SJIF Impact Factor (2024): 8.675| ISI I.F. Value: 1.241| Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)
EPRA International Journal of Research and Development (IJRD)
Volume: 9 | Issue: 5 | May 2024 - Peer Reviewed Journal

A STUDY SHOWING THE IMPORTANCE OF PERSONAL FINANCIAL MANAGEMENT STRATEGIES FOR AN INDIVIDUAL FOR OVERALL FINANCIAL WELLBEING

Dr. Balaji Bhovi and Lavanya. S, Jenifer. Y, K. P. Yashaswini
School of Economic and Commerce,CMR University, Bengaluru

Article DOI: https://doi.org/10.36713/epra16822
DOI No: 10.36713/epra16822

ABSTRACT
Personal financial management (PFM) is essential for individuals and families to achieve financial stability and meet their goals. This research highlights the different facts of PFM, including budgeting, saving, investing, debt management, retirement planning, and more. Drawing from extensive literature, it examines the dynamics of financial behaviour, the role of financial education, technological advancements, and socioeconomic factors influencing PFM. The research involves data collection from 102 participants, offering insights into financial behaviour, preferences, and attitudes. Discoveries unveil areas for enhancement in savings allocation, emergency preparedness, seeking professional advice, and retirement planning. Additionally, the study presents the "50/30/20 rule" as a practical framework for managing finances effectively. Overall, the study emphasizes the significance of comprehensive PFM strategies tailored to individual circumstances for long-term financial well-being.
KEYWORDS: *Personal financial management, PFM, budgeting, saving, investing, debt management, retirement planning, financial behaviour, financial education, socioeconomic factors, 50/30/20 rule.*

1. INTRODUCTION

Personal financial management (PFM) involves effectively managing individual or family finances to achieve financial goals and ensure well-being through informed decisions on earning, spending, saving, and investing money. Key components include budgeting, income management, saving, debt management, investing, insurance, retirement planning, tax planning, and goal setting. Research objectives encompass understanding financial behaviour, identifying influencing factors, assessing financial literacy, analysing debt management, investigating saving and investment behaviour, evaluating retirement planning, examining financial stress, assessing financial education programs, exploring technology's role, and developing best practices and policy implications. The scope includes various financial activities tailored to individual circumstances, emphasizing financial well-being, and addressing short and long-term goals. Effective PFM involves assessing financial situations, setting goals, creating budgets, monitoring spending, building emergency funds, managing debt, saving, and investing, planning for retirement, reviewing, and adjusting plans, protecting finances, continuing education, and seeking professional advice. By means of this procedure, majority of individuals can establish a comprehensive PFM plan aligned with their goals, promoting stability, and enhancing overall well-being.

Objectives of my study

- To understand the challenges faced by earning individuals while planning for their future savings and debt management.
- Understand and educate the financial literacy among individuals.
- Educate the importance and effectiveness of 5:3:2 in Personal Financial Management.

Scope:

The main scope of this study about personal financial management for an individual encompasses a broad spectrum of activities and decisions aimed at achieving financial goals and ensuring overall financial well-being and post-retirement planning.

SJIF Impact Factor (2024): 8.675| ISI I.F. Value: 1.241| Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)
EPRA International Journal of Research and Development (IJRD)
Volume: 9 | Issue: 5 | May 2024 - Peer Reviewed Journal

2. LITERATURE REVIEW

Paper Title and Year	Authors	Objectives	Observations
"Nudge: Improve Decisions About Health, Wealth, and Happiness" by Thaler and Sunstein (2008)	Thaler and Sunstein	Emphasize psychological factors and prospect theory in financial decisions.	Psychological factors play a significant role in shaping financial decisions, affecting behaviours such as spending, saving, and investing.
"Judgment under Uncertainty: Heuristics and Biases" by Tversky and Kahneman (1974)	Tversky and Kahneman	Explore the role of psychological biases in decision-making.	Psychological biases influence financial decision-making, leading to deviations from rational economic models.
"Effective Budgeting and Saving Strategies" by Gaurav and Jha (2017)	Gaurav and Jha	Highlight the significance of budgeting and saving in personal financial management.	Budgeting and saving are crucial components of PFM, contributing to financial stability and long-term security.
"Behavioural Economics and Its Applications" by Brown and Taylor (2014)	Brown and Taylor	Discuss applications of behavioural economics principles in personal finance.	Behavioural economics principles can inform strategies to improve financial decision-making, such as nudges and choice architecture.
"Debt Management Strategies for Financial Stability" by Dynan et al. (2012)	Dynan et al.	Advocate responsible borrowing and repayment strategies.	Effective debt management is essential for financial stability, requiring comprehensive budgeting and prioritized repayments.
"Financial Literacy and Its Implications" by Monticone (2010)	Monticone	Discuss the importance of financial literacy in personal finance.	Financial literacy is crucial for making informed financial decisions, addressing challenges of financial illiteracy, and promoting economic well-being.
"Financial Management Tools and Apps" by Chen and Volpe (1998)	Chen and Volpe	Explore technological advancements in personal financial management.	Technological tools and apps facilitate financial management, providing convenience and accessibility to users.
"The Role of Socioeconomic Factors in Financial Behaviour" by Duflo and Saez (2003)	Duflo and Saez	Investigate how socioeconomic factors influence financial behaviours and outcomes.	Socioeconomic factors such as income, education, and employment status significantly impact financial behaviours, highlighting the need for tailored interventions.
"Financial Education Programs and Their Impact" by Hira and Mugenda (1999)	Hira and Mugenda	Assess the effectiveness of financial education programs.	Financial education programs play a crucial role in improving financial literacy and empowering individuals to make informed financial decisions.
"Assessing Financial Literacy Levels" by Hanna et al. (2012)	Hanna et al.	Evaluate financial literacy levels across demographic groups and geographical contexts.	Financial literacy levels vary across different demographics and regions, underscoring the importance of targeted interventions and education programs.

