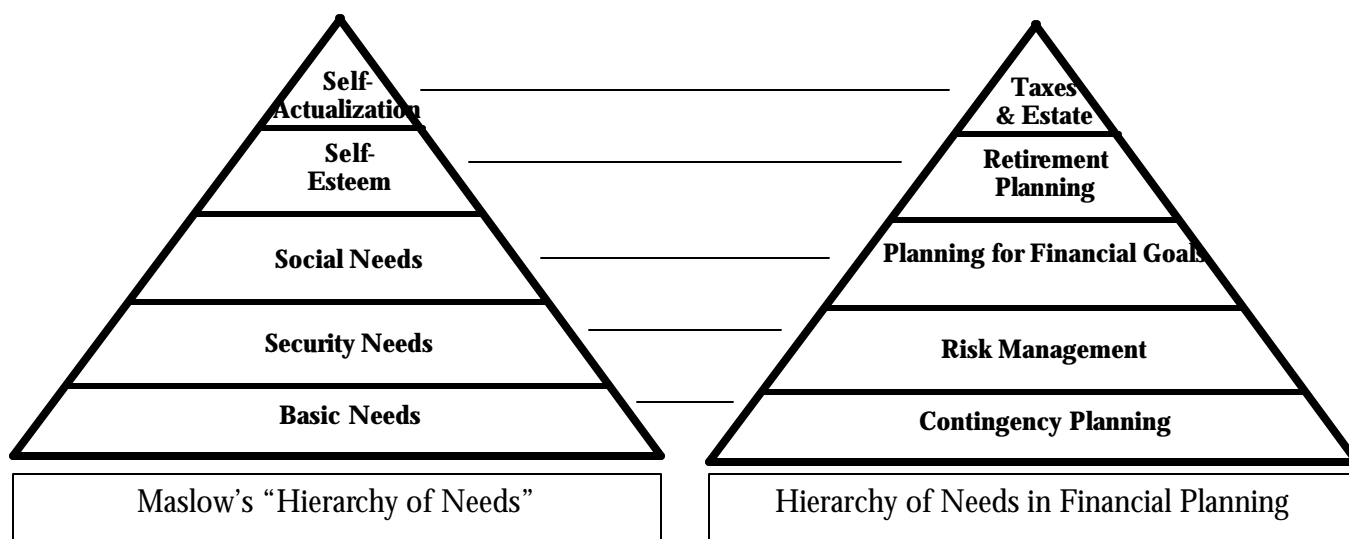


Build the Financial Plan around your Need Hierarchy

We all have been thought how to earn money. We go to college, learn skills, gain knowledge, specialize, get a job and start earning money. But what's more important is application of the money earned to fulfill our basic needs and meet our life goals. It's a very well known fact that by vigilant spending, saving & investing, one can meet the needs and life goals effectively. Why I am saying this is because as human beings, we do not have an end to dreams and aspirations. Meeting of one goal leads to another and usually it's a little costlier goal!

In this situation it becomes imperative to prioritize our needs and goals, put our best efforts to meet each of them through proper management of our personal finance. And that's what Financial Planning teaches us. An exercise analyzing our various needs and goals will go a long way in getting clarity on what is achievable, by when they can be achieved and how to achieve them. This drill may take time but is vital in Financial Planning as Need Analysis is the fulcrum around which we can build a solid foundation and leads to fulfillment of life goals & financial freedom. One may also seek professional guidance from a Certified Financial Planner. A CFP will be able to map the financial resources to the goals and create a pathway to reach them.

Prioritizing Needs forms the crux of any Need Analysis exercise. Understanding the "Hierarchy of Needs in Financial Planning"* will come handy in undergoing the exercise. The Pyramid depicting the hierarchy has a close resemblance with the popular "Hierarchy of Needs" given by Abraham Maslow in his theory of Motivation. Let us run through the five levels of this pyramid. It's important to note that each of the levels is important and we have to simultaneously plan for each of them. But yes, the stronger we build the foundation, the easier it becomes reaching the top.



* Financial Planning Pyramid has been referred by National Association of Insurance & Financial Advisors (NAIFA) on their website www.naifa.org

The most basic need our money can meet is taking care of our day-to-day living expenses like Food, Shelter, Clothing, Utilities etc. We should be in a position to meet them under any kind of contingencies and emergencies. Contingencies are unforeseen events. During our lifetime, we may face contingencies in many forms like loss or change of job, physical disability, health problems, re-locating to new places, business losses or any natural disasters which affects our living. The list can go on, though unwillingly. We need to be prepared financially.

Contingency Planning can be done by creating an emergency fund. Usually the fund size varies from three to six months of an individual's salary or income depending on his/her specific circumstances. This is to say that one should be able to meet day-to-day living expenses of the family without any income for a short period of time. The emergency fund may be held in the form of bank balance in savings account, cash or short-term Fixed Deposits.

