effective personal budgeting. Budgeting can only be done by knowing financial resource available to us. We must know what he had, so that he can manage his expenses according to this income. Such analyzing also help you in planning and formulating new strategies so that you can improve your financial position.

1. **Prioritization of expenses:**

Once we know what we have then we have to prioritize our expenses according to our need. So that we can spend money according to necessity this include fixed expense, Variable expense and optional expenses.

Fixed expenses: This expenses include fulfilling our essential expenses that are same for every month. Example of essential expense house rent, car EMI, prepaid telephone bills etc.

Variable expenses: Then we have to focus on variable expenses these are expenses that are not same for every month but are necessary. Example of variable expenses are groceries, electricity bill etc.

Optional expenses: This expenses will vary from person to person. All unnecessary expenses belongs to optional expenses where you have choice where to spend money.

1. **Make a list of spending habits:**

Once we prioritize our expenses then we have to make list of all expenses on monthly basis, so that we can track where we are spending more or less. We should add each and every expense so that it helps to make an accurate budget. Following are some expenses that we might paying every month.

Grocery bill

Car EMI

Fuel bill

Water bill

Wi-Fi bill

Other subscriptions

1. **Make a plan:**

We should have a rigid plan to manage our capital. Execution of plan must be done immediately otherwise the planning is of no worth. Planning help us to make a successful budget. Planning involves where, why and how much expense we are going to make. At the same time we must analyses that things are working according to your plan or not. Proper planning will help you to make a healthy financial position.

1. **Set financial goals:**

Make a list of both short and long term financial goals you want to achieve. Short term goals, like saving for vacation might take a year or less. Long term goals, such as saving for retirement or your child’s college education are goals that may take years to accomplish.

1. **Debt repayment:**

Debt repayment is also important in financial budgeting. It is necessary for maintaining good relationship with creditors. Timely repayments of debts make your credit score strong. This will helps you to get a big loan amount in future time period.

1. **Source of income:**

We should have more than one source of income. It help us in making money faster. It can be done by investing in various activities, such as in share market, SIP, mutual funds, purchasing properties, starting new business etc.

1. **Review your budget plans:**

Regularly checking of our plans with budget provides us clear idea about whether we are in the direction of achieving our financial goals or not. If not then we must have to change our plans accordingly so that we achieve our goals as early as possible.

**INVESTING FOR INDIVIDUALS**

* **What is meant by Investing?**

Investing is an act of putting money to work for us which will provides benefit in future. It is a process in which we take calculated risk so that we can earn reward after some time period. Investing of capital should be based on factors such as free savings, time period of investing, risk calculation, analyzing of market condition etc. Now a days investing can be done in two ways online and offline.

**Investing strategies for personal finance:**

1. **Making fixed investment:**

Generally investment that are made for long period of time are known as fixed investment. This investment are big in size and provides huge benefits after a long period of time. These investment act as Asset for an individual. Some examples of fixed invest are purchasing house, purchasing land, buying gold, etc. Making FD (Fixed deposit) in bank is also a good option for an individual.

1. **Buy and hold:**

This type of investment are made in share market where you purchase equity share and hold them unless your target is achieved. We shouldn’t fear about short fluctuations which comes in market. Patience are very important in this type of in this type of strategies.

1. **Averaging:**

It is one of the most important technique investing strategy. One must have a diversified portfolio of about 10-20 different companies to invest to minimize our losses. It helps us to overcome short term fluctuation in market thus we make good ROI (Return on investment).

1. **Analyses opportunity:**

Thinking with future perspective of time we should analyses opportunities and invest in them. This will helps us making safe and easy money.

1. **Active investing:**

Active investing refers to situation where you are investing your capital in very less spam of time by taking frequent breaks. In this technique we have to analyses past market trend, go for technical analysis and forecast where market will go. This type of investing are done by trade when there are news related to merge, deals, project allocation in market.

1. **50/30/20 portfolio:**

We must have portfolio with 50% of fixed inverting, 30% self-investment in stock and 20% investment in mutual fund and SIP. This will reduce the risk factor with your investment.

1. **Research:**

We must collect detailed information about the topic where we want to invest. If we want to invest in company then we must collect information about past data i.e. Balance sheet, promoters, shareholding pattern etc.

1. **Emergency fund:**

Before making investment we must assured that I have 8-10 month of living expenses. These

Funds should be used in emergency situation and to carry our day to day activity.

1. **Disciplined:**

We have to follow our own rules and regulation. We have to avoid making decision on emotional basis and must be consistent for getting successes.

1. **Stay updated:**

We must know the current market situation and learn about market ups and downs daily.

**Retirement planning.**

* **Retirement:**

Retirement is the time a person leaving a job and stop working because of age or working period is over.

