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Association between Financial Planning and Professional Advice – Do they co-exist?

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Abstract

Financial planning is a skill which is required to manage one's money, achieve financial goals through wealth accumulation along with a perfect balance to meet daily financial requirements. Due to wide variety of products available in financial service sector, individuals need to be financially literate in order to make realistic financial plans and decide the best suited investment product where returns beat inflation and accumulation is achieved. The best way to achieve one's financial objectives is through proper financial planning keeping in mind individual's income, saving capabilities and risk appetite. This study attempts to analyze the relationship between income and financial planning. The paper further examines whether individual seek professional advice for personal financial planning. The findings suggest that majority of individual have set financial goals. But on the other hand, majority of individuals don't have set financial plan. Also majority of individuals are not satisfied with their financial decisions. The results emphasize on the need for seeking professional advice for personal financial planning.

Key words: Investment Pattern, Financial Literacy, Financial Goals, investment portfolio, Individual investor

Our goals can only be reached through vehicle of plan in which we must fervently believe, and upon which we must vigorously act. There is no other route to financial success. ' – Pablo Picasso.

Introduction

Financial planning can be precisely defined as "the process of meeting your life goals through the proper management of your finances."[1] Life goals can comprise buying a home, planning for retirement, saving for child's higher education or a short term goal like buying a car. Ideally financial planning process consists of six steps that give you direction and meaning to your financial decisions. The process involves gathering relevant financial information, setting life goals, examining your current financial status and coming up with a strategy or plan for how you can meet your goals given your current situation and future plans.India has become a giant economy with growth rate of 6% - 7% since globalisation, combined with all time high consumers spending of 18483 INR Billion in January 2017.[2] Multiplicity of products in Indian financial market has spoilt the investors for choice as they are faced with paradox of plenty. With opening of Indian economy and privatization of job market since 1990's, government's role to shelter future of citizens has minimized.As India makes galloping stride towards an open economy and public sector/government jobs giving way to contractual private appointments, the need for financial planning becomes a serious business. Financial planning is the process of developing a personal roadmap for one's own financial well being. Better lifestyle and financial well being is gaining popularity among ordinary individuals. With growing instability in global economies and increasing inflation over a period of time makes it difficult for individuals to maintain their standard of living. Therefore it is extremely important to have precise financial objectives and financial plan.For effective and efficient financial planning one needs to be financial literate and should have an investment pattern in tune with financial objectives and plans.

Several studies provide evidence about the prevailing low financial literacy in India too. According to Live Mind Survey 2013, India stands 12th among 16 countries surveyed and 23rd position among the 28 countries surveyed by VISA International Financial Literacy Barometer 2012. Indians score lower on financial knowledge than all the OECD countries.[3]

Financial literacy or financial education can broadly be defined as "Possessing the skills and knowledge on financial matters to confidently take effective action that best fulfils an individual's personal, family and global community goals.[4] OECD

International Network on Financial Education (INFE) defines Financial Literacy as 'A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.' It is an ability to read numbers and understand financial statement which allows you to identity the strength and weakness of any business or investment. It is mainly used in connection with personal finance matters and often entails the knowledge of accurate decisions pertaining to matters related to personal finance.

Conceptual Framework

Financial well being and good standard of living is a human desire. With increasing instability at workplace and ever increasing inflation it has become difficult to maintain desire lifestyle. Therefore it becomes extremely important to have financial objectives and goals clear as early as possible for an individual. It is questionable that whether a person can be self motivated to plan for future financial requirement or does the motivation come from outside? Does not the male clan perceive themselves to be bestowed with financial planning decision as a birth right? Are people capable of developing a financial plan for themselves? Does education curriculum across all streams make an individual capable to prepare and implement their financial plans? On the basis of the detailed literature review the answer is an emphatic 'No'. Definite and logical answer is a far cry.

