

## Why Financial Planning

An important activity in today's unstable and uncertain market scenario, financial planning helps manage income, build assets and also enables an individual to live a comfortable life, post retirement.



According to Wikipedia, the broad definition of personal financial planning can be stated as, "a process of determining an individual's financial goals, purpose in life and life's priorities, and after considering his resources, risk profile and current lifestyle, to detail a balanced and realistic plan to meet those goals."

### Need of Financial Planning

It is important to plan finances in order to reap long term benefits through the assets in hand. The investments that one makes are structured properly and managed by professionals through [financial planning](#). Every decision regarding our finances can be monitored if a proper plan is devised in advance. The following points explain why financial planning is important.

- **Cash Flow:** Financial planning helps in increasing cash flow as well as monitoring the spending pattern. The [cash flow](#) is increased by undertaking measures such as tax planning, prudent spending and careful budgeting.
- **Capital:** A strong capital base can be built with the help of efficient financial planning. Thus, one can think about investments and thereby improve his financial position.
- **Income:** It is possible to [manage](#) income effectively through planning. Managing income helps in segregating it into tax payments, other monthly expenditures and savings.
- **Family Security:** Financial planning is necessary from the point of view of family security. The various policies available in the market serve the purpose of financially securing the family.
- **Investment:** A proper financial plan that considers the income and expenditure of a person, helps in choosing the right investment policy. It enables the person to reach the set goals.
- **Standard of Living:** The savings created by through planning, come to the rescue in difficult times. Death of the bread winner in a family, affects the standard of living to a great extent. A proper financial plan acts as a guard in such situations and enables the family to survive hard times.
- **Financial Understanding:** The financial planning process helps gain an understanding about the current financial position. Adjustments in an investment plan or evaluating a

retirement scheme becomes easy for an individual with financial understanding.

- **Assets:** A nice 'cushion' in the form of [assets](#) is what many of us desire for. But many assets come with liabilities attached. Thus, it becomes important to determine the true value of an asset. The knowledge of settling or canceling the liabilities, comes with the understanding of our finances. The overall process helps us build assets that don't become a burden in the future.
- **Savings:** It is good to have investments with high liquidity. These investments, owing to their liquidity, can be utilized in times of emergency and for educational purposes.

The argument made by people from lesser income groups is that they don't need to plan their finances due to the less money they possess. However, no matter how much one earns, better planning of income always helps in the long run.