

Personal Finances' Planning and Management as means for a Successful Family Life

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Abstract- Studying personal finances helps avoiding financial difficulties and the use of financial opportunities to provide a chance for a successful family life. Personal finance is based on studying the financial resources of the family, which are considered important in the pursuit of financial success, that is, how people spend, save, protect and invest their money in everyday life. Personal finance is linked to these key concepts: financial responsibility, financial success and financial satisfaction, addressed in four key issues namely: Saving, Borrowing, Insurance and Investing. The relevance of this article is even on identifying the main advantages derived by personal digital finances, where the applicability of the cryptocurrency is increasing day by day.

Keywords- budgeting; cash management; use of credit cards; borrowing; tax management; risk management; investment; pension planning and asset creation; fiat and crypto currency.

1. ACTUAL PERSONAL FINANCES

1.1 Understanding Personal Finances and Family Financial Planning Procedures

Knowing and managing your personal finances means knowing some "techniques" that require the knowledge of families or individuals who have personal finance education about the individual or one's family.

Studying personal finances helps in avoiding financial difficulties and taking advantage of the offered financial opportunities. Making some important decisions in life causes individuals great emotions, often accompanied by anxiety. Possessing knowledge on this field, as well as gaining experience over the life, increases the ability to cope with them successfully.

Acquiring knowledge in personal finances helps to cope with the challenges, responsibilities and financial opportunities, helping towards: gaining financial knowledge, effectively using affiliates and mechanisms, clarifying financial values and goals, and identifying specific needs and desires that can be met by the financial resources they own.

The most typical issue is exactly financial planning. The financial responsibility of families or individuals means that individuals are accountable for their future wellbeing, who make every effort to make the right decisions when managing their personal finances.

Financial responsibility implies that individuals are accountable for their future welfare and make every effort possible to make the right decisions (smart decisions) on personal finances.

The personal finance study gives opportunities for individuals to avoid financial mistakes and to profit financially from the various opportunities they face.

Personal Finance is also intended at making money, which has limitations and complications in family life. Financial satisfaction is much wider than simply providing money that has to do with the satisfaction we feel about money-related issues.

1.2 Financial Purpose

Financial Purpose expresses one or more objectives to be met in the future on financial needs. It must fulfil two main attributes: to be measurable in value and in time; as well as to be feasible. Often, financial purposes are confused with the wishes of individuals.

The difference between them is clear: the financial purpose must meet two main attributes:

- First - be measurable in value and in time
- Secondly - to be achievable (feasible)

For example: the wish to buy a bigger house - expresses only a wish. While, the wish to buy a house that costs 200,000 euros after 5 years - is a financial purpose.

Brain-Storming¹ method is used to assess which of the financial goals are with the most priority.

1.2.1 Financial purpose at a given time

$$t = [\text{Current Savings} + \text{Revenues per n-Years}] + [(\text{Annual Income} - \text{Annual Consumption}) + \text{Annual Investment Income}]$$

The financial planning process can be accurately modelled from the mathematical point of view, by referring to the definition of financial purpose we have made above:

¹ The Brain - Storming method consists in identifying a family's financial goals, and then listing financial assessments and goals according to their importance.

$$W_n = W_0 (1+k)^0 + \sum_{t=1}^n (E_t - C_t)(1+k)^{n-t}$$

Where: W_n - the financial purpose, i.e. the amount of money needed to meet the financial goal.

W_0 - the amount of money the investor owns and plans to use in order to meet the financial goal, k - return rate for the savings.

E_t - money earned in year t , except for investment income
 C_t - money that can be consumed or spent in year t .

Explanations

The left side of the equation represents the financial purpose. On the right hand side, the first limit shows the existing savings at the beginning of the planning process, increased by the rate of return on savings. While the second limit indicates the amount of annual savings ($E_t - C_t$), which is invested and provides returns.

If we look closely, we can see that the period for which savings earn interest is $(n-t)$ that the profitability period decreases when the finalisation of the financial purpose approaches (mostly retirement age).

In order to make this a reality, people should seek the help of financial consultants.

Financial planners are mainly specialized in finances, investments, taxation and psychology.

1.3 The Family in the Financial Sense

A family in the financial sense is defined as a group of persons or even a single person who share a common welfare, wealth, income and expenses.

