



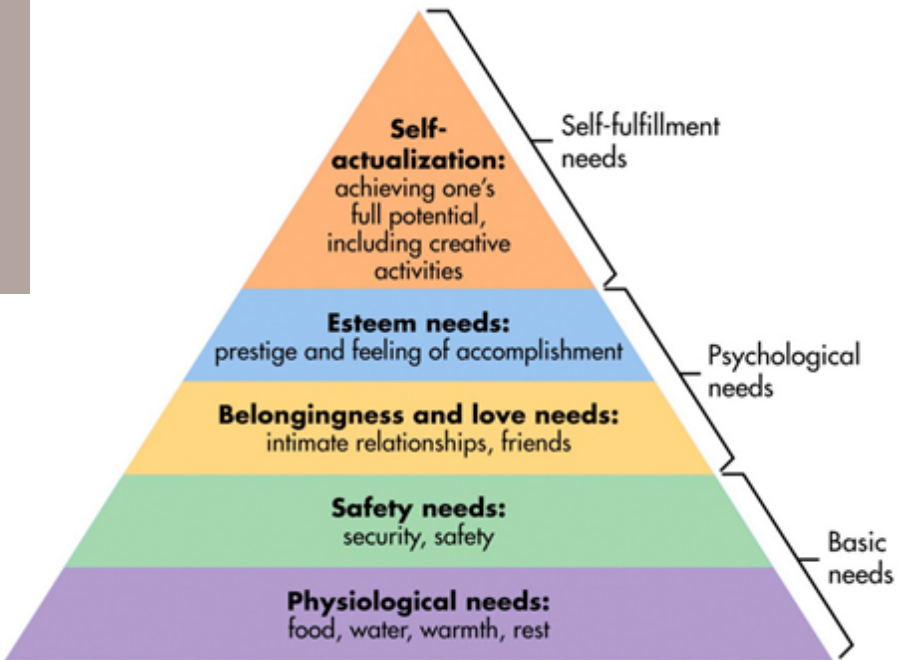
# *Hierarchy of Financial Needs*



If you've ever taken a psychology course you may be familiar with Abraham Maslow's Hierarchy of Needs. In ascending order, the needs are:



- 1. Physiological**
- 2. Safety**
- 3. Social / Belonging**
- 4. Esteem / Achievement**
- 5. Self-Actualization/ Reaching your potential**



The theory states that people need to fulfill their basic needs before devoting energy to the higher levels. So, for example, you can't focus on your job (safety) if you are hungry or haven't had enough sleep, and you can't focus on friendships or reaching your potential if you are about to lose your job.

The hierarchy of needs is simply a way of setting priorities in your life.



## Hierarchy of Financial Needs

We can also apply a similar concept to prioritizing our financial needs. Although every individual faces their own unique circumstances, the model is applicable to all demographic groups – whether you are starting your first full-time job, or finally handing in your nametag after a long career.

When you're thinking of your finances your first consideration shouldn't be how to invest your money when you are having trouble paying your bills.

The first step is to know what, how, and in what order things need to be done. Begin at the bottom of the priority pyramid and work your way up.



Legacy

Financial  
Independence

Enhance Life

Accumulating Assets

Security/Safety

Basic Necessities

## **Level 1 – Basic Necessities**

First you need to construct a solid base. We need to fulfill our basic needs before we can move on to the next level. The most basic financial need is income to cover your necessary living expenses of food, shelter, and clothing.

## **Level 2 – Security and Safety**

Life is full of uncertainties. Always have a fall-back in case of unexpected events that can create setbacks. Once you have your basics under control you need to protect your earnings with life and disability insurance. Protect your assets with auto and home insurance.

Invest in your career to secure your future employment. An emergency fund also fits into this level as well as will and estate planning.

## Level 3 – Accumulating Assets

Once you have protection, it's time to grow your wealth. To acquire some assets like real estate, you may need to leverage credit to acquire the necessary capital. Paying off debt is a form of savings, too. The best return on your money is paying off credit card debt. This will always boost your bottom line. Invest for future returns to attain important life goals such as children's financial goals, Retirement planning, and future financial security. Remember, the money you save now will be spent by the future you.



## **Level 4 – Enhancing Your Life**

Save for specific goals that will enable you to do the things that bring joy into your life like enjoying family activities and entertaining friends. We all need a few luxuries. It could be anything from travel or buying a vacation home to enjoying hobbies and drinking fine wine.

## **Level 5 – Financial Independence**

Financial independence means you are able to live on income from pensions, investments or passive income such as dividends, royalties and rental income. It often refers to the retirement years, but it can also mean the freedom to work how, when and where you like. It means not having to worry about money.

## Level 6 – Leaving a Legacy

You leave a legacy by making a difference in someone else's life. Make charitable donations to a cause you believe in. Help your children or grandchildren with their education expenses or start a business.

### Summary:



In much the same way you master each level in your favorite video game before moving on to the next, prioritize your financial decisions in order.

The bottom three rungs in the hierarchy of financial needs make up your foundation. Once they are in place you can move on up to achievement and your full potential.

**Carefree Retirement** solution is Ahmedabad's first specialized financial planner for retirement planning. Our goal is to provide you best possible solutions to create wealth on retirement and at the same time to make the post retirement transition as smooth and as enjoyable as possible. We work dedicatedly to ensure that your family can maintain an optimum lifestyle in this high inflationary environment and also meet regular financial goals as and when they come; without affecting most important financial goal of retirement planning.

**Chetan Upadhyay** is a brain-child behind this venture. He is a certified financial planner and possess masters degree in commerce. He is in this field since march 2005 and in these past 14 years, he has witnessed an urgent need of robust financial planning for each and every citizen of India for their own retirement. He fears that in few decades India will be standing at the edge of being considered as an old age country without financial support for their citizen.



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