

## **Personal Financial Planning Behavior of Investors in Ahmednagar**

**Vishwas Pendse<sup>1</sup> and Dr.G.H.Barhate<sup>2</sup>**

*<sup>1</sup>Assistant Professor,PDVVPF's IBMRD,Ahmednagar*

*<sup>2</sup>Associate Professor,C.D.Jain College, Shrirampur*

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### **ABSTRACT**

Over the past retirement planning has become less of an institutional and more of an individual responsibility. The reasons for this change are well known and include a shift from defined benefit to defined contribution retirement programs, longer life spans, and growing uncertainty and even company pensions. The savings rate has been declining on one hand and process of portfolio management becoming more and more complex. The Government of India intends to spread financial literacy and awareness through its ambitious policies. The investors though are aware of need of systematic planning; do not engage them in such effort. The present study is an attempt to understand the underlying reasons for such disinterest by investors. Many reasons such as lack of knowledge of financial planning, unawareness of the role of financial planners, self rated expertise was found to be prominent among them. The study is limited to Ahmednagar city and can be useful in identifying underlying reasons for non engagement in financial planning or help by professionals.

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**Key words:** Socio demographic characteristics, Financial Planning

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### **Introduction**

The term 'financial planning' is the process that "involves taking stock of all your existing resources, developing a plan to utilize them, and systematically implementing the plan in order to achieve your short- and long-term goals" [Financial Planning Association (FPA), 2007a]. Financial planning is a relatively new concept that arose from the desire of households to receive comprehensive financial advice from a single source.

The important points in the definition of financial planning include determining the present net worth of an individual, formation of objective or setting goals, overview of current and probable near future expenses resulting in the choice of portfolio selection. The four essential pre requisite of effective financial management are record keeping, budgeting, comparison and estimation of net worth (Garman et al.1987). Financial planning is concerned with helping to establish context,

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a framework within which clients can explore the tradeoffs they face when making decisions, tradeoffs that go beyond the financial dimension and incorporate the subjective, psychological, and humanistic dimensions as well.(Yeske, 2010). At a very minimum, it is widely accepted that financial planning is about developing multi-dimensional strategies by which to achieve life goals (Mittra, 1990). In short financial planning encompasses every sphere of an individual's life, and shall be an important tool for achievement of one's goal at every stage of life. The significance of personal financial planning in the life of an individual includes confidence building, financial well being, organized financial practices, goal formation, insurance adequacy and optimal portfolio allocation. Taking into account the importance of financial planning it seems that there is a high degree of career prospectus in this field. One can assort the list of reasons of growing this profession, that includes baby boomer retirement, shifting of liability of retirement fund management, increased life expectancy, increasing health costs, new financial issues, increased education exposure, increasing complexity of financial investment vehicles, dual career families.

In developed countries, financial planning services are being provided by chartered financial consultants, certified financial planners, credit counselors, finance company loan officers, various tax shelter salesmen, stockbrokers, life insurance agents, mutual fund salesmen and even department stores (Thomas Eale, 1984). Hung et al. (2007) find that consumers are often unable to discern between brokers and investment advisors. In India, various financial regulators, including Reserve Bank of India, Securities Exchange Board of India, Insurance Regulatory & Development Authority etc have already embarked upon massive financial literacy programs adopting multi-pronged approach.

Reserve Bank of India has undertaken a project titled 'Project Financial Literacy' to disseminate information regarding the central bank and general banking concepts to various target groups, including school and college students, women, rural and urban poor, defense personnel and senior citizens (PIB,2012). Securities Exchange Board of India has empanelled Resource Persons throughout India who organize workshops to target segments on various aspects viz. savings, investment, financial planning, banking, insurance, retirement planning,etc. (PIB,2012). Insurance Regulatory & Development Authority has been disseminating simple messages about the rights and duties of policyholders, channels available for dispute redressal etc through radio, TV and print media in English, Hindi and 11 other Indian languages (PIB, 2012).Pension Fund

Regulatory and Development Authority (PFRDA) has been engaged in spreading social security messages to the public. The Government further envisages creation of the National Institute of Financial Education (NIFE), with representatives of various regulators as members. The main role of NIFE shall be to create financial education material for respective financial sectors. NIFE shall also create and maintain a website exclusively for financial education (PIB, 2012).