The word 'common' here means the fact that family members unite not only the resources they own, but also make joint decisions about their management and use.

Some of the members may have resources that they do not share with others, but they have in common the primary resources that are needed in everyday life. Usually they live in the same flat, but not always, or rather to say, not for a lifetime.

Personal finance nowadays is one of the most discussed and tangible issues in the lives of people, as they affect the quality of life of every individual, household, society and the economy as a whole.

We all know that over the years we get more and more involved in family problems, and at times life becomes very difficult. This is one of the main reasons explaining that the age of the individual does not matter, when choosing the moment to gain knowledge needed in personal finance management.

Often people spend 12 or more years of schooling to become able to make money without learning how to manage that money.

Usually, people finish their studies, get a job and begin to spend their income. They often make a lot of mistakes: for example, they choose a bank that has high service charges, use credit cards with high interest rates, or buy expensive insurance policies.

Most people want to deal with their finances, so they can efficiently utilize their earnings. To make this possible,

people have to set objectives, and prioritize them according to the degree of importance.

1.4 Financial Success

We all want to be successful in life, or simply to achieve financial success. Financial success means meeting the financial goals that the family (individual) wants, plans, or is trying to accomplish. Success is defined by the person seeking its fulfilment. Some may also define financial success as the realization of a certain standard of living. Many seek financial security, which provides a comfortable feeling that the financial resources they possess will be enough to meet any need and most desires. Others, want to be wealthy, i.e. have abundance of money, property, investments and other resources. A basic truth about your personal finances is that you cannot build security or wealth unless you spend less than you earn.

Of course, the economy affects financial success. This financial success will depend on the extent of understanding of the economic environment, the current phase of the economic life cycle, future economic expectations, inflation, interest rates etc.

1.5 Financial Satisfaction

Financial satisfaction means much more than just making money. This is about the pleasure we feel about money-related issues. People who are satisfied with their finances usually control the money very well and this pleasure spreads by having a positive effect on the social life of the family.

In our country Kosovo, we can say that the concept of personal finance management has begun to be implemented in recent years and at very limited levels.

1.6 Financial Management and Planning

Very important is the fact that multiple and long-term planning must be done in the family as well. This means that today's modern family needs not only to focus on the preparation of a single plan on the amount of incoming and outgoing finances, but also in coordinating a host of plans covering the core problems of a family during its lifetime.

Process of life is such that often over the years, life becomes more difficult and thus the problems that appear may become complex. These problems may relate to education, career, personal style of living, health, marriage, children and their future, old age, inheritance, etc.

Personal finance planning is the process of managing financial resources (money) to achieve personal economic satisfaction. This planning allows the individual to control his financial situation. Every individual or family has a unique (individual) financial position, so every financial activity should be carefully planned to meet the financial needs and objectives.

Financial planning can also be defined as the process of drafting and implementing long-term plans for meeting the financial objectives. In fact, one cannot talk of a single

plan, but of a coordination of plans covering different parts of the financial problems of a family's life.

An all-encompassing planning can improve the quality of a family's life, and increase satisfaction by reducing uncertainty about future needs and resources.

Specific financial planning advantages include:

- Increasing efficiency in securing, using and protecting lifelong financial resources;
- Increasing control over financial issues, avoiding debt overruns, bankruptcy, and dependence on others (for economic security);
- Improving personal relationships, resulting from good planning and effective decision-making;
- A sense of liberation from financial concerns when thinking of the future, unforeseen costs, and meeting financial goals.

We all make financial decisions every day. Most of these decisions are very simple and have little effect. Some are complex, and have long lasting effects on our lives and finances. While all make decisions, few people "wonder" how to make better financial decisions.

Financial planning usually requires diversification of assets by investing in real estate, stocks, bonds, investment funds, etc. If one of the investments does not go according to forecasts, other investments make it possible to maintain the value of the portfolio created.

Financial planning begins by recording financial objectives and goals that reflect values, habits, life cycle circumstances, desires and needs.

Planning should take into account the preparation of cost plans, risk protection plans and capital accumulation plans.

While there are others who intend "to follow the course of life" so "take life as it comes" thinking and assuming that all the financial problems that arise naturally throughout life will be solved.