Ground rules for financial planning should start at very young age and individuals should know the difference between actual assets and assets that become liabilities. Anything that appreciates and has ready market like stocks, bonds, income generating real estate, royalties and business are real assets. An asset that only escorts to paying more taxes and expenses rather than generating income is liability rather than asset. Buying a real estate property in a far off place that attracts property tax and maintenance charges and generates no rent. Though theoretically it is a assets but it becomes a liability for an individual to maintain. A married couple in late 20's live in a cramped rented apartment to save money to buy a dream house. When the dream house is bough it comes with other added expenses like professionally designed interiors, big car, load of credit card bills, high monthly maintenance and there the rat race begins. The house has an emotional value and emotional things come with lots of expenses. Thus the residential house owned by individual is a biggest liability as against perceived asset, as when need for money arise, will an individual sell the residential house first? So the big dream house should come after all other assets are set.

Also, self disciple is more vital part of financial planning. That means one should discipline expenses to build assets first and then spend rest of the amount. It is lack of self discipline that causes people to go beguilingly and buy a new car or buy a new smart phone every now and then. Self disciple is the most difficult part of financial planning which is difficult to master.

A common man is too busy working hard, paying taxes and mortgages, credit cards and save for their children's college, not only college schooling these days is more expensive then higher studies that it becomes extremely difficult to manage for an common man to survive on a hard earned money. Therefore it is extremely important that individual plans in such a way that money starts working to generate further revenue.

Financial planning is a process of determining one's current financial situation. Financial goals that match current financial situation are developed.

a. Individual's income, assets, and liabilities, b. Individual's current and future financial needs and c. Individual's appetite for risk.

After the goals are determined various alternatives are identified and evaluated and finally the most appropriate financial plan is implemented. As these are focused process, a financial consultant needs to be hired. Through unprejudiced consultation, an investor should effectively plan for the financial needs arising in the future. A plan done in the present moment needs to be revisited at regular intervals to check for goal congruence.

Literature Review

Financial literacy and its relation with financial wellbeing have been widely studied across various demographics. Olivia *et al* (2007) study corroborates that financial literacy is important for an individual to make appropriate short term and long term financial decisions. Financial education has positive relationship with individual's financial literacy. Financial education affects short term financial behaviour for people with low education and income, meaning people who need more formal instructions to learn basic short term behaviours. (Jamie Frances Wagner, 2015). Also financial literacy is significantly and positively related to retirement planning involving private pension funds. (Klapper and Panos, 2011). Financial literate individuals are more involved in multiple aspects of personal financial planning (Tan Hui Boon, *et al* 2011). Women are less financially literate when compared to older population as a whole. And less financially literate women are less likely to plan for retirement and be successful planners. (Annamaria Lusardi, *et al* May 2011). The higher education attainment is strongly correlated with financial knowledge. It has been further observed that financial literacy is at the peak in the middle of the life cycle and low among the young and old. Also individuals are more financial literate when they are working because employer spreads awareness about financial matters. There are four traditional approaches to financial education – employer based, school based, credit counseling and community based, all of these approaches have no clear results about their effectiveness (Gale and Levine, 2010). Academic finance and economics education tend to make better financial planning decisions. It is also stated that significant proportion of respondents have no savings or live with illiquid savings. (Yasser Alhenawi & Khaled Elkhal, 2014) Several other factors that influence financial decision of individuals when making financial decisions are parents, prior knowledge, trial and error, fixed income and fear of debt. (Kimberly A. Brown, 2009). Individuals are hesitant in relying on the professionals to realize their financial goals (Tan Hui Boon, Hoe Siew Yee and Hung Woan Ting, 2011). Therefore individuals rely more on friends and relatives who are not associated with the financial industry for choosing a financial product. It is further proved that low awareness leads to poor diversification of risk and leads to inefficient allocation of capital in economy. There are further foreclosures suggesting poor knowledge is offset by prudent financial behaviour and good financial attitude that lead to an overall score of financial literacy that is on par with the admittedly poor global standards. There exist a direct relationship between good financial choice and awareness about different financial products (Prof. Sobhesh Kumar Agarwalla, *et al* 2012). There were more foreclosures suggesting adults may not understand their mortgage terms or how much their loan may be costing them in interest (Lusardi and Mitchell, 2014). Also investors claim to know much more about finance than they actually know (Luigi Guiso and Tullio Jappelli 2008). There are further foreclosures suggesting financial knowledge and planning are positively correlated. And only few individuals try to devise a retirement plan. (Annamaria Lusardi *et al* May 2011).

