

Personal Financial Planning: When Should You Start?

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Abstract

This study was conducted to determine if age plays a factor in the level of a person's personal financial awareness and practices. An online survey of Truman State University students and Faculty was conducted, and the data was analyzed using crosstabs in SPSS software. In general, the results showed that older people are more aware of their personal finances and have begun saving for retirement. However, contrary to other studies, older people have more credit cards and credit card debt than younger people based on the data. Finally, the data showed that people who feel that they are aware of their personal finances, generally are aware and demonstrate their awareness through their actions.

I. Introduction

Recent news articles have described a crisis in the personal finance habits of young adults. More and more students are graduating from college deep in debt. Credit card companies start sending multiple credit card offers to students at earlier and earlier ages. As tuition rates increase, many students are borrowing money to attend school and then start accumulating more and more debt by using the credit so easily extended by these credit card companies. Financial planners agree that people need to have money set aside in an "emergency fund" so they do not have to use high interest rate credit cards if problems arise. Many students do not have money set aside and have to turn to credit cards (Fetterman).

Student borrowing seems to be rising overall, whether via credit cards or private student loans. Based on an article in USA Today, nearly two-thirds of "twentysomethings" have debt and the total average debt is \$16,120 (Fetterman and Hansen). Students think that they can easily pay off these debts once they have a full-time job and find later that getting out of debt is much harder than they anticipated. With all of this debt accumulated, many young people have stopped paying their debt, forcing lenders to charge it off (Fetterman and Hansen). As a result of all of this, some young people are forced to put things off, like buying a home, getting married, or having children, in order to pay off their debt (Fetterman and Hansen). In a poll of 910 "twentysomethings" nineteen percent had to move back in with their parents to cut costs (Fetterman and Hansen).

We assume that older adults should be more aware of and more adept at handling their personal finance. However, another critical issue regarding personal finances is the lack of saving and investment by older adults. Reports indicate that Social Security and company pensions will not provide sufficient funds for adults in their retirement years. Individuals must take responsibility for their financial futures and investing money for their retirement. Many have spent beyond their means in their early adult years, and have accumulated debt through heavy spending, credit cards, and mortgages, thinking there will be time to save money for retirement as they get older.

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It is important for young people to begin forming good personal finance habits while they are still young. One study showed that fifty-five percent of young people are not saving for retirement in a 401(k) or individual retirement account, and forty percent do not even have a savings account (Waggoner). Results like these caused the State of Missouri to add a half-unit course in personal finance as a new requirement for high school graduation. The new policy began applying to the 2006-2007 freshmen class graduating in 2010 (Morris 1).

This research was designed to determine how personal finance attitudes, habits, and awareness differ between young adults who are just beginning to develop their personal finance practices and older adults who have established patterns of personal finance behaviors. Throughout the process of conducting this research, the hope was to encourage people to think about their personal finance situation and become more aware of good practices and how to do a better job of planning for their financial future. This research demonstrates the importance of educating young people in the importance of personal financial planning.

II. Data and Methodology

II.1. Data

As a sampling technique for this research, an online survey consisting of 30 questions was developed. Question types included choose the best response, choose all that apply, yes/no questions, and Likert scale questions. The first two questions were demographic questions, that assessed the respondents age and sex. The third question listed several aspects of personal finance and asked respondents to check the ones they felt were aspects of personal finance. The purpose of this question was to see if people realized how broad personal finance is and what it encompasses. The fourth question asked respondents to assess how aware they felt they were about their personal finances. This question was used as a measure to determine if people are as aware of their personal finances as they think they are. The remainder of the questions were designed to measure if respondents are aware of various aspects of personal finance and if they demonstrate that awareness through their actions, for example, developing and following a budget, keeping a check register, and saving money each month. The survey was posted on Truview, Truman State University's local portal. The survey link was also emailed to all of the deans to distribute to their respective divisions' faculty. An incentive of a chance to win a \$50 gift card was used as motivation to complete the survey.

There were 745 responses to the survey. Of those responses, 690 of them were from ages 17 to 25, and 55 were from ages 26 and greater.

