Financial Planning for Rural and Poor Urban People to Fight Against Pandemic Situation and Survive

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Abstract

Today not only India but the whole world is suffering from the prevailing pandemic situation called COVID-19. This corona virus has laid its mark globally. Prevailing situation in an alarming situation which has not only collapsed our economy but also it has made long term damage on growth prospects; it has not only strained the human capital through lost work but also scraped the savings and investment of population. During this pandemic everybody has realized the importance of saving money or keeping an emergency fund so that one can fight against and survive in these high uncertainties. The study will try focus on financial planning for rural and poor urban people which are now financially included in the Indian Financial System through Jan Dhan Yojana.

As we know in India rich is becoming more richer and poor is getting more poorer because rich people have many financial consultants/plans which leads to wealth creation on the other side this unprivileged section of the society is always left aside in getting poorer, so in this study researcher will be holding hand of this unprivileged section of the society and suggesting some financial plans and will be focusing on the creating models through which they can channelize their savings and investment so that they can have their own contingency fund to fight against these pandemic situation which may come across in future.

Key words: Financial Planning, Savings, Investment, Pandemic.

1. INTRODUCTION:

Financial Planning is a concept which gives you an independence from the financial burden or crisis which may occur today, tomorrow or in future due to lack of financial management.

Financial planning can also be known as the process of making an estimate of the capital which is required for future prospects. These future prospects can be buying a house, child's education, child's marriage, going on a world trip, saving taxes etc., meeting these goals with no glitch is known as financial planning (Dambula,2012)..

Why it is important to do Financial Planning:

- **It provides direction to your goals or dreams.** Financial planning helps you understand your goals better in terms of why you need to achieve these goals and how they impact other aspects of your life and finances(Hung et. al. 2009).
- Financial planning encourages you to manage inflation. You are aware of the price of various things and activities. You plan your budget in a better manner(Huston, 2009.)**.**
- **Financial planning makes you disciplined towards money.** You do not spend unnecessarily. You keep a check on your savings and spending(Bank, 2012).
- **By planning your finances, you plan for the future.** You are able to gain visibility into your finances in the future. You have a fair idea of how much money would you have, say ten years down the line. You would be aware of the returns your investments should earn to achieve your goals.
- What about peace of mind- But then also people avoids Financial Planning.

Financial planning helps a person to follow his dreams, plan his budget & finances and planning of retirement can also be done. A disciplined Financial Planning gives you an effortless life with no hustles and crunches in tough/ pandemic times. Rural and poor urban people will be very much benefitted and can achieve their dreams if they follow the disciplined investing irrespective of the income they earn(Cardenas & Carpenter, 2013).

Why personal Financial Planning is crucial?

- **Because it handle's Inflation:** As we all know that principle of time value of money says the value of rupee today will not be as same as tomorrow, because value of money always keeps on depreciating years after years so to beat the inflation financial planning is crucial(Allgood, 2015).
- **To create Emergency Fund:** creating an emergency fund is as important as petrol in our vehicle one should have minimum three months' salary in his account so that one can fight against the emergency which may happen anytime in our life (accidents, natural calamities, death, fire, losses, theft etc.)(Guiso, 2013).
- **To Create Retirement Corpus:** Creating a retirement corpus is another very important aspect of financial planning because at this age we cannot earn our livelihood so if we want to maintain our living standard after retirement age we should start saving now, the early we start saving the less percentage we need to save and the late we start we need to save more percentage from our income(Hasting,2012).
- **Managing the money in best possible way:** An early and disciplined investing can lead you to manage your money and diversification of money is another method to get more returns(Huston,2010).

The above mentioned reasons are some points which need to take care and we can lead to a successful financially planned life without any hustle.

Some prevailing thumb rules of happy investing like:

Rule 1: Investing in Equity "Rule of 100"

This the most common rule of thumb which is used in Investment era. This rule says that investment of equities in your portfolio should be 100 minus your age, that means if your age is 35 than (100 - 35 = 65) your investment in Debt securities has to be 35% and remaining 65% has to be invested in equities securities, which means as you get older there will be decrease in the percentage of investment in equities because these are the riskiest investments. This rule doesn't take care of the risk appetite and risk tolerance.

