A Study of Factors Influencing Personal Financial Planning among Young Working Adults in Kuala Lumpur, Malaysia

David Lee, Dhamayanthi Arumugam, Nooradhanawati Binti Arifin

Abstract**:** ***According to the survey, individuals' confidence level in personal finance has decreased from 66 percent to 61 percent in 2011, and household debt in Malaysia also rose to a new high to 86.8 percent of GDP in 2013 from 80.5 in 2012. The failure in financial of individual also give the big impact to the economy, especially young adults which have been seen the future continuer. As such it is necessary to study the factors influencing the financial planning among the young working adult in Kuala Lumpur, Malaysia. Socio-demographics, financial knowledge and literacy, financial attitude and financial planners have been taken into account as the factors. This study employs Cronbach Alpha, Chi-square, and multiple regression to help in determine the significant relationship between the variables. The results show that the factors studied appear to be significant and positively affect the financial planning. Future researchers can try to do qualitative research on this field in order to find a deeper understanding on each factors or even generate a new factor. Moreover, future research is also suggested to include the matured people in order to find the result which can be used to reflect the population in Malaysia. Last but not least, additional variables also can be taken into account such as macroeconomic factors and financial behaviour.***

Keywords: Financial Planning, Financial Knowledge and Literacy, Financial Attitude

I. INTRODUCTION

Nowadays, the youth are growing up facilitated by expensive lifestyles and easy credit which is lead them grow in a culture of debt. Furthermore, young adults often start their university life without ever having been exclusively responsible for their personal finance. Birari&Patil (2014) expressed that these kind of circumstances were showed out that the young generation rarely practiced basic financial skills, such as budgeting their expenditure, developing a regular saving plan for long term requirements which could lead them face financial difficulties. Besides, according to Idris, et al. (2015) states that individual's performance and motivation at workplace, as well as physical and mental health could be affected negatively by financial stress because of financial difficulties.

Therefore, there are increasing attention of several organizations, such as community organizations, college and universities, and government agencies on financial management practices of youth (Mien & Thao, 2015). In this regard, in order to become a developed nation with high income, Malaysia needs to make a big investment in human resource especially on youth, because it will help to increase the capacity to generate innovation and ultimately raising the Gross National Income by invested in financial knowledge and skills among the youths. Furthermore, the knowledge in personal financial management also important to help the young adults make the right decisions about their financial planning depending on their financial resources. This is because young working adults are facing with the challenges such as the need to have savings for emergency events, children's education for the one who already married, management of credit and risks, and also planning on retirement and management of properthy. Nevertheless, nowadays the young adults also face a lot of challenges including limited in financial resources added with rising cost of living (Idris, et al., 2013).

However, an employee included the young working adult have to make sufficient investment in their plan and direct those investment planned into suitable vehicles to meet desired and satisfaction future income objectives and goals (Murphy & Yetmar, 2010). Therefore, a well-being of healthy financial and better lifestyle is gaining priority amongst individuals resulted the personal financial planning is increasingly becoming a good practice or an obligation for every individuals which it not already a necessity (Boon, et al., 2011).

Nielson (2011) conducted about Global Survey of Confidence and Spending Intention 2011 stated that the level of individual's confidence in its personal finance dropped from 66 percent to 61 percent which is from second quarter 2011 to the fourth quarter (Idris, et al., 2013). A study by the American Savings Education Council and AARP in 2008 expressed that nowadays youths face more difficulties in managing their financial responsibilities as compared to the earlier generation and Malaysian Insolvency Department (MDL) has been reported about the increasing of 25 percent in bankruptcy between period of 2005 and December 2010 involved young adults aged between 25 and 44 (Mohd, et al., 2015) where these mean youths today lack of preparation on their personal financial planning.

Thus, this study examined about the factors that affect the personal financial planning among the young working adult and could be helpful for the young working adult in Malaysia in improving the factors to make a better financial planning.

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David Lee, Faculty of Business Management, Asia Pacific University of Technology and Innovation, Malaysia.

Dhamayanthi Arumugam, Faculty of Business Management, Asia Pacific University of Technology and Innovation, Malaysia.

Nooradhanawati Binti Arifin, Faculty of Business Management, Asia Pacific University of Technology and Innovation, Malaysia.