II.2. Hypotheses and Methodology

Three main hypotheses were developed before conducting this research.

Hypothesis 1: Personal financial awareness is dependent upon age. Older adults are more aware of their personal finances and have established firm patterns regarding their finances. Younger people are less informed about what are good personal finance practices.

Hypothesis 2: Good personal finance habits are dependent upon age. Older adults save money in order to prepare for retirement and have little to no credit card debt. Younger people do not save much money, are not preparing for retirement, and have credit card debt.

Hypothesis 3: Many who believe they are informed about their personal finances do not demonstrate it through their actions and habits.

The underlying reasoning behind these hypotheses is that personal financial awareness is dependent upon age. As people get older, they become more educated about and more aware of their personal finances through classes, seminars, and experiences. The first hypothesis was formed on the basis that older adults have had more experiences to date in their lives and have had time to develop financial behaviors that work for them, where as most younger adults have not yet had these experiences. Based on other studies regarding young people and debt, younger adults are not as inclined to save their money and accumulate more debt than older adults. This is based on the assumption that younger people have less income, rely on credit to meet their needs, and plan to be able to pay their debt when they get a job.

After all of the data were collected, a crosstabs comparison in SPSS was used to find significance within the data. The data were also analyzed using Pearson's Chi Squared Test with a p-value of 0.05. The actual values of the results were then compared to the expected values based on the crosstabs to find any significant differences. Each set of crosstabs is described in the tables in the empirical results section.

III. Empirical Results and Discussion

The sample size for this study was 55 for older adults (ages greater than 26) and 690 for younger adults (ages 17 through 25). Since age was the major variable of the study, the four responses that did not include their age were not considered in the results.

The following tables show the crosstabs between age and various questions. Table 1 shows all of the variables that are independent from age based on the data of this research. For example, based on the data, age is independent from awareness, age is independent from having and following a budget, and age is independent from having a savings account.

Table 2 summarizes the variables that demonstrate dependence upon age. For example, based on the data, recognizing a 401(k) as an aspect of personal finance is dependent upon age, the amount of monthly savings is dependent upon age, and having an IRA is dependent upon age.

Tables 3 through 7 provide a break down of the results that are dependent into the hypothesis that they support or cause to reject.

Table 8 summarizes variables that are dependent upon perceived awareness. For example, recognizing impulse buying as an aspect of personal finance is dependent upon perceived awareness, having a checking account is dependent upon perceived awareness, and keeping a check register is dependent upon perceived awareness.

Table 9 summarizes the variables that are independent from perceived awareness. For example, based on the data, recognizing that having and keeping a budget is an aspect of personal finance is independent from perceived awareness, having a savings account is independent from perceived awareness, and carrying a credit card balance is independent from perceived awareness.

In comparing other factors within the survey, some other interesting relationships were discovered. The majority of the sample said that they save for reasons other than travel, car, retirement, gifts, house, and goods. People that save more are more likely to save for retirement than expected and save for a house more than expected. This would lead one to believe that people that do save are educated about the importance of saving for retirement. The majority of every age category responded that 5 to 7 % is an acceptable return on savings. The majority of every age category responded that 7 to 10% is the highest rate they could attain on their savings (except for ages 26 to 30). Finally, more older people than expected responded that they could not achieve financial independence in their lifetime.

IV. Conclusion

Based on the data, hypothesis 1 cannot be rejected. As people get older they become more educated about certain aspects of personal finance including real estate, 401(k), retirement planning, and insurance. Hypothesis 2 needs to be refined based on the data. Older people are planning for their retirement more than younger people; however, the data showed that younger people actually had fewer credit cards resulting in less credit card debt. Finally, hypothesis 3 should be rejected based on the data. Individuals that rated themselves highly on financial awareness, demonstrated it through their actions (as shown in Tables 10 through 12)

IV.1. Limitations of Study

This particular study was limited by several different factors. First, the sample was somewhat biased. The respondents were enticed by the chance of a reward. The sample also was not random since people had to read the link on TruView and respond. Second, the study had geographic and cultural limitations. It was limited only to the Truman State University community, which eliminates some cultural perspectives. Finally, the sample size limited the results. Distribution to older adults on campus (faculty and staff) was limited by University policy, hence the distribution of ages present, N=55 for ages greater than 26 and N=690 for ages less than 25.

