International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Significance of Liquidity Planning in Personal Finance

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ABSTRACT :

Savings play a vital role in every individual's life. Putting aside a certain amount of the monthly earnings ensures one's safety for future uncertainties, as it influences the quality of life, education, health, and overall wealth of an individual as well as the people associated with that individual. Liquidity planning helps one to keep money aside for an emergency like retirement, loan repayment, funding education, and other investments. Liquidity funds are short-term emergency funds that is needed for every individual, business, and organization to run their family, or business smoothly and help in facing any emergency or uncertainty that occurs in the future.

Keywords: Liquidity Planning, Emergency fund, savings, Financial behaviour

INTRODUCTION :

Liquidity planning refers to keeping money ready for an emergency is important. Emergency needs funds immediately. Money needs to be kept aside to handle such emergencies and to meet contingencies in the future. Liquidity is required for planned and/or unplanned events. Planned expenses are such as buying a car, down payment(s), sending a kid to biz school, etc. Unforeseen/Unplanned expenses are large hospital bills, getting fired, comprehensive car cover, the 2020 pandemic, etc., for which nobody remains prepared even the financial planners **(Halan, 2021)**.

Liquidity refers to accessing funds that are required to meet short-term emergency cash needs. There will be times when individual cash inflows are insufficient to meet their cash outflows, which is why liquidity is essential. However, there are possibilities of expenses associated with keeping an excessive level of cash on hand. Individuals should make a conscious decision to keep enough money in liquid assets, like savings or bank accounts, that they can rely on if their outflows of cash exceed their inflows. In this way, one should maintain adequate liquidity **(Madura and Gill, 2018)**. The term Liquidity management or planning is not confined to only individuals or households but is also applicable to organizations, institutions, companies, and other sectors as well. One should not wait for a crisis or significant life event; everyone should prepare for the worst in advance. One should use credit cards only for emergencies or convenience, not to carry debts. If an individual cannot use their credit card properly, remove all the cards and keep cash, cheques, and debit cards. No one knows what the future holds for anyone; everyone must be ready with their emergency reserves, which is a financially wise decision **(Tyson,2023)**. Liquidity is defined as dealing with unforeseen circumstances which is a lot more than simply adaptability or the capacity to access money when an individual is in urgent need. Sometimes one needs access to hard currency at the moment **(Keown, 2019)**. Liquidity refers to how easily an asset is converted into cash without losing much of its actual value, e.g., cash (checks and savings) and securities (stocks and bonds), depending on how quickly one can sell them off in the market. Understanding the liquidity requirement is a major part of financial planning. Individuals must prepare for their future goals, including retirement, and fulfill their financial commitments today by knowing how much cash they need to keep on hand. Liquidity is a crucial indicator of one's overall financial health, so keep it in mind when making financial plans **(Sachs, 2023)**.

RESEARCH OBJECTIVES

1. To understand about the Liquidity planning
2. To understand the significance of liquidity planning in personal finance

METHODOLOGY

Paper is based upon content analysis, an analytical review of literature relating to data and information available published/ researched.

REVIEW OF LITERATURE

Savings are pivotal in life, as one cannot predict the future. Savings are directly proportional to safeguarding and securing oneself from any emergency in life. Quality of life depends on many factors, like education, health care, and others related to a person's happiness and satisfaction **(Curtis et al.,**

