

A Study on Financial Planning: A key to Wealthy Life

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Abstract

Financial Planning is playing a major role in personal financial decisions making. It means an organized way of managing money in our daily walks of life and it is a plan to know how to spend money against income. It focuses on different options on savings. Convenient sampling was used for the study. The sample of 250 is taken for the study at Anekal, the semi-urban region in Bangalore. The study examined the perception of the financial knowledge aspects with the help of statistical tools chi-square and correlation analysis. The study revealed that the null hypothesis was rejected in association with demographic factors and awareness on liquidity, preference in savings and financial knowledge at 5% level of significance. There exists high positive (.779) correlation in knowing the meaning of liquidity and tenure of the investment. The study concluded that people in the selected region are having very good financial Planning and interested in improving their financial knowledge. (80%) Nearly 81% of them know the meaning of the terms savings and investment

Key words: Financial knowledge, Financial Planning, wealthy life.

Introduction:

Literacy means how an individual can understand and apply the known information into practice.

Huston, S. J. (2010) General literacy refers to a person's ability to read and write (**zarcadoolas pleasant & Grace 2006**). There are various skill sets available for an individual to improve efficient and effective ways of handling things. To name a few computers literacy, statistical literacy, digital literacy, cultural literacy is significant for individual growth. Financial knowledge can be conceptualised in two dimensions: Personal financial knowledge and personal finance application. Financial Planning is an integral dimension of financial Literacy. Generally, an individual must have the ability and confidence to use his/her knowledge to make decisions.

The study is an attempt to find financial Planning among the general public and understanding of various financial matters including managing personal finance, money, borrowing, and investment patterns. The study covers awareness about the difference between savings and investment and liquidity. Budget for household expenses, type of financial service utilized, option on savings and tenure of savings are the factors which tells about their understanding of the personal financial management practices. questions like Is technological advancement improves the financial knowledge and personal rating on financial knowledge are asked to know their views on financial knowledge.

Research Methodology:

Sampling: In this research a random sampling technique was used. A total of 250 Responses were collected from the respondents. The respondents were from Bangalore semi-urban Anekal region of Karnataka.

Questionnaire Design: A questionnaire developed with the help of past literature for the purpose is measured using the factors. Few questions were asked based on the 5-point Likert Scale. To understand the perception on the financial Planning dichotomous questions were asked.

Literature Review:

Huston, S. J. (2010). This research was conducted to analyse the previous studies on how the measuring of financial literacy is carried out and 52 USA samples were collected. It was mentioned that no standard test or no standard instrument is available to measure financial literacy. Almost in all the previous research the terms like personal human capital, personal finance, financial knowledge, financial literacy is closely interchanged. Instruments evaluation was made on the basis of category, construct, content, structure, rating, target audience and sample size were analyzed. It was found that 72% of studies did not include financial literacy, 15% included specific elements to measure, 13% provided formal definitions of terms and 47% of the studies analyzed used the terms financial knowledge and Financial Knowledge synonymously.

Review of literature of the last decades covered money basics, borrowing, investing in protective resources. 9 out of 10 the studies conducted previously do not have indicators to measure financial literacy. It was concluded stating that few researches suggest that financial literacy does not mitigate financial problem and more standard approach is needed to identify barriers to financial wellbeing.

KachenSehrawatMadhuVij (2019) Financial wellbeing Among Private and Public sector employees- A Preliminary study. The Indian Journal of Management. There is a lack of adequate financial planning among workers to sustain their average active lifestyles (seibert& Meredith,2014). Research in financial literacy and wellbeing is crucial, given that financial problems are widespread which not only creates a serial problem but also levels to negative welfare effects now and in the future. Financial wellbeing has a strong posture relationship with overall wellbeing. Highlighting its importance for individuals. High depression symptoms are reported in individual with persistent over- debt (Hojmar, mirada& Ruiz-Tagle,2016).

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Objective and subjective approaches are used to measure financial wellbeing. Income level, savings and debt-income ratio were taken in an objective approach. subjective approach considers people perception and reaction to their financial condition (onveil, sorhaido, xiaour,Gormar,2005)

The study conducted in 2008, emphasized on the concept of general wellbeing is defined as financial wellbeing as a state of having sound finance, happy life without worries. Financial knowledge and awareness are important sub-components of financial knowledge.

(Atkinson&Messy.2012) Financial literacy is low across the global (Lusardi&Mitchell,2014), moreover women on an average were reported to be more ignorant towards financial affairs (Bhondo-saraf 2016) and were found to be less financially knowledgeable than men with only about 43% women compared to 54% mean in the G-20 countries achieving the minimum target score (70% of answers OECF,2017).

Previous scholarly work suggested gender to be an important demographic factor among others imparting the level of financial literacy (shoba&chakaravorty 2017) financial literacy is composed of 5 items on 5-point (Lusardi& mitchell's2011) question on interest compounding, inflation risk diversification. Each correct answer was allotted a binary code. both reflective and formative constructs are assessed. The study implies that financial knowledge does not lead, sound and healthy financial life.

Financial literacy is the main predictor of financial wellbeing among public sector employees whereas financial behavior is the main determinant of financial wellbeing of private employees. Private employees both financial literacy and financial behavior are formed to be statistically significant in affecting the subjective FWB.

Sekar&Gowri (2005) conducted research to know financial literacy among young employees and their financial planning. They analyzed the relationship between financial knowledge and demographic & socio-economic factors. The study concluded that the male and female do not have the same level of financial knowledge. financial knowledge level does not depend on age. Married employees are more financially literate than unmarried employees and the overall financial knowledge level of 50.90% among all respondents shows that financial knowledge needs to be improved. The study suggested that more measures should be taken from the government to increase the awareness about financial related matters.