Rule 2: Retirement thumb rule:

Retirement here means a retirement age is 60 years and life expectancy of 80, if you have just started working and you want to lead a very simple life than one should save 10% of their income for their happy retirement life and if someone wants to retire at early age than they should invest 20% of their income for luxury life post retirement.

2. Review of literature:

Financial planning is the process of setting, planning achieving, and reviewing your life goals by the way of proper management of your finances. (Family 2016). Financial planning is a lifelong process where the earlier started to plan; the sooner individuals can enjoy the benefit within the expected period. Financial plan bring together all aspects of financial literacy to achiever personal goals. Individuals need to review back financial plan regularly to get the goals.

Financial plan can help to satisfy needs by monitoring savings and expenses, providing financial cushion to deal with unexpected crises, amassing enough wealth to meet retirement, and providing protection for the family if something goes wrong (Kempsom 2009). Underlying the professional practice of financial planning, there are three basic functions (Council 2015), include collection of investor information, analysis on the individual's current situation and identifies and evaluate appropriate strategies, and recommendation to help optimize investor's situation.

Individual starts with the financial planning by setting debt reduction as goals, setting saving goals by establishing emergency fund, and setting certain percentage of income. Individuals set for a spending plan with the budget, spending and saving goals, and stick for those plans (Baetem 2014).

Financial planning varies in scope and complexity ranging from planning advice that is straightforward and narrow, requiring limited integration across financial planning areas to those engagements that are complex and involved requiring extensive integration cross financial planning areas(Anagol, 2013.). It is the financial planners' ability to competently and professionally gain to the financial goals, needs and priorities, and the interdependencies among the individuals to gain greater values(Banaerjee et. al. 2010).

Financial planning is a disciplined, multistep process of assessing an individual's current financial and personal circumstances against future desired state and well-being(Bertrand,2011).

3. Research Methodology:

3.1 Objectives: The main objective of this research is as follows:

- To know whether people are financially included or not.
- To study the financial planning awareness among Rural and Poor Urban people.
- To study various financial planning rules.
- To compare various financial planning rules.
- To analyze and suggest the financial plans for rural and poor urban people.

3.2 Scope of the Study

The scope of this study is to explain the importance of Financial Planning Rural and Poor Urban people. During the duration of this study awareness has been created among Rural and Poor Urban people about financial planning. Various methods of savings have been suggested by researcher to the Rural and Poor Urban people. This study is a contribution to the available literature on Financial Planning for Rural and Poor Urban by advising a new financial planning Rule of 50:25:25.

3.3 Hypothesis:

Based on above mentioned objectives following hypothesis were formed:

H_{01} = Rural and Poor Urban people are aware about financial planning.

H_{02} = Rural and Poor Urban are financial included.

3.4 Methods of Data Collection:

The data has been collected using primary as well as secondary sources. At various stages secondary data is collected for research problem formulation, understanding the theoretical framework (Suvalka ,2019). Rigorous review of literature is undertaken at the starting of research, for formulation of the research problem. Primary data has been collected using questionnaires on awareness of people about financial planning. Convenience sampling technique has been used. A total of 65 respondents were selected from marginalized section of the society having monthly income less than 20,000.

3.5 Research Design:

The research design is empirical & analytical. Researcher explored characteristics of population, created awareness & suggested a new financial planning rule among Rural and Poor Urban people.

3.6 Sampling Methodology

a) Sampling Universe.

To check out whether the Rural and Poor Urban people are aware of financial planning or not, a sample needs to be drawn from the population of Udaipur. People who are having their monthly income less than 20,000 Rs was selected based on convenience sampling technique.

b) Sampling Frame

A sampling frame represents the of the elements of the target population (Chin & Newsted, 1999).

Sampling frame consist of all items which qualify for inclusion in the sample .For the study, Rural and Poor Urban people who are having their monthly income less than 20,000 Rs in the year 2021 to 2022 and presently working were selected for inclusion in the sample.

c) Sampling Technique

Sampling techniques are the method follow to choose the samples from the universe is called as the (Saunders et.al., 2009). A large number of methods are available to draw the sample from the population. The probability or non-probability sampling methods can be selected on the basis of representation. Probability sampling was not possible in this research because probability sampling requires enumeration of complete population & then randomly selecting respondents from them. No such systematic record of Rural and Poor Urban people who are having their monthly income less than 20,000 Rs was found.