IV.2. Possible Areas of Future Study

Areas of possible future study are numerous. However, to improve upon this particular study, multiple discriminant analysis could be used to determine if the different age groups could be profiled on the basis of multiple different independent variables. A more expansive sample including more than Truman State University students and staff would be necessary, and would also provide a more unbiased sample.

Other areas to expand upon this research include finding a reason that Truman students do not follow the trend of having more credit cards with a balance, determining the reasons students do not save for retirement, and finding out how we can educate students about the importance of saving for retirement. Finally, with the implementation of the new policy in Missouri, requiring high school students to take a course in personal finance in order to graduate, will future studies still show that younger people are uneducated about what constitutes good personal finance?

Table 1: Variables that are independent from age.

Variables	Chi-Squared Value	df	P-Value	Dependence
Age vs Impulse Buying Aspect	8.632	6	0.195	Independent
Age vs Investing Aspect	11.384	6	0.077	Independent
Age vs Budget Aspect	8.630	6	0.196	Independent
Age vs Savings Account Aspect	12.277	6	0.056	Independent
Age vs Check Register Aspect	3.090	6	0.797	Independent
Age vs Awareness	29.905	24	0.188	Independent
Age vs Checking Account	6.080	6	0.414	Independent
Age vs Reconcile	10.208	6	0.116	Independent
Age vs Savings	8.369	6	0.212	Independent
Age vs Why Save_Goods	3.586	6	0.733	Independent
Age vs Acceptable Rate of Return	28.668	30	0.535	Independent
Age vs Highest Rate of Return	34.768	30	0.251	Independent
Age vs Having Budget	10.086	6	0.121	Independent
Age vs Wise Choice	9.023	6	0.172	Independent
Age vs When IRA	48.170	36	0.085	Independent
Age vs Medical Insurance	11.132	6	0.084	Independent
Age vs Auto Insurance	3.538	6	0.739	Independent
Age vs Better Mortgage	10.155	6	0.118	Independent
Age vs Why Buy House_Equity	9.737	6	0.136	Independent
Age vs Why Buy House_Investment	1.851	6	0.933	Independent
Age vs Why Buy House_Collateral	4.103	6	0.663	Independent
Age vs Why Buy Home_Make Money	8.421	6	0.209	Independent
Age vs Why Buy Home_Save Money	9.061	6	0.170	Independent
Age vs Why Buy Home_Not Rent	8.968	6	0.175	Independent

Table 2: Variables that are dependent upon age.

Variables	Chi-Squared Value	df	P-Value	Dependence
Age vs Real Estate Aspect	22.535	6	0.001	Dependent
Age vs Checking Account Aspect	22.844	6	0.001	Dependent
Age vs 401(k) Aspect	17.777	6	0.007	Dependent
Age vs Retirement Plan Aspect	19.732	6	0.003	Dependent
Age vs IRA Aspect	23.205	6	0.001	Dependent
Age vs Insurance Aspect	24.394	6	0.000	Dependent
Age vs Check Register	14.038	6	0.029	Dependent
Age vs Means for Highest Rate of Return	62.694	42	0.021	Dependent
Age vs Number of Credit Cards	268.046	24	0.000	Dependent
Age vs Credit Card Balance	23.759	6	0.001	Dependent
Age vs IRA	169.003	6	0.000	Dependent
Age vs Financial Independence	13.488	6	0.036	Dependent
Age vs How Become Financially Independent	81.096	18	0.000	Dependent
Age vs Life Insurance	57.171	6	0.000	Dependent
Age vs Auto Premium	151.698	48	0.000	Dependent
Age vs Medical Premium	480.807	48	0.000	Dependent
Age vs Life Premium	394.094	42	0.000	Dependent

Table 3: Results related to Hypothesis 1.