However, managing family finances without well-defined financial goals is just like driving a car without knowing where to go - which means never reaching a desired destination.

Three main factors influencing the decisions regarding family's financial planning are the life cycle, individual values, and economic factors.

Life Cycle - People at the age of 20 spend money differently than those around the age of 50. Personal

factors, such as age, income, family size, affect the way people spend and save.

Individual Values (Personal) - An important element to consider is personal values. Personal values are ideas and principles that a person considers appropriate, desirable, and important.

Values have a direct impact on decisions such as: spending now instead of saving for the future; to continue education or to start a job; etc.

Economic factor - Daily life activities have a major impact on financial planning. As is well known, demand and supply for goods and services determine the price for these goods and services.

The economic environment will depend not only on internal but also external factors. Often, economic developments in foreign countries have a significant impact on the finances of the country where we are resident, influencing our personal finances as well. The case of global financial crises is more evident.

Individuals need to consider a variety of statistical indicators from newsletters that provide these data. However, personal financial decisions will depend, essentially, on the consumer price index (inflation), consumer spending, and interest rates.

Inflation has to do with an increase in the overall price level. In inflationary periods, money loses its power sharply. The main reason that causes inflation is an increase in demand, without a comparable increase in supply. Inflation hurts ("strikes") more, individuals living with fixed income. As a result of inflation, retirees and other people whose income does not change, buy fewer goods and services than before.

Inflation also affects the lenders in the opposite direction. The money paid by borrowers in terms of inflation has lower value for the beneficiaries of this money, i.e. the lenders. If an individual pays 10% interest on the loan, and the inflation rate is 12%, the money he pays the bank has lost the purchasing power. That is why interest rates increase in inflation periods.

The interest rate on borrowing represents the cost of money. Like everything else, money has a price. Interest rates affect financial planning. Higher interest rates make loans more expensive; High interest rates make saving and investment more attractive and somehow encourage borrowing.

Table 1: Personal Finance Planning - Financial Balance

Assets	Description	€ (Euro)
Money	Cash	500
	Savings Account	6,000
	Current account	3,200
	Life Insurance value	1,800
		11,500€
Real Estate	House	50,000
	Land	20,000
		70.000€
Personal Items	Car	20,000
	Furniture	2,400
	Home Appliances	1,600

	Computer and Printer Jewellery	2,000 26,000€
Investments	Inv. In Mutual Fund Securities Inv. In Private Pension Fund	10,000 5,000 6,000 21,000€
Total of Financial Assets		128,500€
Short-term liabilities		
Liabilities	Energy, water, telephone, Credit Cards Healthcare Expenses Consumer Loans	280 220 1,000 1.800 300 3,600€
Long-term liabilities		
	Car Loans House Loans Student Loans	5,000 25,000 5,000 35,000€
Total of Liabilities		38,600€
Net Household Wealth		89,900€

Table 2: Personal Finance Planning - Statement of Expenditures and Revenues

Income	Description	€ (Euro)
	Husband's Gross Salary Wife's Gross Salary Interest and dividends Compensation for children Rental Income	10,400 8,200 1.400 700 4,000 24,700€
Total Income		24,700€
Expenditures		
Fixed costs	Mortgage instalment Property insurance Vehicle Loan instalment Vehicle Insurance Life insurance Local tax Taxes	 450 360 250 30 400 150 50 1,660€
Variable costs	Food Expenditure on water, energy Fuel, car services Medical Expenses Clothes	6,400 420 2,400 950 2,100

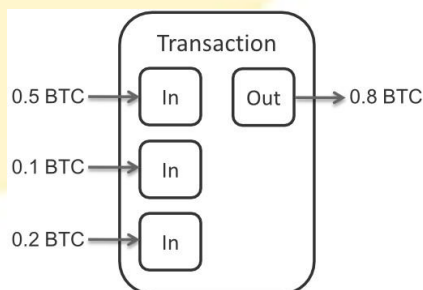
	Gifts Others	200 120
Total Expenditures		12,590€
Net cash - surplus		14,250€
		10,450€

