

Importance of Financial Planning

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It is your ancestor's responsibility for you to be rich or poor. The importance of financial planning will teach you to break the chain of poverty and make your generation financially free.

Our current generation (1980-2000) is enjoying the life at the age of 25-35, that the previous generation (1960-1980)'s people achieved at their retirement time, like bike, car, and home, etc.

In recent decades, when a person gets a job, he/she tends to buy a bike with the help of EMI, though their salary is a maximum of 15k. Then, once they reach a position to earn 35k, their mind is ready to buy a car through car loans, and in the next promotion, they get a home loan.

This leads to a heavy financial crisis and this is because of improper [money management](#) and improper financial planning. Foremost, one must have a clear knowledge about what they need and why they need it. They have to understand the difference between [WANTS](#), [NEEDS](#), and [SAVINGS](#).

On all occasions, before buying anything instantly, plan it as a goal, work, and save for it. Make your goals emotional and work to achieve them in life, so that, there won't be any addition to your debts. Financial planning makes you build your assets rather than liabilities and debts.

What is Financial Planning:

The process by which we plan our future endeavors like smart goals, [asset allocation](#), and [retirement planning](#) thereby beating the Inflation. When a person has proper financial planning, they can be more assured about their future. Proper planning can make our future safe. Therefore, proceeding with a peaceful mind reduces stress, which ultimately leads to a better healthier life. In simple terms, financial planning is saving a part of your monthly

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income before spending it for a particular month. This might fulfill your dreams and [financial freedom](#).

Importance of Financial Planning:

Expanding on the benefits of financial planning:

1. **Debt-Free and EMI-Free Life:** Through careful financial planning, you can work towards becoming debt-free. By strategically managing your finances, you can eliminate debts and free yourself from the burden of monthly EMIs, providing you with a sense of financial liberation.
2. **Enhanced Financial Awareness:** A well-structured financial plan makes you more vigilant about your spending habits. You become acutely aware of where your money is going and can identify areas where you can cut unnecessary expenses. This heightened financial awareness leads to better financial decisions.
3. **Goal Achievement:** Financial planning enables you to set clear, achievable goals. By outlining your objectives and creating a roadmap to reach them, you are more likely to accomplish your aspirations, whether it's buying a house, traveling the world, or starting a business.
4. **Early Retirement and Wealth Accumulation:** With a solid financial plan, you can work towards early retirement. By saving and investing wisely over the years, you can build substantial wealth, ensuring a comfortable retirement where you can enjoy your life to the fullest without financial worries.
5. **Increased Savings and Investments:** Effective financial planning encourages you to save more of your income. As your savings grow, you have more capital to invest. This, in turn, can lead to higher capital gains and a growing investment portfolio, increasing your overall wealth over time.
6. **Quality Education for Your Children:** Through financial planning, you can allocate funds for your children's education. You can provide them with access to the best educational opportunities, allowing them to pursue their dreams and achieve their fullest potential.
7. **A Healthy and Happy Life:** Ultimately, the primary goal of financial planning is to enable you to lead a healthy and happy life. Financial stability and security provide peace of mind, reduce stress, and allow you to focus on your well-being, relationships, and personal fulfillment, fulfilling the purpose for which we are all born.

In summary, financial planning offers a multitude of benefits that extend beyond just managing money. It empowers you to live a debt-free, goal-oriented, financially secure, and fulfilling life, ensuring a brighter future for both you and your loved ones.

Allocation of Monthly Income for Financial Planning:

When it comes to the segregation of monthly income for financial planning, the part that we allocate for savings is the part for financial planning. Most often, Financial Experts say 50% on Needs; 30% on Wants; and 20% on Savings.

Difference between Needs, Wants & Savings

- **NEEDS** is necessary for an organism to live a healthy life, without which you can't survive. (e.g.) Food, Groceries, House Rent, EB Bill, Water Bill, Milk Bill, Medicine, Term Insurance, etc.
- **WANTS** is something without which one can live or survive, it just adds some fuel to our life, (e.g.) Shopping, Grooming, Movies, Outing, Trips, etc.
- **SAVINGS** is something which we take some amount from today's earnings for life after retirement and also for our goals and desires to achieve.

Practically, 20% of savings from total income cannot make you richer, you have to start saving more than 30% – 50% minimum. Here are a few steps to make it possible.

Best Practise in Planning:

- Start figuring out the expenses where you spent unwisely and stop those habits.
- Stop using credit cards.
- If you spend on unhealthy habits like smoking, or drinking, please try to reduce it and park that money further into savings.
- You shouldn't touch anything in NEEDS, but you can plan to reduce WANTS and increase your SAVINGS
- If you go to the office daily, try to avoid motorcycles and instead use any public transport.
- If you have any EMI's, please pay it soon. Once you clear you're EMI, park the same EMI amount in savings.
- If you are paying rent for a mortgage, try to accumulate the amount for lease and park the rent amount for savings.
- Don't buy anything for EMI or Personal loan.

Through these small changes in your life, you can increase your savings. When you start your financial planning, it's really hard to save 20% of your earnings. So, start to save a minimum of 5% from your earnings and gradually increase it till you save a maximum of 50% from your earnings. So, you can build a huge corpus (strong asset) which eventually gives you a peaceful life.

Plan wisely to increase your savings, invest them wisely to beat inflation, and lead a financially free life.

Before planning financially, do have a look into our Topic – [Financial Planning – Fundamentals to do](#) and [Basic habits for Financial planning](#)

This subject is completely taken from a practical sense from most of the successful financial leaders and even from my mentors and myself.

If you have any thoughts or comments please do share with us. Also, if we need to cover up on any specific topic please let us know. We will work together in bringing valuable content to enhance the wealth of your life.

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