Hypothesis	Result	Supports Hypothesis
Hypothesis 1	As people get older, they are more informed that certain characteristics are considered to be aspects of personal finance: real estate, 401(k), planning for retirement, and insurance.	Supports
Hypothesis 1	As people get older, they are more aware of the importance of keeping a check register (starting at ages 26+).	Supports
Hypothesis 1	Age and the amount of monthly savings are dependent on one another, but how they are dependent cannot be determined.	Neither Supports or Rejects

Table 4: Percentages supporting table 3 results.

Result	% of Ages 17 to 26	% of Ages > than 26
As people get older, they are more informed that real estate is considered to be an aspect of personal finance.	39.86%	61.82%
As people get older, they are more informed that a 401(k) is considered to be an aspect of personal finance.	53.04%	81.82%
As people get older, they are more informed that planning for retirement is considered to be an aspect of personal finance.	58.84%	85.45%
As people get older, they are more informed that insurance is considered to be an aspect of personal finance.	56.09%	83.64%
As people get older, they are more aware of the importance of keeping a check register (starting at ages 26+).	59.42%	80.00%
Age and the amount of monthly savings are dependent on one another, but how they are dependent cannot be determined.	N/A	N/A

Table 5: Results related to Hypothesis 2.

Hypothesis	Result	Supports Hypothesis
Hypothesis 2	More older people said that they save for retirement, while few younger people said they do.	Supports
Hypothesis 2	Few people said that they are saving to buy a house.	Supports
Hypothesis 2	Older people tend to have more than one credit card whereas few younger people have more than one credit card	Reject
Hypothesis 2	More older people than expected carry a balance on their credit cards.	Reject
Hypothesis 2	Those who had more credit cards are more likely to carry a balance.	Reject
Hypothesis 2	More older people than expected have an IRA, whereas fewer than expected young people do not.	Supports

Table 6: Percentages supporting Table 5 results.

Result	% of Ages 17 to 26	% of Ages > than 26
More older people said that they save for retirement, while few younger people said they do.	8.55%	45.45%
Few people said that they are saving to buy a house.	13.62%	5.45%
Older people tend to have more than one credit card whereas few younger people have more than one credit card	21.01%	83.64%
More older people than expected carry a balance on their credit cards.	23.77%	50.91%
More older people than expected have and IRA, whereas fewer than expected young people do not.	7.83%	67.27%

Table 7: Percentages supporting Table 5 result.

Result	% with 1-2 Cards	% with More than 2 Card
Those who had more credit cards are more likely to carry a balance.	26.03%	53.25%

Table 8: Variables dependent on awareness.

Variables	Chi-Squared Value	df	P-Value	Dependence
Awareness vs Impulse Buying Aspect	16.287	4	0.003	Dependent
Awareness vs Checking Account Aspect	32.938	4	0.000	Dependent
Awareness vs Check Register Aspect	17.942	4	0.001	Dependent
Awareness vs Checking Account	11.004	4	0.027	Dependent
Awareness vs Check Register	60.808	4	0.000	Dependent
Awareness vs Reconcile	57.708	4	0.000	Dependent
Awareness vs Amount Monthly Savings	40.052	24	0.021	Dependent
Awareness vs Why Save_Car	14.296	4	0.006	Dependent
Awareness vs Having Budget	23.823	4	0.000	Dependent
Awareness vs Following Budget	21.307	4	0.000	Dependent
Awareness vs IRA	16.531	4	0.002	Dependent
Awareness vs Auto Premium	53.517	32	0.010	Dependent
Awareness vs Auto Type	26.394	12	0.009	Dependent
Awareness vs Why Buy Home_Investment	10.447	4	0.034	Dependent

Table 9: Variables independent of awareness.