Statement of the problem

Taking a cue from the aforementioned studies a need was felt to study interlink between financial planning and individuals seeking professional advice for financial planning. This study focuses on financial planning. The paper also attempts to study if the attribute of income has significant association with financial planning and Professional advice

Objectives of the study

The objectives for the study are:

1. To study the level of awareness among Individuals about their financial planning process.
2. To analyze whether financial planning is based on personal choice or professional advice.

Hypothesis

H1: All investors are perfectly aware about their financial goals.

H2: Individual investor's financial planning decision is based on professional advice.

Research Design

This study is majorly based on primary sources of data. The data has been collected by the distribution of close ended questionnaire to 600 respondents (salaried individuals) working both in IT and Non IT based organizations in Pune District. 500 people responded to the questionnaire, from which 484 were only fully filled. Random sampling technique was followed. 162 (33%) respondents were personally interviewed in a semi-structured format to draw conclusion on their perception of financial literacy and financial planning. Questions covered demographic factors i.e. marital status, age and yearly income. Questions on financial planning seek to answer the level of awareness, knowledge, skill, attitude and behaviour of the respondent.

The structured questionnaire used neutrally worded questions and the respondents were asked to rate on the Likert scale questions number 1 to 7 which captured information on their awareness and knowledge of Financial Planning. These consist of questions to be answered on a five point Likert scale viz 5 for Strongly Agree to 1 for Strongly Disagree.

Raw data has been analyzed using descriptive statistics and cross tabulation. The one-way analysis of variance (ANOVA) is used to determine whether there are any significant differences between the means of four independent groups based on income to check the hypothesis and draw conclusion.

Table 1: Profile of the Respondents

The demographic characteristics of the respondents are summarized below

Parameters		**Number of Respondent (%)**
	21-30years	94 (19.4%)
Age group	31-40 years	166 (34.3%)
	41-50 years	118 (24.4%)
	51 years and above	106 (21.9 %)
	Male	230 (47.5%)
Gender	Female	254 (52.5%)
	Single	156 (32.23 %)
Marital Status	Married	328 (67.7%)
	Rs 3 to 7 lakhs	144 (29.7 %)
Yearly Income	Rs 8 to 15 lakhs	148 (30.6 %)
	Rs 16 to 24 lakhs	108 (22.3%)
	Rs 25 lakhs and above	84 (17.3%)
	Yes	454 (94 %)
Regular filing of IT return	No	30 (6 %)

The analysis of the profile indicates that the age group of 31-40 years constituted the highest number of respondents. It accounted for 34.3 percent of the sample size.30.6 percent of the respondents were in the yearly income bracket of Rs 8 to 15 lakhs followed by 29.7 percent in the bracket of Rs 3 to 7 lakhs, 17.3 percent of the respondents were earning Rs 25 lakhs and above which was the least sample size. 94 percent (454) respondents agree to regular filing of their IT return while 6 percent of the respondents did not file their IT return regularly. 94 percent of the respondents were aware that filing of IT return is mandatory after receiving the Form 16 from the employer. Only 6 percent of the respondents mentioned that they did not file their IT return regularly as TDS was already deducted from their salary. This group lacked in knowledge that IT return filing is a *sine qua non* even though employer deducted TDS.

Reliability test of the structured questionnaire

Reliability test is used to measure the internal consistency of Likert questions. In order to understand whether the questions in this questionnaire all reliably measure the same latent variable i.e. need for financial planning, Cronbach’s alpha was run. As shown in Table 1 the Cronbach’s alpha score of 0.714 indicates a high level of internal consistency.

Table 2: Reliability Statistics

Parameter	**Cronbach’s Alpha**	**Number of questions**
Financial Planning	0.714	7

Result and Discussion

H1: All investors are perfectly aware about their financial goals.