2. FUTURE PERSONAL FINANCES

In 1999, Professor Milton Friedman who is the winner of the Nobel Prize in Economics considered the internet as one the forces which can reduce the government's role in the society. He stressed out that something that is missing in the society, but which soon will be developed is a trusted e-cash. Nine years later, on 2009 Satoshi Nakamoto discovered Bitcoin as one of the most significant cryptocurrency. So, personal finances are much more secure and easily exploitable and manageable in cryptocurrency content than in fiat currency content. Cryptocurrency as a real but virtual currency is enabled by blockchain technology which provides transparency by evidencing each bilateral financial transactions at anytime and anywhere. All bilateral and other transactions are cheaper and get faster proceeded from A to B. So, if A is required to send bitcoin (the main cryptocurrency) to B, A

has to open his bitcoin wallet, scan B's address, fills the amount (and the fee) and send the amount to B. The wallet signs the transaction using A's private key, which transaction is propagated and validated by the network nodes. Miners which validate each of the transaction include the transaction in the next block to be mined. All the process takes some time, but after the validation new bitcoins (max. 21 mil.) are created, where miners who solves the Proof of Work propagates the new block to the network and the nodes verify the result and propagate the block. After all this process, A sees the first confirmation and new confirmations appear with each new block that is created. After the completion of all possible confirmations the transaction is completed and the bitcoin is transferred. Based on this process which is made possible by blockchain technology, it seems obviously that all the transactions are transparent, secured and fastly completed.

Figure 1: Cryptocurrency transaction



Through fiat currency people make a lot of mistakes by choosing banks which have high service charges and use credit cards with high interest rates. Through cryptocurrency, people will be able to manage their money and transactions without the need of any other financial institution or banking interference. Many advantages and usage rules derived by actual personal finances will be inherited to the future digital personal finances.

Finally, the role and physical appearance of the fiat currency is gradually vanishing, while the applicability and the value of cryptocurrency is increasingly and continuously going up. The sooner it gets adapted much higher are chances to benefit from its advantages that it creates.

3. CONCLUSIONS

- Nowadays, people's tendency is to marry at a later stage of life, and most families have two main sources of income. Also, the number of families with a single parent has significantly increased. A considerable number of women, singlehandedly care for small

children as well as for parents. Also the life expectancy has increased.

- Every individual or family in everyday life faces a number of financial problems. To successfully cope with these problems, well-formulated financial goals should be defined. In this way they reflect what is most important to the family.
 - Financial planning takes into account all events that pertain to the life cycle of an individual or family, making the necessary adjustments. These adjustments consist of changing priorities for these events, as well as adapting new potential events.
- Success in financial planning requires: well-defined financial objectives and goals, accurate forecasts for the economy (for example, inflation forecasts, interest rates and loan costs, etc.), logical and sustainable financial strategy, consideration of resources that are mastered to meet the objectives. Thereafter, only the appropriate actions should be taken.
- Personal finances are much more secure and easily exploitable and manageable in cryptocurrency content than in fiat currency content.

4. RECOMMENDATIONS

- The quality of life of any individual or family is closely related to the income it provides, therefore it is recommended to plan and manage well personal finances so as not to fail in the future.
- The way of life of a family or individual is created as a combination of the life cycle, individual values, and economic factors. Rapid social changes lead us to changes of the financial needs of families or individuals, and this is one of the main reasons why good personal finance planning should be done, especially in the Republic of Kosovo.
- Since financial planning is also influenced by civil status, family size, employment, as well as by events such as: graduation of young people (for different levels of education); marriage; birth; adoption; career change; leaving home at the age of 18; changes in health; divorce; retirement; the death of one of the spouses; etc. it is recommended for every family in Kosovo to do finance planning in a timely manner so that family life does not fail because of mismanagement of personal finances.
- There are few households in Kosovo that deal with personal finance planning because there are individuals who think that accurate determination of financial goals is a worthless and unprofitable work.
- Most households in Kosovo have both consumer and housing loans, and therefore we recommend that any

loan, apart from the advantages, has negative sides, one of which is the temptation to overcome the costs, which leads to the failure to repay the loan, and this failure is accompanied by financial failures during the borrowing period.

- The sooner the cryptocurrency gets adapted by our personal finances and gets used as a transactional tool the higher are chances to benefit from its advantages that it creates.

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