Risk Management

Once we have laid the foundations to meet contingencies, we need to start protecting incomes and assets against any kind of losses. First and foremost is Life. In Financial Planning human beings are income generating assets. And income stops under circumstances like death, physical disability and long-term health problems. We need to cover against these income losses. There are a variety of insurance covers available in the market for different kind of needs. Insurance is a cost, but a necessity taking into consideration uncertainties in life.

After insuring the life, one has to cover the physical assets generated during the lifetime. Physical assets include House, Car and many of the valuable household items. Much of our income is devoted in generating these assets. Any loss demands replenishment which is a very costly affair and affects our other commitments in life. The General Insurance companies provide such covers.

Planning for Financial Goals

Financial Goals here can be seen at two levels. Commitments as the primary goals. Dreams and aspirations as the secondary goals. Commitments are usually family oriented and include providing decent accommodation for family, children's upbringing and education, taking care of parents and other family members if any, etc. Not only these commitments are expected to be fulfilled from us but also provides immense satisfaction and belongingness to the society.

Then come dreams and aspirations. Let's start by saying that there is no end to it. We want live in a penthouse, go on a world tour, wear designer brands, own a Mercedes, the list can go on and on. No harm. One must dream. They give a meaning to life and reason to work harder. But the skill lies in prioritizing our aspirations. Which of them can give you and your family more happiness than the other?

Needs & Goals: How to meet them

Needs & Goals	Financial Objectives	Financial Instruments
Contingency Planning	<ul style="list-style-type: none"> • Provide for the unforeseen • Have liquidity to meet day-to-day expenses • Create an Emergency Fund 	<ul style="list-style-type: none"> • Savings Bank Account • Cash in Hand/Home • Short-term FD • Liquid funds
Risk Management	<ul style="list-style-type: none"> • Cover Life Risk • Cover Health Risk • Cover Disability Risk • Cover Property Risk • Cover Liability Risk 	<ul style="list-style-type: none"> • Life Insurance • MediClaim policies • Health Insurance • Accident & Disability Cover • Property Insurance • Debt Management
Planning for Financial Goals	<ul style="list-style-type: none"> • Marriage & Family • House • Car, Home furniture & household products • Child's Education • Family Vacations • Other Family Commitments • Other Dreams & Aspirations 	<ul style="list-style-type: none"> • Fixed Deposits • Debt Funds & Bonds • Gold • Small Savings Plans • Mutual Funds • Real Estate • Stocks • Home Loan, Car Loan & Personal Loans
Retirement Planning	<ul style="list-style-type: none"> • Early Retirement • Steady Income • Contribute to Society • Maintain Standard of Living • Fund for Illness, Disability & Healthcare • Other Family Commitments & Protection 	<ul style="list-style-type: none"> • Above instruments to manage portfolio, risk management & meet contingencies • Pension Schemes • PPF & Senior Citizen Schemes • PF & Gratuity
Tax & Estate Planning	<ul style="list-style-type: none"> • Tax Optimization • Minimize tax outgo • Wealth Succession Planning • Avoid legal hassles • Charity 	<ul style="list-style-type: none"> • Tax Consultancy • Estate Consultancy

These goals and dream can be met through a corpus we have created through investments or loans. Building a corpus is harder than taking a loan/credit. But remember the saying "Credit buying is much like being drunk. The buzz happens immediately and gives you a lift.... The hangover comes the day after".

Retirement Planning

In the times we are living, retirement planning has gained prominence & becoming a challenge among Financial Planning community. This may be due to many factors like extended retirement years which can even go up 30 years, desire to be financially independent, less social security measures by the government and the inflation in economy.

Retirees need a steady income to maintain the standard of living, meet post-retirement commitments, provide for medical expenses and may also like to contribute to society by taking up social service activities. An individual needs to build a retirement corpus popularly called as "Nest Egg". The corpus needs to be managed in such a way that it becomes a source of steady income and lasts for the lifetime. To build a good corpus size one has to start early and keep investing through his/her earning years.

Tax & Estate Planning

Last but not the least is Tax & Estate Planning. The tax authorities provide legitimate ways to minimize tax outgo. The main objective being inculcating saving habits into individuals. During tax planning we should try not only to minimize the tax outgo but also do it from a Financial Planning perspective keeping in view time-horizon of investments made to save taxes, salary structure opted for, liquidity concerns etc. which shall essentially be based on our age, gender, dependants, commitments etc. But keep in mind, as I said in my last article, Tax Planning is only incidental to Financial Planning and not an end in itself

Estate Planning means transferring our physical assets and financial assets to our next generation. A structured and carefully drafted Estate Plan not avoids legal hassles for the successors and bitter state of affairs among successors but also can reduce tax outgo. One may also like to do charity. Whatever maybe the desires, each of us want to leave a legacy behind. Let's leave a good one.