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A. Problem Statement

Mohd, et al. (2015) followed by data provided by Bank Negara, stated that Malaysia's household debt rose to a new high which is 86.8 percent of gross domestic product (GDP) in 2013 from 80.5 percent in 2012 which it rose 6.3 percent. Study shows that young adult lack of understanding of financial planning which it lead them tend to struggle to save the money that they earned. This kind of matter increases the risk to an economy's financial stability not just for the individuals, but also to that particular country due to raise in household indebtedness. This statement also has been supported by the statistic provided by tradingeconomic.com and CEIC data which shown in the following figure 1.0. The figure shows that Malaysia Households Debt to GDP has increased from year to year started from 2008 until 2015.

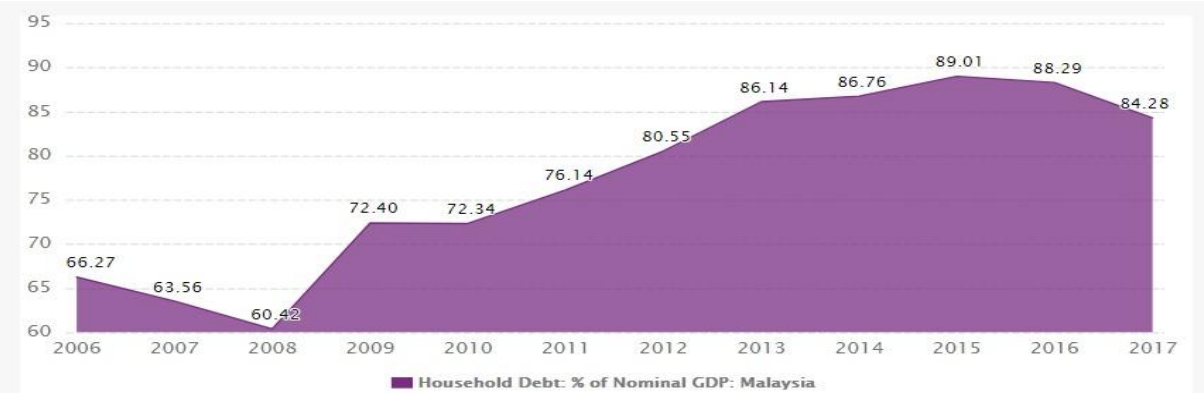


Figure 1.0: Household Debt: % of Nominal GDP: Malaysia (CEICdata.com, 2017; TradingEconomics.com, 2017)

According to a survey that has been done by Hongkong and Shangai Bank in 2013, retirement planning in Malaysia was poorly ranked. The survey revealed that 43 percent of the respondents were not prepared for retirement due to rise in the cost of living. This also has been supported by the research conducted by AFFIN life insurance Company which shows that among 26 countries which participated in the survey, the percentage of the Malaysian working adults involved in retirement planning has declined to 38 percent from 48 percent in 2010 from 2007(Shanmugam, et al., 2017).

Furthermore, According to Greenwald &Vanderhei (2017), the researchers found that working people with financial plans has more confident compared to the one that has no financial planning for its retirement planning which shown in the figure 2.0. They also uncovered that median age people was more stressed compared to students, degree students, and old people. In addition, retirement planning has been seen by some of people that could cause them get into mentally stress. Thus, the preparation such as like financial planning for the future should be already implemented by individual from early stage.

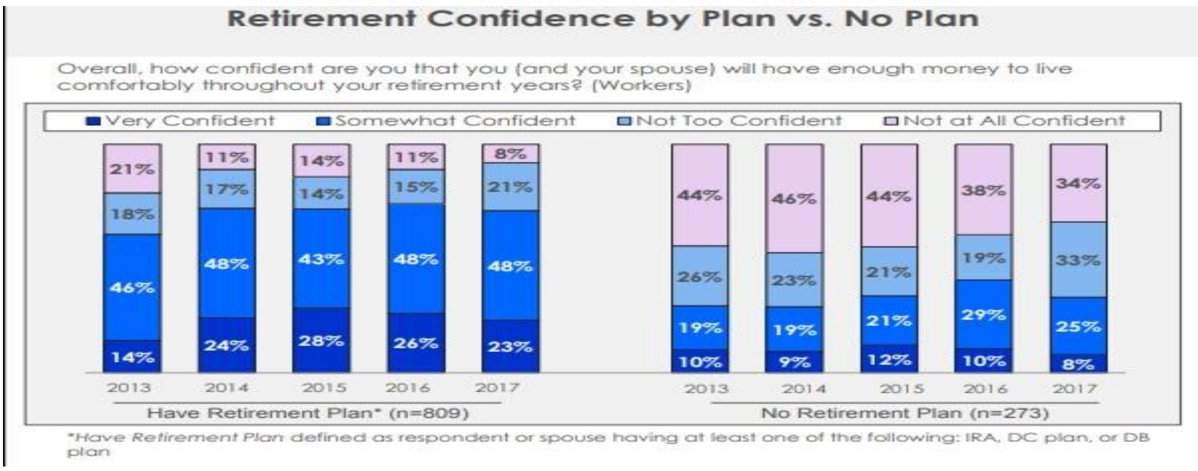


Figure 2: Retirement confidence by plan vs. no plan (Greenwald & Vanderhei, 2017)