### **Review of literature**

The primary reason an individual opts out of seeking financial advice is that they truly believe that if they put their mind to it, they can perform all the tasks administered by the financial planner. Several additional reasons identified by the Certified Financial Planner Board of Standards as reasons individuals hold back from contacting financial professionals include (CFP Board of Standards, 2005): (a) they do not have the time to spare to worry about financial planning, (b) they have not incurred any major life changes recently, (c) they do not believe that they have additional disposable money to invest, (d) they know they need financial assistance, but they do not know where to begin.

Financial Planning is strongly correlated with financial and political literacy and that the relationship between planning and wealth remains strong, even after controlling for many socio demographic factors. Also it is planning that affects wealth rather than wealth affecting planning (Lusardi & Mitchell, 2007). Soberon-Ferrer and Dardis (1991) found that households with higher income, working spouse, higher educational attainment and those living in urban areas showed a greater preference for service consumption. Planning is strongly correlated with financial and political literacy and that the relationship between planning and wealth remains strong, even after controlling for many socio demographic factors. (Lusardi et al 2007). Perception towards various types of financial advisors like CA, tax consultant is associated with income and education (Pendse et al, 2012).

### **Research Methodology**

Objectives of study

1. To understand the propensity to engage in personal financial planning
2. To understand the reasons for non participation of investors in financial planning
3. To understand the association between socio demographic characteristics of investor and non practice of financial planning practices.

### Hypothesis of study

The study is also planned to test the following hypothesis:

**H<sub>01</sub>:** There is no association between socio-economic status (Age, Education, Income, Gender, Occupation of an investor and reason ( Self rated expertise, lack of knowledge of process, unpredictable income and expenses, lack of awareness of financial planners) for non engagement in financial planning.

Many sub hypotheses can be further developed from the above stating that there is no association between socio demographic status of investors and his cited reasons for non engagement in Financial planning.

### Data Collection

The present study citizens of Ahmednagar city are selected as a cohort. By purposive method of sampling the 158 individuals are selected from different parts of the city like savedi, maliwada, kedgaon, delhigate, kapadbazar. In order to capture the variation in the perception regarding the topic under study, individuals of different profession (labors to doctors) were also included in the sample. It also assures the proper representation of various socio-economic groups from city. The structured questionnaire is used as instrument for data collection. The majority questions in the questionnaire were closed and with sufficient number of mutually exclusive and exhaustive options. The analysis of the collected data is carried out using SPSS software and the results are presented in tabular, graphical form.

### Result and Discussion

Frequency Distribution of Socio Demographic Characteristics

**Table 1:** Age Distribution of Respondent

Age	Frequency	Percent
18-25	2	1.3
25-35	12	7.6
35-45	26	16.5
45-55	105	66.5
55-65	13	8.2
Total	158	100.0

Majority of respondents nearly 67%(105 respondents) belonged to age group 45-55 years.

**Table 2:** Gender Distribution of Respondent

Gender	Frequency	Percent
Male	149	94.3
Female	9	5.7
Total	158	100.0

**Table 3:** Marital Status Distribution of Respondent

Marital Status	Frequency	Percent
No Response	2	1.3
Married	146	92.4
Unmarried	1	.6
Widower	9	5.7
Total	158	100.0

**Table 4:** Education Distribution of Respondent

Education	Frequency	Percent
Illiterate	6	3.8
SSC	47	29.7
HSC	38	24.1
ITI	7	4.4
Diploma	19	12.0
Graduate or PG	41	25.9
Total	158	100.0