Retirement planning implies preparing yourself today for yourself today for your forthcoming life in order to fulfil all your life objectives and dreams easily.

Retirement planning is the process of setting goals for your retirement years and actions nd decision needed for achieving those goals.

* **Why should plan important for retirement?**
* Limited income.
* Dependency on children.
* Healthcare issues with related expenses.
* No enjoyment.
* Sacrifices and hardships.

**Planning for retirement.**

A person should have to make roadmap to a peaceful life after work. Planning is important for money to pay for the lifestyle you want to enjoy in future.

1. **Set Retirement Goals:** Determine at what age you want to retire and the lifestyle you envision. Consider factor like travel, hobbies, and where you want to live.
2. **Estimate Retirement Expenses:** Project how much money you will need for housing, healthcare, leisure activities, and other expenses. Factor in inflation and unexpected.
3. **Calculate Retirement Saving Needs:** Use retirement calculators or consult a financial advisor to estimate how much you need to save each month to reach your retirement goals.
4. **Understand Social Security and Pensions:** Learn about your social security benefits and any pension plans you may have. Understand how they fit into your overall retirement plan.
5. **Plan for Healthcare Costs:** Healthcare can be a significant expense in retirement. Explore options like Medicare and supplemental insurance.
6. **Investment:** Invest in Stock, CDs, Funds and Bonds for secure future. But it is risk taking investment so, having proper knowledge of stock market.
7. **Long Term Assets:**  Long term assets like real estate, 401(k)s, IRAs, annuities. Invest in this type of assets it is less risk and benefits more.

**Managing Retirement Funds.**

1. **Determine our Retirement Goals:** First you know about how much money you will need in the retirement. Form your healthcare costs, lifestyle, future accepts, other expenses. Form this you should to saving and investment.
2. **Create a Diversified Portfolio**: Diversification helps manage risk. A mix of stocks, bonds, and other investments can provide growth potential and stability. As you near retirement, you may want to gradually shift to more conservative investments to protect your savings.
3. **Set priorities:** Decide what financial goals are most important to you.
4. **Stay on Top of Estate Planning:** Having both a proper [estate plan](https://www.investopedia.com/articles/wealth-management/122915/4-reasons-estate-planning-so-important.asp) and life insurance coverage ensures that your assets are distributed in a manner of your choosing and that your loved ones will not experience financial hardship following your death.
5. **Adjust Your Plan:** Always check your investment performance and retirement plan. Change in your life circumstances, market conditions, or retirement goals you also have to change your strategy according the changes acquired.
6. **Stay Informed**: In the future the changes acquire in retirement laws, investment options, and economic trends you should have knowledge to adjust proper decisions and adjust your plan as needed.

**Tax Planning.**

Tax planning is the analysis and arrangement of a person financial situation in order to maximize tax breaks and minimize tax liabilities in a legal and efficient manner.

Tax planning is important in retirement time because the person is stop working and may well be in a reduced ta x bracket.

A plan that minimizes how much you pay tax. Plan about to reduce the tax on the retirement income.

**Strategies for efficient tax management.**

1. **Understand Your Tax Obligations**: Familiarize yourself with the tax laws relevant to your situation, including deductions, credits, and filing requirements. Keep up-to-date with any changes in tax legislation that may affect you.
2. **Take Advice form the professional**: Consult with a tax professional or accountant to develop a personalized tax strategy. They can provide insights tailored to your specific financial situation and help with complex tax matters.
3. **Live in a Tax Friendly State:** One of the best strategies for saving tax in retirement is to live in or move to tax friendly state. In this the local property, local income or sales taxes will deduct for federal income tax purposes.
4. **Income in Charity:** The income is more of retirement person he can donate the amount in charity for deduct the tax form the income. It is considering as charitable gift.
5. **Roth Conversions**: Converting a portion of your Traditional IRA to a Roth IRA can be beneficial, especially in years when your taxable income is lower. Roth IRAs grow tax-free and withdrawals are also tax-free if certain conditions are met.
6. **Manage Required Minimum Distributions (RMDs)**: Once you reach age 73, you’re required to take RMDs from your Traditional IRAs and 401(k)s. Plan these withdrawals carefully to manage your tax bracket and avoid large tax bills.
7. **Plan for Healthcare Costs**: Healthcare costs can be a significant expense in retirement. Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs) offer tax advantages for these expenses. Additionally, consider long-term care insurance as part of your planning.

**Conclusion:**

This chapter concludes that how financial management plays important role in a person’s financial life. It also state the important of budgeting and saving. It teaches where to invest your money so that we can get maximum return with minimum risk. There are various strategies we have mention for effective financial growth and control. There are various ways by which we can achieve our retirement goals and how and where to invest retirement funds so that we can get long term benefits. Tax related strategies also mentioned there to manage tax efficiently.

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