Table 3: Financial Planning across Income group

Sr No.	**Dependent Variable**	**Mean Square**	**ANOVA result**		**Result**
	Financial Planning		F	p value	
1.	I believe in need for Financial Planning	272.24	143.28	<0.001	S
2.	I have set financial goals	391.83	496.68	<0.001	S
3	I am worried by volatility in the stock market	206.05	231.43	<0.001	S
4.	I switch my investment portfolio frequently	116.24	99.33	<0.001	S
5.	I am satisfied with my financial decisions	4.91	4.44	0.035	NS
6.	I track and review my portfolio at least half yearly	120.4	82.88	<0.001	S
7.	I invest in different asset classes	128.6	86.34	<0.001	S

S= Significant; NS= Not Significant

Results show that the significance level (p value) is below 0.05 in 6 out of 7 questions asked relating to Financial Planning, Planning goals and planning awareness. Therefore, there is a statistically significant difference in the mean score of financial planning between the selected income groups.

The hypothesis is thus rejected and we conclude all investors are not perfectly aware of their financial goals. Financial planning is the first step in setting the financial goals. Majority of the respondents lacked the awareness to 'believe in the need for financial planning' and 'set their financial goals' at the start of their career. Most of the respondents are also unaware of the process of reviewing their portfolio and switching their investments in case of poor performance.

H2: Individual investor's financial planning decision is based on professional advice.

Table 4: Financial Planning decision based on professional/consultant's advice across Income groups

Sr No.	Dependent Variable	Mean Square	ANOVA result		Result
			F	p value	
1.	I take help from professionals/financial consultant for personal financial planning	1.891	2.491	0.315	NS

Results show that the p value is more than 0.05 % which means there is no significant difference in the mean score of 'I take help from professionals/financial consultant for personal financial planning' to the selected age group. Therefore we reject the hypothesis that **'**Individual investor's financial planning decision is based on professional advice'.

Table 5: Individual seek professional advice for personal financial planning

Number of individuals seeking financial advice	172
Number of individuals not seeking financial advice	269
Refuse to answer	43

Observations show majority of individual doesn't seek financial advice from professionals for personal financial planning.Financial Planning is a scientific process and it requires knowledge investment of time to understand the various products and suitability of the alternatives. A financial consultant provides expert guidance to look through the prism of investment instruments and helps in building the wealth of the investor. Self reading and analysis does not always help to meet the financial goals.

IV. Concluding Remarks

The study concludes that 'Financial planning' is a taboo topic left to be debated, discussed and is solely decided by the male individuals of the family. Individuals generally feel it is not urgent to set up financial goals and the future can be taken care later in life. Sadly, the truth is in contrast to reality. It is next to impossible to live solely on one's own savings post retirement. Therefore it is extremely important to take appropriate steps to set financial goals and plan than lean on to advice from friends and family. Majority of investors are unaware of long term benefits of asset allocation, risk measures and security selection. It is critcal to empower investors with tools for financial awareness. Many individual are also not aware about the ease of services like online checking, switching and redemption of their investments. Each investment choice has its pros and cons. Some investments like PPF are safe investment option but with its shortcomings of illiquidity and lower growth rate. On the other hand investments in equity can cast higher returns while the risk is higher. Fixed deposits provide lower returns but are safe and liquid in nature. Mutual funds provide better returns and ease of liquidity. However, investor should select from investment avenues to suit one' risk appetite, goals and investment horizon. Another important investment in investor's portfolio is residential house. Also buying a life insurance is considered as Investment Avenue, insurance premiums represent the sacrifice and the assured sum the benefit. Proper financial planning demands diversification of one's investment to different asset classes taking into consideration risk tolerance, investment objective and time horizon. Money works for money only if a strong financial plan is built using efficient financial knowledge skills combined with eagerness to seek professional advice.

To conclude it is important for an investor to keep in mind the below mentioned points:

1) Benefit of compounding: Individual should keep in mind, if they start financial planning early in life they would benefit from power of compounding. This would help them accumulate more wealth and better retirement corpus at the early stage of life.
2) Buy assets rather than liabilities: Individual should buy properties/investments that generate revenue rather than creating expenses, taxes and maintenance.
3) Buy a good investment at fair price: An individual should buy a good investment at fair price rather than buying a fair investment at wonderful price. As every investment comes with it fair share of risk. Example: it is better to buy a real estate proper at bit higher price in or around the city rather than buying a very low cost property away far away from city as it would be difficult to generate rental income from such property.
4) Risk & Return Analysis: Individual should consider the risk involved before investing in any avenue and constantly tract that it is in lines with one's investment objective.

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