**Table 5:** Occupation Distribution of Respondent

Occupation	Frequency	Percent
Government employee	34	21.5
Private employee	44	27.8
Business	43	27.2
Daily wages	25	15.8
Self Employed	2	1.3
Housewife	2	1.3
Agriculture	5	3.2
Retired	1	.6
Other	2	1.3
Total	158	100.0

**Table 6:** Income Distribution of Respondent

Income	Frequency	Percent
<25000	1	.6
25001-35000	87	55.1
35001-45000	40	25.3
45001-55000	17	10.8
55001-65000	5	3.2
65001 and above	8	5.1
Total	158	100.0

**Table 7:** Reasons cited by respondents for lack of Planning

	Frequency	Percent
Do not know how planning is done	23	14.6
No need for planning	26	16.5
Income and Expenses are un known	14	8.9
Don't know who does planning	44	27.8
I am expert in doing planning	47	29.7
Total	158	100.0

From the above frequency distribution it can be observed that married male respondents belonging to age group 45-55 years forms a bulk of majority of respondents. 55% of respondents have reported their monthly income in the range 25000-35000. The respondents are fairly distributed among various education levels ranging from SSC to post graduate

**Statistical Test used**

Chi square test was used to test the association between various socio demographic traits and reasons for non engagement in financial planning.

**Table 8:** Chi-square Values of Association between socio demographic traits and reasons for non engagement in financial planning.

Socio demographic traits	Reasons for lack of financial planning
Age	0.621
Gender	0.690
Martial status	0.672
<b>Education</b>	<b>0.000**</b>
Occupation	0.229
<b>Income</b>	<b>0.000**</b>

**Table 9:** Cross Tabulation of Reasons and Education

	Reasons for lack of planning						Total
	No Response	Don't know how to do it	No Need	Don't know I & E	Don't know who does	I Am expert	
Illiterate	0	2	1	0	3	0	6
SSC	1	7	11	10	15	3	47
HSC	0	8	4	1	18	7	38
ITI	0	3	1	1	0	2	7
Diploma	0	3	5	1	3	7	19
Graduate & PG	3	0	4	1	5	28	41
Total	4	23	26	14	44	47	158

From the above table 28% of investors are unaware of professional financial planners. Also 68% of investors who have graduated or post graduated believe themselves to be proficient or expert in financial planning.

**Table 10:** Cross tabulation of Reasons and Income

Income	Reasons for lack of planning						Total
	No Response	How to do	No Need	Unfix I&E	Who does	expert	
<25000	0	0	0	1	0	0	1
25000-35000	0	18	13	12	20	24	87
35000-45000	1	5	7	1	16	10	40
45000-55000	1	0	4	0	7	5	17
55000-65000	0	0	0	0	1	4	5
< 65000	2	0	2	0	0	4	8
Total	4	23	26	14	44	47	158

From the table it can be concluded that 80 % of respondents reporting income 55000-65000 rate themselves as expert in personal financial planning. On other hand 81 % of respondents who report that they don't know about who does planning belong to middle income group 25000-45000.

### Conclusion

The investors, though are aware of need of personal financial management practices do rarely engage themselves in systematic planning efforts. The macro economic scenario on the other hand, demands, investors look for themselves as the government policies may shift from defined benefit to defined contribution. The study was an attempt to understand the reasons for lack of enthusiasm among investors for personal financial planning or systematic planning. Income and Education were found to be strongly associated with self rated expertise of investors. This lack of awareness towards professional financial planners and misconception about self rated expertise, highlight need of investor education.

### Scope and limitations of study

The present study has been targeted at urban investors, mostly populated in Ahmednagar city. Further, the number of female respondents in the sample was limited. Moreover the perception toward the type of financial planner and demographics may be affected due to other variables such as risk appetite and political literacy. Further investigations such as frequency of



association, expectations and satisfaction about the role of financial planner along with financial literacy, behavior, risk appetite may be other areas of future studies.

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