To select the sample non probability sampling method, ie convenience sampling has been used to draw the samples. In this study the researcher heavily relies on the data collected using questionnaire. The data has been collected using administered questionnaire, in which responses has been marked by researcher by taking informal interview of the respondents

d) Sampling Size

The Sampling size was restricted to 100 respondents which Rural and Poor Urban people who are having their monthly income less than 20,000. These too have been selected from various regions of Udaipur in order to impart diversity in the responses. The researcher has chosen large variety of respondents, so that researcher can employ all methods of research conviniently. The sample is further divided into various groups various criteria.

3.7 Tools of Analysis

The data gathered through questionnaire was tabulated and analyzed using various available statistical tools. The descriptive and inferential analyses were done to analyze the primary data collected. Descriptive statistics has been used to describe the characteristics of the population. Inferential statistics has been used to draw inferences about the population. χ^2 Test has been used.

4. Data Analysis & Interpretations:

4.1 Monthly Income of Respondents:

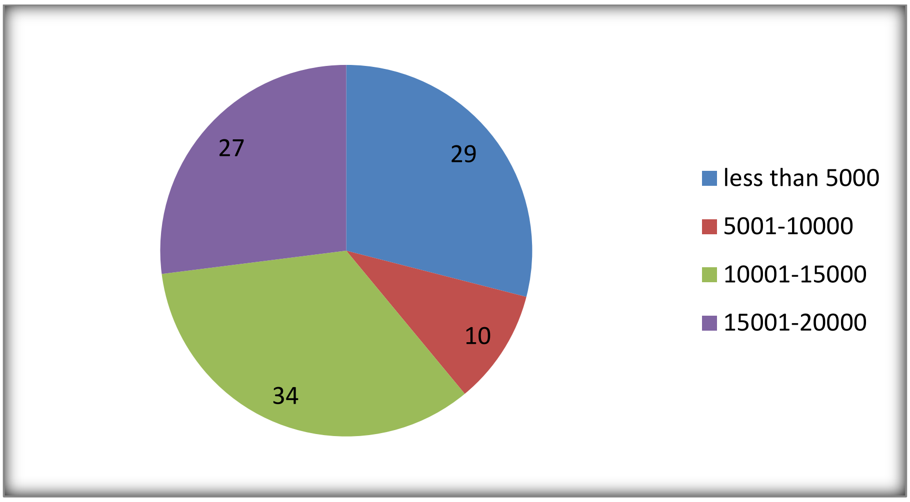


Figure 1: Diagram representing monthly income of respondents

From figure 1 we can conclude that maximum population falls in the income group 10001-15000 Rs. 29 respondents are having monthly income less than 5000 rs. There are 10 respondents having monthly income between 5001 -10000. Only 27 respondents have monthly income between 15001-20000.

4.2 Expenditures on daily expenses

From figure 2 we can conclude that maximum population spends 50-60% of their income on daily expenses.23 respondents spend 60-70% of their income to meet day to day expense. Even there are 2 respondents who almost spend all their income to meet their daily expenses. This helps us to know that how much savings people have.