2017). Adequate savings and financial knowledge are crucial for secure retirement planning **(Adee & Lau, 2022)**. The savings pattern of an individual affects their standard of living, emergency fund, and ability to grab opportunities related to investment. Putting aside some vital parts of one's earnings is crucial for one's retirement, paying off loans, funding their children's education, and other investments. Financial freedom, skills, and confidence in oneself significantly influence logical financial decisions **(Anong & DeVaney, 2010; Huston, 2010; Shanmugam & Abidin, 2013; Dholakia et al. (2016)** beautifully explained savings, like how ants save their food in summer and use that food in winter, whereas grasshoppers starved because of a lack of food availability in winter. Therefore, individuals should save money like an ant rather than spend like a grasshopper, that is how one can understand the individual's effective financial decision-making. Family savings plays a vital role in the long-term well-being of all members. Savings are defined as the balance between financial behavior and spending preferences. Savings are not only the result of financial behaviors but also the outcome of intra-household bargaining and power dynamics (**Chawla & Svec, 2023**). So, basically Liquidity revolves around the concept of savings as well. Liquidity refers to access funds which are required to meet the short-term emergency cash needs **(Madura,2020)**. The term Liquidity management or planning is not confined to only individuals or households but is also applicable to organizations, institutions, companies and other sectors as well. One should not wait for a crisis or significant life event; everyone should prepare for the worst in advance. One should use credit cards only for emergencies or convenience, not to carry debts. If an individual cannot use their credit card properly, remove all the cards and keep cash, cheques, and debit cards. No one knows what the future holds for anyone; everyone must be ready with their emergency reserves, which is a financially wise decision **(Tyson,2023)**. Savings plays an important role as far as talking or keeping aside some money for the future unexpected events. The saved money can subsequently be invested into short, medium, or long-term objectives. Savings in an emergency fund is a short-term goal, and will often yield less interest than assets in a retirement plan, which is a long-term goal **(Madura & Gill, 2018)**. There will be times when individual cash inflows are insufficient to meet their cash outflows, which is why liquidity is essential. However, there are possibilities of expenses associated with keeping an excessive level of cash on hand. Individuals should make a conscious decision to keep enough money in liquid assets, like savings or bank accounts, that they can rely on if their outflows of cash exceed their inflows. In this way, one should maintain adequate liquidity **(Madura,2020)**.

IMPORTANCE OF LIQUIDITY :

The Importance of liquidity planning has been found by analysing various blogs, articles, and research papers that are contributed by **Sachs (2023), Di Maggio and Verde (2023), Perry et al. (2023), Cunha et al.(2011), Palmer and Goetz (2022) , Felton (2023), Felton & Paradise (2023) , Costa & Felton (2023) .**

1. **Cash Flows**: Having liquidity makes it easier for us to pay for short-term and regular expenses like rent, groceries, auto payments, and mortgages. One should know how much they should keep aside for their liquidity purpose or short-run funds.
2. **Prepared for Emergencies**: Keeping ones' liquidity in balance also helps with debt management. Precautionary savings is a deeply embedded habit that helps to control uncertainty and provide stability in the future. Liquidity helps us in managing the impact of future economic uncertainties. One should prepare an emergency fund according to their wealth or inflow of income.
3. **Debt Management**: One should maintain the right balance of liquidity to manage the debt. One should make timely payments on loans that help avoid defaults. Researchers find out that attitudes towards debt play a major role in financial anxiety or stress in individuals and impact their fear of having debt and proper utilization of that debt. Individuals should manage properly credit cards and monthly time payments in each month on a particular date.
4. **Financial Goals**: Maintaining an adequate amount of liquidity helps to access the financial goals more effectively and efficiently. It helps in being nimble in their approach and grabbing the financial opportunities that come in the way.
5. **Proper Insurance Schemes:** Insurance Schemes must be affordable, flexible plan, worst-case scenario protection, and cost predictability. Recommended Insurance schemes are Health, life, disability, motor vehicle, homeowner or renters' insurance (liability). One should have proper and timely insurance schemes for themselves as well as for their family members.

CONCLUSION :

Savings are necessary to protect oneself from unforeseen events in the future. They are essential for emergency preparedness and have a big impact on people's quality of life, which includes their access to healthcare, education, and general happiness (Curtis et al., 2017). Adequate savings can have an impact on an individual's standard of living, emergency fund, and investment opportunities. Financial literacy and adequate savings are essential for safe retirement planning (Adee & Lau, 2022). It's critical to set aside money from one's income for retirement, education costs, further investments, and debt repayment. One's degree of financial independence, confidence, and abilities have a major role in making logical financial decisions (Anong & DeVaney, 2010; Huston, 2010; Shanmugam & Abidin, 2013). Dholakia et al. (2016) use the example of how ants store food for the winter to highlight the importance of prudent saving methods. Family savings also contribute to the long-term well-being of all members by balancing spending preferences and financial behaviour (Chawla & Svec, 2023). Having adequate cash on hand ensures that one can adjust to variations in cash flow without going over budget. Thus, prudent saving and liquidity management are essential for preserving financial preparedness and stability.

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