Results and Discussions

Table -1

Demographic profile and socioeconomic status of the respondents

Sl.no	Demographic factors	No. of respondents (frequency)	percentage
1	Gender		
	a. Male	122	48.8
	b) female	128	51.2
2	Age		

	a. 20-25	51	20.4
	b. 25-30	90	36
	c. 30-35	45	18
	d. Above 35	64	25.6
3	Occupation		
	a. Salaried	70	28
	b. Business	69	27.6
	c. Others	111	44.4
4	Income		
	a. 50k And Above	149	59.6
	b. 60 k and above	75	30
	c. 70k And Above	26	10.4
5	Marital status		
	Married	201	80.4
	Unmarries	49	19.6

Source: Compiled from Primary Data

The Table -1 portrays the demographic profile of the respondents. There were almost equal male and female respondents for the study. Majority of the respondents fall under the age group of 20-25 years. Nearly 45 % of the respondents have occupations other than salaried and business which means that most of the respondents are youngsters. Nearly 60 % of the respondents earn Rs.50,000-60,000. The above profile shows that 80% of them are married.

Table -2
Outlook on Perception about financial knowledge

Sl.no	Aspects	YES%	NO%
1.	Are you Aware of the difference in investment and savings?	81	19
2.	Do you make savings?	62	38
3.	Do you Prepare budget every month?	66	34
4.	Do you make long term savings?	33	67
5.	Are you secure in terms of finance?	40	60
6.	Are you happy with current financial situation	44	56
7.	Does Technological advancement improve your financial knowledge?	48	52
8.	Are you interested in improving your financial knowledge?	80	20

Source: compiled from Primary Data

The above table shows the outlook on the perception about financial aspects of the respondents.81% of the sample respondents are aware of the difference between savings and investments and 63% said they are interested in making savings. Monthly budget has been prepared by 66% of the respondents.

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It could be interpreted that they have knowledge about budget and its importance. 33% of the selected respondents agreed that they do not invest in long term investments which clearly indicates that majority of the people would prefer short- and medium-term investments for their savings.

Demographic factor	Option in savings	Awareness on difference between savings and investment	Financial knowledge
Gender	.000	.000	.000
Age	.045	.045	.045
Occupation	.002	.002	.002
Income	.000	.000	.000

Questions were asked to understand the mindset of the people in relation to financial knowledge. 56% of them expressed that they are unhappy about their financial conditions and 60% of them are unsecured. Only 48% of people have a positive view that technological advancement plays a major role in enhancing financial knowledge. 80% of them are interested in improving financial knowledge. It is evident that people are having good knowledge about savings and investments and they are keen on enhancing their financial conditions.

Hypothesis analysis:

H0: There is no significant influence of Demographic factors and savings options.

H0: There is no significant influence of Demographic factors and awareness on savings and investment.

H0: There is no significant influence of Demographic factors and Financial knowledge.

Table-3 Chi-square analysis

Source: compiled from SPSS Output

Chi-square test is conducted to know the statistical influence of demographic factors and other variables like Option in savings, Awareness on difference between savings and investment & Financial knowledge. The results reveal that at the significant level 0.05%. Age (.045), occupation (.002), gender (.000), income (.000). p-value (p<0.05). These results are clearly saying that Null hypothesis is statistically rejected and the alternative hypothesis can accept. i.e., There is significant influence on the demographic factors and investment option, Awareness on the distinctness of savings and investment and financial knowledge.

H0: The awareness on liquidity and tenure of investment are not correlated.

Table-4
Correlations

		Aware of word liquidity	How long do you wish to invest

Aware of word liquidity	Pearson Correlation	1	-.021
	Sig. (2-tailed)		.779
	N	185	185
How long do you wish to invest	Pearson Correlation	-.021	1
	Sig. (2-tailed)	.779	
	N	185	185

Source: Compiled from SPSS Output

The above table shows the correlation analysis on the liquidity and tenure of investment. There exists a high positive correlation. Liquidity means how quickly one can get cash. In simpler terms, liquidity is readiness of money. The highly liquid assets are Cash in hand, savings at bank can be easily converted into cash as and when required. Tenure of investment and liquidity shows high positive correlation which can be inferred that most of the respondents wish to invest for short-term and want to enjoy liquidity.

Conclusion:

The study concludes that people in the selected region are having very good financial Planning and interested in improving their financial knowledge. (80%) Nearly 81% of them know the meaning of the terms savings and investment. And most of them (66%) of the respondents prepare a monthly budget and many wish to invest in short term avenues. These factors convey that they have good financial knowledge.

Financial Planning is playing a significant role in the wealth of an individual. Financial knowledge includes savings patterns, planning for retirement, investment in mutual funds, portfolio management. Creation of wealth by taking new ventures and innovative practices and developing new business opportunities. As the words of Jack Ma, the richest man in China said, if you put bananas and money before Monkeys, they pick out Bananas because monkeys are oblivious that money can fetch more bananas. In reality, if an opportunity is given to choose a job or business to people, they would choose a job because most people are unaware that business can bring more money (profit) than salaries. Profit is better than salary because salaries can make you living but profits can bring you a fortune.

So, it is very much essential to create financial awareness and understanding about financial aspects in the minds of people. Certainly, Financial Planning is key to a successful and wealthy life.

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