Besides, there are several factors that could affect the financial planning of the individual. Lai & Tan (2009) has found that socio-demographic has significant affect towards financial planning of the individuals. However, Joo& Grable (2004, cited in Taft, et al. 2013) found there is no evidence that socio demographics could affect financial satisfaction. In addition, Boon, et al. (2011) has found a positive relationship between financial knowledge and literacy towards financial planning. However, it was contracts with the research conducted by Borden, et al. (2008) where they did not note any significant relationship between financial knowledge and literacy towards financial planning. In another hand, Hanna &Lindamood (2010) revealed that some of young adults in USA do meet financial planners in order to get an advice. However, Warschauer & Sciglimpaglia (2012) revealed that in Africa, youngsters do not meet financial planners to help them in planning their financial. Consequently, Mien &Thao (2015) has found a positive result between financial attitudes towards financial planning. Besides, Hayhoe, et al. (2009) noted that financial attitudes not necessarily affect financial planning. Thus, as the issues and concerns stated, this study tried to fill the gaps.

B. Research Objectives

- To identify the factors stated that affecting the personal financial planning among the young working adult in Kuala Lumpur - Malaysia
- To identify the impact for each factors stated on the personal financial planning among the young working adult in Kuala Lumpur - Malaysia
- To offer some suggestions and recommendations according to the analysis of the outcomes of the project

II. LITERATURE REVIEWS

Xie (2000) stated that Socio-Demographics delivers the empirical foundation for the research in order to give the basic information about the population. Jalil, et al. (2013) revealed that socio-demographics has relationship towards financial planning. The authors argued that different amount of money will be saved is different among high medium and low income level. They also found that the older the individuals, they will more focus on retirement planning. This result also in line with Lai & Tan (2009), which found that individuals' job status is one of the primary factor which is influencing the attitudes and management of their personal financial planning. The authors argued that married people have to provide protections for its dependents and family member, therefore, there are differences of the way of think between unmarried and married people. This also similar with the findings from the study implemented by Agrawal, et al. (2015). However, Joo& Grable (2004, cited in Taft, et al. 2013) found there is no evidence that socio demographics could affect financial satisfaction.

$H_1$1: There is positive and significant relationship between socio-demographic and personal financial planning

Financial knowledge and literacy defined as on how extent the knowledge of the individual on financial planning and how they apply it critically in the real life (Hutson, 2010). Boon, et al. (2011) found that financial literacy level have a positive relation with financial planning where financial literacy is a useful indicator of an individual's financial planning decision due to the individuals who have a high financial literacy level focused more on personal financial planning to pre-empt adverse impacts that poor financial planning might have on their lives, and vice versa. Robb &Woodyard (2011) conducted their research in USA. The authors found that there were a positive correlation between financial knowledge and financial behaviour in decision making in their planning. The authors argued that subjective knowledge such as experiences are more important rather than objective knowledge, it because from the experience, people will learn faster. This also similar with the result of several researchers (Zait&Bertea, 2014; Idris, et al., 2013). However, Borden et al. (2008) found a contrast result which was questioned the link between knowledge and planning, as they did not note any significant relationship between them.

$H_1$2: There is positive and significant relationship between level of financial literacy and knowledge and personal financial planning