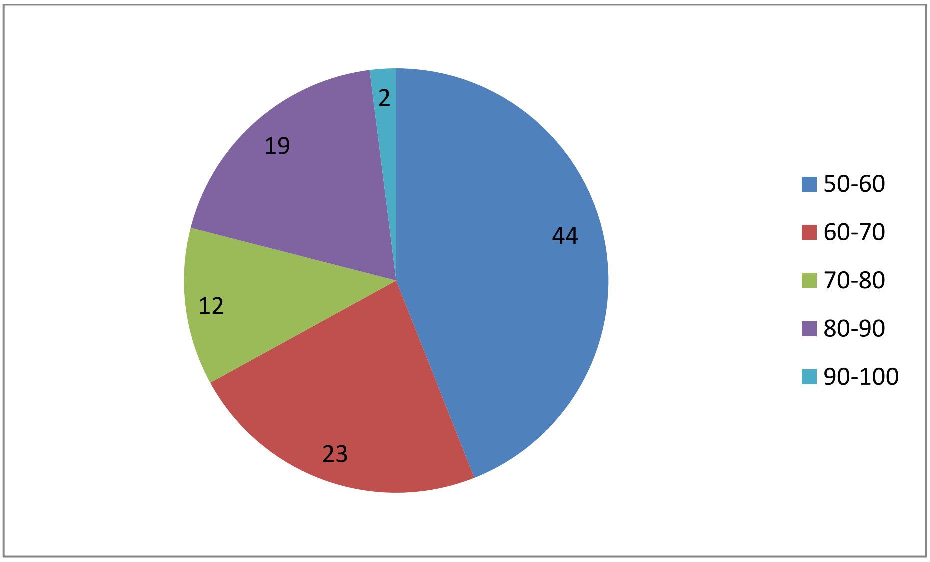


Figure: 2 Diagram representing expenditure pattern of respondents

4.3 Expenses on leisure

From figure 3, we can conclude that maximum population spends almost 20-30% of their income on leisure. There are 11 respondents who spends less than 10 % of their monthly income on leisure activities.

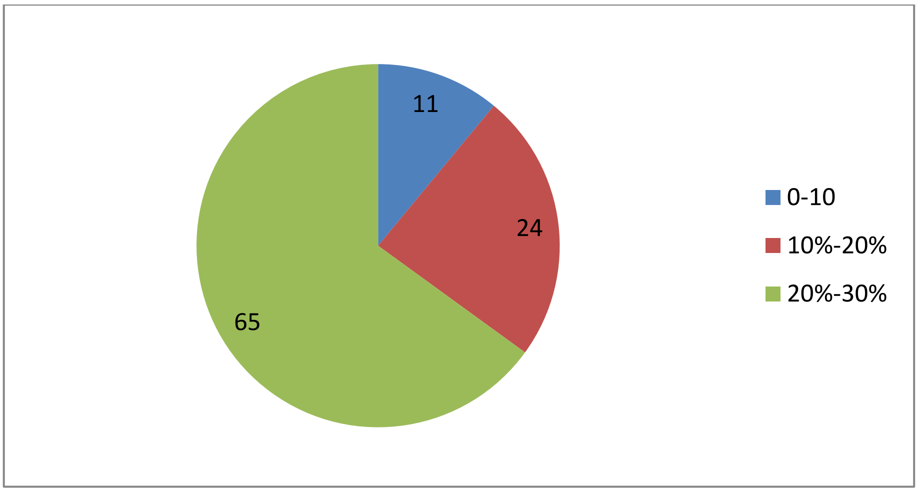


Figure: 3 Diagram representing expenditure on leisure of respondents

4.4 Criteria of investment

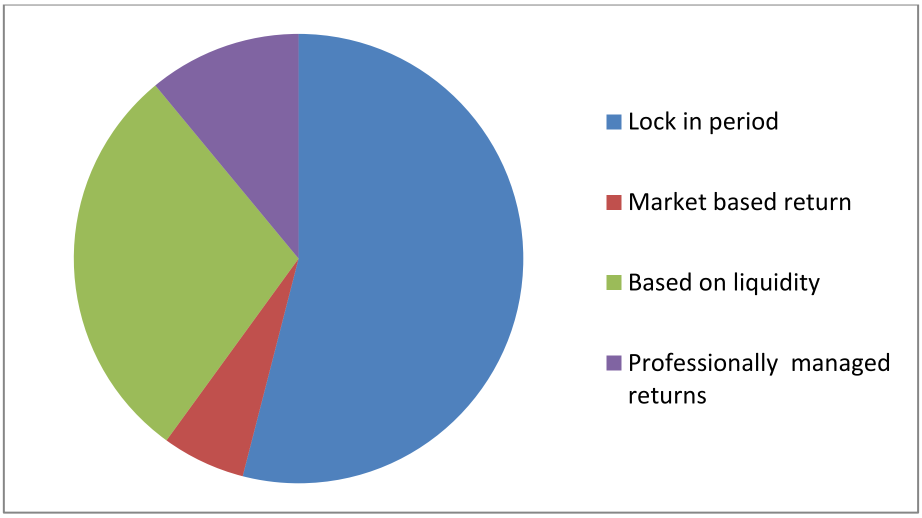


Figure: 4 Diagram representing criteria of investment of respondents

When asked from respondents that what criteria they choose before making an investment, most of them preferred lock in period as most relevant. Very few people invest in share market. Similarly very few people invest in professionally managed funds.

