EFFECTIVE MANAGEMENT OF PERSONAL FINANCE

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In a complicated macroeconomic situation in Russia, the value of the effectiveness of the managing personal finance increases. This article discusses the key problems of the organization of the management personal finance. The ways to solving problems based on the construction of science-based model.

Keywords: personal finance; public sector; the methods for evaluating the effectiveness of management; insurance; analyze; plan, budget, report costs

Personal Finance is a process of individual’s cash flow in accordance with his decisions. Personal finance defines all financial decisions and activities of an individual, including budgeting, insurance, mortgage planning, savings and retirement planning. Nowadays it is impossible to live without the knowledge of all the instruments and available products that can help individual to gain financial stability and enhance assets.

The art of good management of personal finance is to achieve individual’s financial objectives via effective using of actual instruments of the process of personal finance management include: analyze, plan, budget, track, report costs.

People don’t plan to fail. They are not able to plan!

Individual’s financial plan will move through the various life stages. Lifecycle planning period are: early career; mid-career; peak accumulation; pre-retirement; retirement. How scientific studies of human happiness should impact the way we use our money?

Personal finance help individuals in different ways.

1. Assess current financial position - looking at expected cash flow, current savings, etc.

2. Buy insurance in order to protect yourself from risk and make sure your material standing is secure.

3. Calculate and file taxes.

4. Manage your savings and investments.

5. Retirement planning (even though retirement plans in Russia are heavily regulated by the government, it still is a good idea to search outside resources in order to get the best offer).

Step 1. Current situation assessment.

As cliché as it may sound, step 1 is essential, as it provides the information about your current earnings, savings and helps to create the plan to fully fulfill your goals as an individual. Questions like: “What do you want to achieve?” All of that help to build up the foundation to personal finance management.

Step 2. Planning. Every journey starting from the map. It mean that the information regarding your current position and goals to be achieved in order to lay out the path to success.

Individual can use a help of a professional finance accountant or come up with the plan yourself. The plan should include: Set up a savings account; Have a retirement plan; Future investments; Insurance plans.

Key components of a plan.

Individuals make financial decisions for life. Sometimes you can see those decisions that come and plan consciously; sometimes, could clash with a more sudden decision. Personal financial planning is about making deliberate decisions that allow Individual to get closer to your goals or sudden decisions that allow him to stay on track, even when things take an unexpected turn.

The idea of personal financial planning in fact doesn’t differ from the idea of planning most anything: Individual figure out where he’d like to be, where he is, and how to go from here to there. The process is complicated by the number of factors to be considered, by their complex relationships to each other, and by the profound nature of these decisions.

The process is also, often enormously, complicated by risk: Individual are often making decisions with plenty of information, but little certainty or even predictability. Personal financial planning is a lifelong process. Personal financial planning time horizon is as long as can be until end of the life and during that time circumstances will change in predictable and unpredictable ways. A financial plan has to be re-evaluated, adjusted, and re-adjusted. It has to be flexible enough to be responsive to unanticipated needs and desires, robust enough to advance toward goals, and all the while be able to protect from unimagined risks. One of the most critical resources in the planning process is information. We live in a world awash in information and lack of advices but using these kind of information you have to understand what it tell, why it so important, where it comes from, and how to use it in the planning process. You need to be able to put that information in context, before you can use it wisely. That context includes factors in your individual situation that affect your financial thinking, and factors in the wider economy that affect your financial decision making.

Individual competence in finance plays a great role.

Banks and other agencies have got a variety of products for you in order to be able to choose from starting from savings account and all the way up to stock markets. Let evaluate the benefits of these instruments.

Savings account. Around 10% a year. Minimum risk.

Open-end funds and hedge funds. Around 20% (can be -20% or +50%) a year.

Stock market. High risks. 15% a year heavily depends on your trading skills.

Property. 5% yearly.

Also remember, that having a diverse investing portfolio is a key to success.

Risk management include the followings.

Long Term Care to keep dignity and family ties at old age (stream of income).

Disability Insurance for income preservation while living (stream of income).

Life Insurance for income and estate protection on death (lump-sum).

Savings and Investments for Retirement Goals, Education, etc.

Long Term Care.

Step 4. Track and record.

Every impulsive buying can stop individual from achieving goals, in order to control himself, have a notebook where individual writes everything him have bought, keep all the checks so later when he will sit down and analyze the data, individual can count the exact amount of money spend and what did he spend it on.

Conclusion. In order to be successful you have to be proactive and don't wait for an opportunity to pass. If you have a dream –follow it, an idea – make it real. Individual must use his brain, manage his income. And don't forget: individual is the most valuable asset.

People want to be financially successful because they think it will contribute to their happiness.

What makes people happy? Looking for happiness in Right Places.