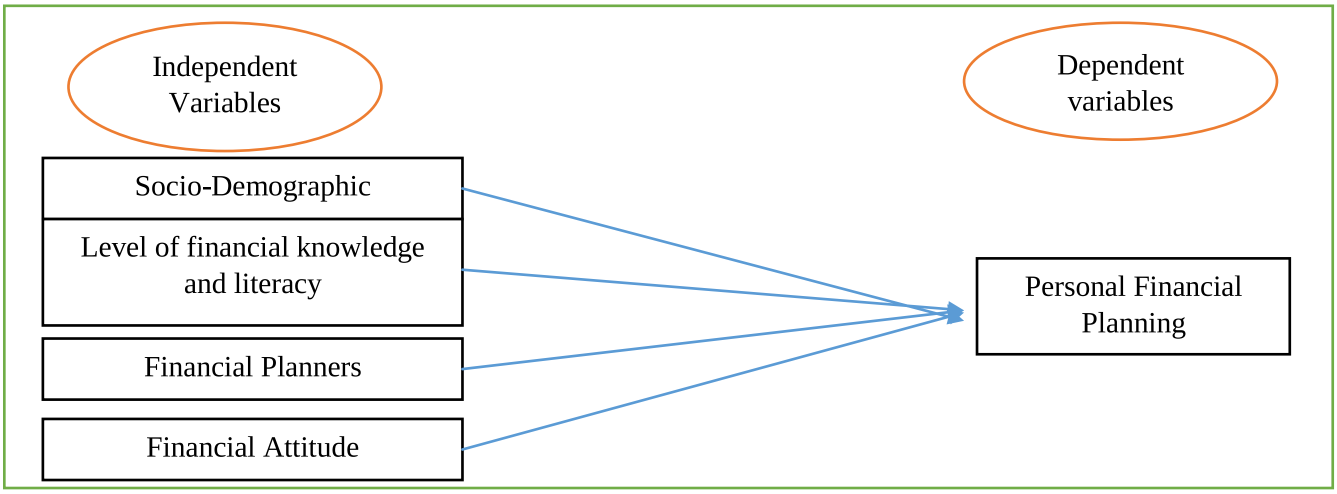
Hanna & Lindamood (2010) stated that some of financial planning advice could help the individuals make a better preparation for their future due to the financial advicer help the individuals in increasing their wealth, preventing loss and smoothing consumption. Warschauer & Sciglimpaglia (2012) expressed that younger respondents in United States found some professional service planners more valuable than older people where these young respondents need more help in prioritizing each of their financial goals and be better organized. Besides, Deventer, et.al (2014) found that there is positive between youngsters' attitudes towards financial planning, and the authors suggested that even though the youngsters know what is personal financial is and have positive attitudes on setting their own personal financial goals, but they do not find a help from experts on their financial planning. Thus, Warschauer&Sciglimpaglia (2012) found in United States that the youngsters do find help from the financial planners, beside Deventer, et.al (2014) suggested in Africa the youngsters do not.

$H_1$3: There is positive and significant relationship between financial attitude and personal financial planning

Cull (2009) defined financial planners as the one who advice the individual in order to improve its financial planning for a better plans. Chowa, et al. (2012) defined financial attitude as how the individual value the money for their life. Mhien &Thao (2015) found that there is positive relationship between the financial attitudes between the financial management. The authors argued that irregular financial attitudes will lead to the increasing of the stress levels of psychological wellbeing of the individual itself such as unprepared to effectively manage the high debt associated with psychological costs. Selcuk (2015) argued that positive attitude will tend to budget, report paying bill son time, and planning for the future such as saving its money for its future, whereby this also in line with the findings from Albeerdy& Gharleghi (2015). Besides, Hayhoe et al. (2009) found a dissimilarity result where financial attitude not necessarily affect the individual planning. This because, some of heavy users of credit cards view money as a source of power, thus even they have positive attitude, they will tend to focus on how to cover the credit risk rather than plan for the future financial.

$H_1$4: There is positive and significant relationship between professional financial planner and personal financial planning

A. Research Framework



III. METHODS AND MATERIALS

This study is implemented under quantitative method with primary data in order to generate the data. Furthermore, according to Raosoft calculator, it suggested that the sample size of the study should be 68 samples out of 20,751,533 estimated adults' population in Malaysia as 1st April 2016 (Countrymeters, 2016), at the margin error 10% and confidence level 90%. Simple random sampling and questionnaires were used in order to gather the data by distributing in Kuala Lumpur. Furthermore, the study will just focused on the respondents within 20 – 30 years old as it focused on young working adult. In addition, Cronbach's Alpha, Chi-square, and multiple regression analyses were implemented in this study in order to test the hypotheses. Furthermore, this research will utilise Cronbach's Alpha analysis to examine the hypothesis of socio-demographic and regression model and analysis in order to examine the rest hypotheses in this research. The general equation of multiple linear regression analysis can be seen as follows:

$$Yt = \mu + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \varepsilon i$$

Where: Y = Personal Financial Planning (DV); μ = Constant, X1 = Financial Knowledge and Literacy (FKL); X2 = Financial Literacy (FL); and X3 = Financial Planners (FP)

IV. RESULTS

Based on Cronbach's Alpha results (shown in table 1.0), it shows that each questions which have been asked for the research purpose were acceptable and reliable for the study as the scores of the Cronbach's Alpha for each variables are > 0.7.