4.5 Testing of hypothesis:

Following hypothesis is formulated to test whether Rural and Poor Urban people are aware about financial planning or not.

H_{01} = Rural and Poor Urban people are aware about financial planning.

$$\chi^2 = \sum \frac{(O_{ij}-E_{ij})^2}{E_{ij}}$$

= 13.642

The table value for χ^2 for 1 degree of freedom at 5 % level of significance is 3.841. the calculated value χ^2 is much higher than this table value and hence the result of researcher does not support the hypothesis that Rural and Poor Urban people are aware about financial planning. Thus, researcher can conclude that Rural and Poor Urban people are not aware about financial planning. There is need to create awareness about financial planning among Rural and Poor Urban people.

Following hypothesis is formulated to test whether Rural and Poor Urban people are financial included or not.
H_{02} =Rural and Poor Urban are financial included.

$$\chi^2 = \sum \frac{(O_{ij}-E_{ij})^2}{E_{ij}}$$

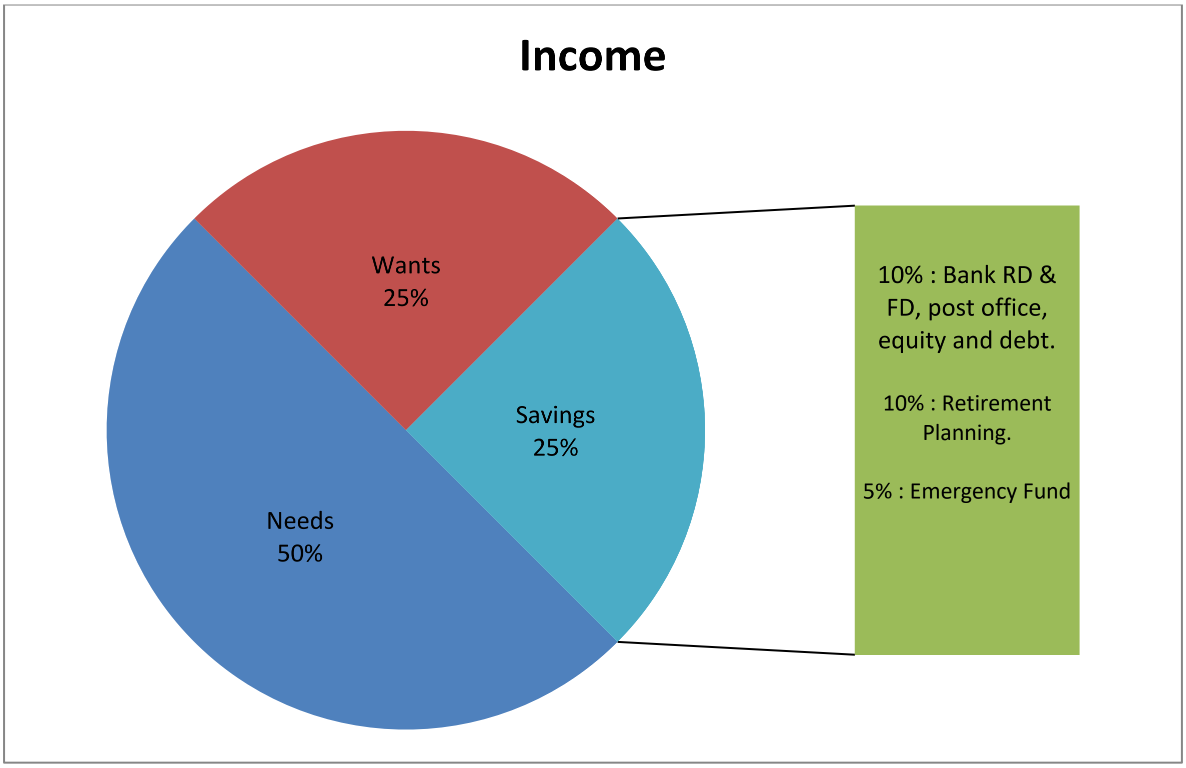
= 2.9

The table value for χ^2 for 1 degree of freedom at 5 % level of significance is 3.841. the calculated value χ^2 is much lesser than this table value and hence the result of researcher dt support the hypothesis that Rural and Poor Urban people are financially included. Thus, researcher can conclude that Rural and Poor Urban people are not aware about financial planning but have their own bank accounts.