Variables	Chi-Squared Value	df	P-Value	Dependence
Awareness vs Investing Aspect	3.811	4	0.432	Independent
Awareness vs 401(k) Aspect	6.487	4	0.166	Independent
Awareness vs Retirement Plan Aspect	4.728	4	0.316	Independent
Awareness vs IRA Aspect	5.658	4	0.226	Independent
Awareness vs Insurance Aspect	2.577	4	0.631	Independent
Awareness vs Budget Aspect	2.332	4	0.675	Independent
Awareness vs Savings Account Aspect	7.289	4	0.121	Independent
Awareness vs Savings	6.305	4	0.178	Independent
Awareness vs Why Save_Other	4.007	4	0.405	Independent
Awareness vs Why Save_Retirement	2.624	4	0.623	Independent
Awareness vs Why Save_Gift	0.785	4	0.940	Independent
Awareness vs Why Save_House	1.674	4	0.796	Independent
Awareness vs Why Save_Goods	2.203	4	0.699	Independent
Awareness vs Acceptable Rate of Return	23.592	20	0.261	Independent
Awareness vs Highest Rate of Return	23.572	20	0.262	Independent
Awareness vs Means for Highest Rate of Return	29.077	28	0.409	Independent
Awareness vs Number of Credit Cards	24.067	16	0.088	Independent
Awareness vs Credit Card Balance	0.948	4	0.918	Independent
Awareness vs Wise Choice	5.453	4	0.244	Independent
Awareness vs When IRA	34.096	24	0.083	Independent
Awareness vs Financial Independence	6.037	4	0.196	Independent
Awareness vs How Become Financially Independent	11.905	12	0.453	Independent
Awareness vs Medical Insurance	3.138	4	0.535	Independent
Awareness vs Auto Insurance	2.317	4	0.678	Independent
Awareness vs Life Insurance	4.719	4	0.317	Independent
Awareness vs Medical Premium	36.051	32	0.285	Independent
Awareness vs Life Premium	40.015	28	0.066	Independent
Awareness vs Life Insurance Amount	46.663	40	0.217	Independent
Awareness vs Better Mortgage	0.904	4	0.924	Independent
Awareness vs Why Buy Home_Equity	8.476	4	0.076	Independent
Awareness vs Why Buy Home_Collateral	2.403	4	0.662	Independent
Awareness vs Why Buy Home_Make Money	1.515	4	0.824	Independent
Awareness vs Why Buy Home_Save Money	4.308	4	0.366	Independent
Awareness vs Why Buy Home_Not Rent	0.424	4	0.980	Independent

Table 10: Results related to Hypothesis 3.

Hypothesis	Result	Supports Hypothesis
Hypothesis 3	Within the sample the majority of each age rated themselves a 4 or 5 on personal finance awareness.	Neither Supports or Rejects
Hypothesis 3	Generally people who rated themselves highly on awareness demonstrated truth in their claim: aspects of personal finance including avoiding impulse buying, having a checking account, and keeping a check register; the importance of keeping a check register; the importance of reconciling their account with their bank statement; having and following a budget; investing in an IRA; and the idea of buying a home as making an investment.	Rejects

Table 11: Percentages supporting Table 10 results.

Result	% Rated 1 & 2	% Rated 3-5
Generally people who rated themselves highly on awareness demonstrated truth in their claim - avoiding impulse buying as an aspect of personal finance	63.54%	79.57%
Generally people who rated themselves highly on awareness demonstrated truth in their claim - having a checking account as an aspect of personal finance	81.25%	95.85%
Generally people who rated themselves highly on awareness demonstrated truth in their claim - keeping a check register	32.29%	65.33%
Generally people who rated themselves highly on awareness demonstrated truth in their claim - reconciling their account with their bank statement	28.13%	54.62%
Generally people who rated themselves highly on awareness demonstrated truth in their claim - following a budget	32.22%	50.49%
Generally people who rated themselves highly on awareness demonstrated truth in their claim - the idea of buying a home as making an investment.	71.88%	84.95%
Generally people who rated themselves highly on awareness demonstrated truth in their claim - investing in an IRA	6.25%	13.24%

Table 12: Percentages supporting Table 10 results.

Result	% of Ages 17 to 26	% of Ages > than 26
Within the sample the majority of each age rated themselves a 4 or 5 on personal finance awareness.	57.04%	80.00%

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