Table 1: Reliability test of the Variables

Independent Variables	**Cronbach's Alpha**	**Cronbach's Alpha Based on Standardized items**	**N of items**
1. Financial Knowledge and Literacy	0.702	0.719	9
2. Financial Attitude	0.704	0.704	11
3. Financial Planners	0.809	0.813	7
Dependent Variable			
1. Personal Financial Planning	0.726	0.737	9

Consequently, in order to analyse deeper on the relationship between the variables, multiple regression was implemented. According to table 3.0, the R square is 0.375 or 37.5 percent. R square which is the coefficient of determination that used to measure how accurate the ability of the model explain variations in the dependent variable through the variation in the independent variables. Thus, it shows that 37.5 % of the dependent variable can be explained from the chosen independent variables, and the rests were not taken into account.

Table 2: Multiple Regression Model Summary of the variables

Model	**R**	**R^2**	**Adjusted R Square**	**Std. Error of the Estimate**
1	0.612^a	0.375	0.345	2.77328

In addition, ANOVA model is implemented in order to see whether it has significant relationship between the models among all variables or not which shown in table 4.0. The first column will show how the information regarding the variation measured by the model and other variations are not measured by the model is provided by the regression. the model is significant if p-value shows the value is less than 0.05, and the model will be not significant if the p-value is higher than 0.05. Furthermore, the p-value of this study showed in table 4.0 is 0.000 and it lesser than 0.05, indicates that the model is significant and it explains that the personal financial planning is influenced by independent variables. In addition, since the model is significant, all hypotheses which are measured by this analysis should be accepted.

Table 3: ANOVA Results

No.	Model	Sum of Squares	df	Mean Square	F	Sig
1.	Regression	294.754	3	98.251	12.775	0.000[b]
	Residual	492.231	64	7.691		
	Total	786.985	67			

Furthermore, according to multiple regression model (table 5.0), it shows that financial knowledge and literacy with B value 0.224 and p-value 0.043, financial attitude with B value 0.271 and p-value 0.019, and financial planners with B value 0.271 and p-value 0.047 have positive and significant relationship towards financial planning. Thus, the equation of multiple regression can be arranged as follows: **Y = 8.192+ 0.224FKL + 0.271FA + 0.271FP**

Table 4: Multiple Regression Coefficient of the Independent and Dependent Variables

No.	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
		B	Std. Error	Beta		
1.	(Constant)	8.192	4.900	-	1.672	0.099
	FKL	0.224	0.109	0.231	2.062	0.043
	FA	0.271	0.113	0.286	2.407	0.019
	FP	0.271	0.134	0.252	2.023	0.047

This also in line with existing literature review, such as financial knowledge and literacy in line with several researchers (Idris, et al., 2013; Boon, et al., 2011; Robb & Woodyard, 2011). In Addition, it also same goes to financial attitudes, whereby it also supported by several existing literature (Mien & Thao, 2015; Selcuk, 2015; Albeerdy & Gharleghi, 2015). Furthermore, findings on the relationship of financial planners and financial planning also similar with the prior researchers (Deveenter, et al., 2014; Warschauer & Sciglimpaglia, 2012; Hanna & Lindamood, 2010). Therefore, this study accepted the second, third and fourth alternative hyphoteses. (Robb & Woodyard, 2011)

V. DISCUSSION AND CONCLUSION

The objective of the research is to identify the factors influencing personal financial planning among the young working adults in Kuala Lumpur- Malaysia. This study found that the independent variables that can affect positively the level of financial planning of the young working adult in Kuala Lumpur, Malaysia which were socio-demographics, financial knowledge and literacy, financial attitude, and financial planners. The young working adults need to improve their knowledge and literacy, and also understand the important of money in order to become more positive in terms of attitude, and also ask financial planners for suggestion in order to build a better financial planning. This study would like to suggest that future studies should be conducted using qualitative method in order to observe deeper and with hope to get additional ideas on this field.

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AUTHORS PROFILE

David Lee is working as Faculty of Business Management, Asia Pacific University of Technology and Innovation, Malaysia.

Dhamayanthi Arumugam is working as Faculty of Business Management, Asia Pacific University of Technology and Innovation, Malaysia.

Nooradhanawati Binti Arifin is working as Faculty of Business Management, Asia Pacific University of Technology and Innovation, Malaysia.