Introducing the Rule of Financial Planning:
Based on above observation researcher introduced a rule of 50-25-25.
Working rule of 50-25-25: The rule talks about the classification of an individual's Income on the basis of 50%, 25%. 25%. The table given below explains that if the expenditure done in the following manner than this unprivileged section of the society will lead to appraise their investment, create an emergency fund to fight against the pandemic situations and also to plan a better retirement life:

Table1.Classification of the "Rule 50:25:25".

50% (Basic consumption or essential expenses)	**25% (Lifestyle)**	**25% (Financial Goals)**
This deals with basic needs (Groceries, Housing, and Car Payment) and essential.	This deals with wants like Shopping, Entertainment, Hobbies, Dinning out etc.	10%: Bank RD & FD, post office, equity and debt.
		10% : Retirement Planning
		5% : Emergency Fund



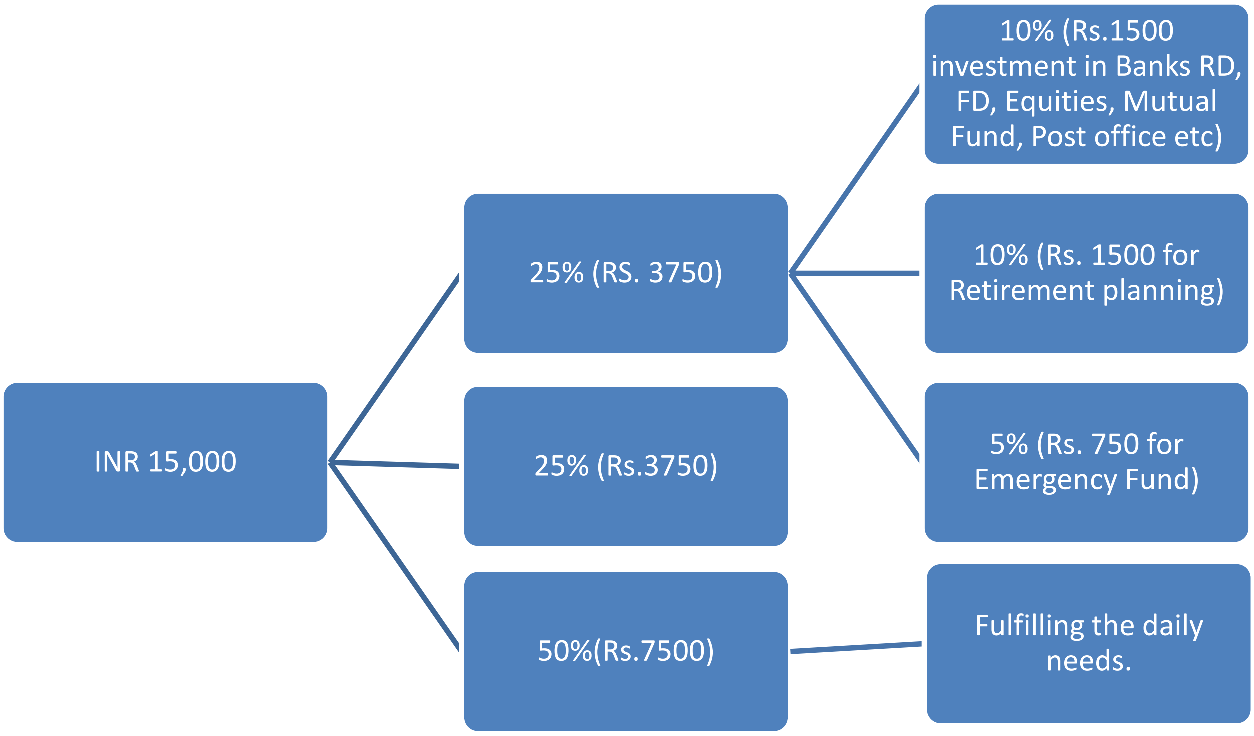
Source: Authors own

Now focusing on the financial goals which captures 25% of our Income and this 25% is further dived into 10-10-5. 10% of your investment is in equity and debt which leads to achieve many goals of your life, the other 10% is for good life after retirement and remaining 5% is for Emergency fund which may also fight against your contingency with creating the wealth.

Emergency funds:

Emergency Fund helps people in case of sudden loss of income, medical emergency etc. Thumb rule says one should have emergency fund equal to 3 to 6 months of monthly expenses. You can keep it at 3 month if you are a government servant but in case of private job or profession you should keep it on the higher side of the range. Make sure you don't use this amount for day to day needs/wants. For retired person emergency fund should be equal to 1 year of expense.

To understand the magic of emergency fund let's take an example: Ram is a person whose monthly income is Rs. 15,000. When we split this amount of Rs. 15,000 in 50-25-25 rule than his income will be classified according to the given diagram



Source: Author's Own

Now focusing on emergency fund which is just 5% of your salary i.e, just Rs. 750, if we invest this through bank RD, post office RD or in Mutual Fund than what returns we will be getting at the end of the tenth year is being shown in the table below.

Figure 2: Table of Investment in different Financial Avenues

Investment @ Rs.750 per month	**Amount Invested through RD @ 6.85 %**	**Amount Invested through Post Office @ 7.5%**	**Amount invested in Mutual Funds assuming @ 15%**
1st year	9,000	9000	9,000
2nd year	9,000	9000	9,000
3rd year	9,000	9000	9,000
4th year	9,000	9000	9,000
5th year	9,000	9000	9,000
6th year	9,000	9000	9,000
7th year	9,000	9000	9,000