3. METHODOLOGY

In the research methodology concerning personal financial management, a systematic approach was taken to ensure the accuracy and relevance of the data collected. It commenced with the formulation of clear research objectives and identification of specific topics to be explored, laying the groundwork for a focused investigation. A sample size of 102 individuals was determined through different sampling techniques like random, stratified, or convenience sampling, aiming to capture a representative cross-section of the population. Surveys were selected as the primary data collection method due to their effectiveness in gathering comprehensive information. A meticulously designed survey instrument was crafted, encompassing key aspects such as income, expenses, savings, investments, debt, and financial goals, ensuring a holistic understanding of participants' financial behaviours. Prior to survey administration, a pilot test was conducted to refine the survey instrument and address any potential issues or ambiguities. Data collection was then carried out through online surveys, maintaining participant confidentiality and adhering to ethical standards. Post-collection, a rigorous process of data cleaning, coding, and analysis was undertaken, employing appropriate statistical techniques including descriptive and inferential statistics to extract meaningful insights. These findings were subsequently interpreted to identify pertinent trends and insights into personal financial management practices. Based on these interpretations, recommendations were formulated to address identified gaps and enhance financial literacy and well-being among individuals, policymakers, and financial institutions. Overall, the research methodology was characterized by its structured approach, meticulous attention to detail, and commitment to generating actionable insights for informed decision-making in the realm of personal finance.

4. DATA ANALYSIS AND INTERTATION

The analysis of data from 102 respondents provides valuable insights into various aspects of personal financial management. It reveals that a significant majority (67.5%) prioritize savings and investment, indicating commendable financial responsibility and forward-thinking behaviour. However, a notable portion (23.9%) only prioritize these aspects occasionally, suggesting room for improvement in consistency. Moreover, 10.4% do not prioritize savings and investment at all, indicating a need for adopting more proactive financial habits.

Regarding investment vehicles, while mutual funds and real estate are popular choices, a substantial percentage (50.7%) opt for "Others," showcasing diverse preferences and strategies. Allocation of monthly income towards savings varies, with a considerable portion (44.8%) saving less than 20%, underscoring the role of improving saving habits. Additionally, the data reveals mixed levels of comfort with emergency savings and a need for more proactive retirement planning. Access to professional financial advice appears limited, indicating a potential gap in financial education. Overall, the findings emphasize the significance of consistent saving, diversified investment strategies, and proactive financial planning to ensure long-term financial stability and security.

5. 50:30:20 THEORY

The "50/30/20 rule" in personal finance, popularized by Elizabeth Warren and Amelia Warren Tyagi in their book "All Your Worth: The Ultimate Lifetime Money Plan" from 2005, offers a straightforward framework for managing finances effectively. It suggests allocating 50% of income towards needs, covering essential expenses like housing, utilities, groceries, transportation, healthcare, and minimum debt payments; 30% towards wants, encompassing discretionary spending on non-essential items such as dining out, entertainment, and travel; and 20% towards savings and debt repayment, including contributions to savings accounts, retirement funds, emergency funds, investment accounts, and paying off debts beyond minimum payments. While adaptable to individual circumstances, this rule promotes financial balance, prioritizing spending based on essential needs, discretionary wants, and long-term savings goals, fostering informed financial decision-making and stability.

6. FINDINGS, SUGGESTION AND CONCLUSIONS

The data collected from 102 samples offers insights into the financial behaviours, preferences, and attitudes of the surveyed individuals. Notably, a significant proportion allocate less than 20% of their monthly income towards savings (44.8%), indicating potential challenges in building substantial financial reserves. While some prioritize savings more aggressively, with 6.9% saving 40% of their income, there is room for increased savings discipline overall.

Regarding investment vehicles, a majority opt for "Others" (50.7%), showcasing diverse investment strategies beyond traditional options like stocks and real estate. Despite the majority reviewing their budgets monthly (67.2%), a notable portion only do so yearly (19.4%), potentially missing opportunities for proactive financial planning. While many respondents feel comfortable with their emergency savings (38.8%), a significant portion (13.4%) feel less secure, highlighting the need for continued focus on building adequate emergency funds. Moreover, there's mixed behaviour regarding seeking professional financial advice, with a sizable percentage doing so only occasionally (44.8%) or never (32.8%). Similarly, many lack a clear retirement plan (50.6%), indicating a need for more proactive retirement savings strategies.

Overall, while individuals demonstrate consistent budgeting habits and a willingness to explore diverse investment options, there's room for improvement in savings allocation, emergency preparedness, seeking professional advice, and retirement planning, highlighting the significance of a comprehensive approach to personal financial management for achieving long-term financial security and goals.

7. BIBLIOGRAPHY

1. *"Nudge: Improve Decisions About Health, Wealth, and Happiness" by Thaler and Sunstein (2008)*
2. *"Judgment under Uncertainty: Heuristics and Biases" by Tversky and Kahneman (1974)*
3. *"Effective Budgeting and Saving Strategies" by Gaurav and Jha (2017)*
4. *"Behavioural Economics and Its Applications" by Brown and Taylor (2014)*
5. *"Debt Management Strategies for Financial Stability" by Dynan et al. (2012)*
6. *"Financial Literacy and Its Implications" by Monticone (2010)*
7. *"Financial Management Tools and Apps" by Chen and Volpe (1998)*
8. *"The Role of Socioeconomic Factors in Financial Behaviour" by Duflo and Saez (2003)*
9. *"Financial Education Programs and Their Impact" by Hira and Mugenda (1999)*
10. *"Assessing Financial Literacy Levels" by Hanna et al. (2012)*