8th year	9,000	9000	9,000
9th year	9,000	9000	9,000
10th Year	9,000	9000	9,000
Total amount Invested	**90,000**	**90,000**	**90,000**
Total amount received	**129482**	**133933**	**2,06,000**

From the above table we can see that investing with different financial instrument leads to the different collection. More the risk you take more profits you collect.

Looking at the above given example we can analyze that mutual funds are giving maximum returns as compared to all the three investment alternative but it has certain risk attached with it, post office is giving the second best returns and lastly bank RD is giving the minimum returns.

Now here we are assuming one situation that if such kind of pandemic comes once in a decade than we have sufficient emergency fund to survive. Taking an example of the current pandemic situation because of Covid-19 which has adversely affected the whole economy. The intervention of this cunning corona virus has led to lockdown. Lockdown is a requirement for people to stay where they are, usually due the risk to themselves or to the others if they move freely, so to stop people from free movement lock down was announced.

Now the big question arises that if people will not move than how they will earn so to fight against these kind of situation we create "Emergency Fund". Referring again the above example if one could have save that money than he would have survived around 17 months (even if we take the minimum amount which is earned from RD of bank i.e, 1,29,482 divided by the consumption of one month i.e., 7500 than 129482 / 7500 = 17 months). Hence it is not necessary that in every decade we have to face such pandemic situations or may be some other personal problems, so if we are not facing any problem and if we invest this amount again through mutual fund than this may lead to wealth creation.

Conclusion:

A proper Financial Planning leads to many advantages like:

- Properly managed cash flows.
- Achieving personal goals.
- Personal Finances.
- Secured Retirement Income.
- Clear Retirement Goals.
- It leads to reduce risk.
- Create Succession Planning

Researcher can conclude that Rural and Poor Urban people are not aware about financial planning but have their own bank accounts. Mutual fund leads to wealth creation because it works on two major principles i.e., Rupee cost Averaging and Compounding. Financial Planning leads to create future security, the rule of 50:25:25 suggest the pattern of consumption, saving and investment . Investing with different financial instrument leads to the different collection. Mutual funds giving best returns, post office is giving the second best returns and lastly bank RD is giving the minimum returns

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