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Financial Literacy of New Job Entrants

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ABSTRACT

In today's competitive environment there is a pervasive need to develop a financial foundation as an essential life skill for students to ease their entry into professional life from their present comfort zone. Financial literacy will help improve their critical personal choices of lifestyle, cash flow and investment portfolios. The purpose of this study is to explore the perception of new job entrants on the importance of financial awareness and their present knowledge of financial investments and various instruments in the market. Further, it conducts an empirical investigation into the differences on the above on the basis of key variables such as gender, educational background and geographical regions. It is expected that the findings would provide a reflection of the gaps between the present financial knowledge of students and the practical wisdom they will need to make sound judgements. The results will throw light on the areas that demand attention to achieve the required financial base in graduating students.

Keywords: Financial literacy, newjob entrants,technical, non-technical, investment options

INTRODUCTION

Fresh graduates and post-graduates make up the bulk of new job entrants as they are about to enter the complex world of work where survival is tough. To secure a good future and provide well for their present they must have some important life skills to be able to make smart and informed decisions. One essential life skill which calls for attention is financial literacy. Financial education is basic education that all individuals, especially today's young adults, should receive. In the course of their lives, young adults will eventually need a credit card, mortgage or a savings account to manage their finances. Inadequate financial knowledge and skills are seen to be a

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contributing factor towards unsustainable levels of household debt, a growing number of bankruptcies and decreased levels of savings (Fox *et al.,* 2005).

Financial literacy is the ability to understand finance. More specifically, it refers to the 'set of skills and knowledge that allows an individual to make informed and effective decisions regarding the use and management of money' (ASIC, 2003; Noctor *et al.,* 1992). A more comprehensive definition appeared in the Journal of Financial Service Professionals which stated that 'personal financial literacy is the ability to read, analyze, manage and communicate about the personal financial conditions that affect material well being' (Anthes, 2004).

In India, the middle class currently numbers some 50 million people, but by 2025 will have expanded dramatically to 583 million people-some 41 percent of the population (Farrell Diana *et al.,* (2007). New job entrants are part of this middle-class boom. These youngsters have a lifestyle that is more affluent than their pockets can afford, due to which they get trapped into easy credit. The spending of college graduates is rising about 12% a year--more than twice the pace of the economy's growth.

Our country's economic system and society's well being depends on knowledgeable consumers, among other factors. Financial difficulties that people face today reduce their productivity, affect their and their family's health physically, economically and psychologically and are a tremendous burden on society. Therefore, learning how to manage money is as important as earning it. Students need greater knowledge about their personal finances and the economy as well as "real life" skills (e.g. balancing a check book, budgeting, reducing debt, understanding credit cards, saving, having good credit, paying interest, investing and purchasing a car or a home). After all, wealth is not about how much you earn. It is more about how you manage your money – how much you spend, how much you save and how well you invest it. Therefore, the need for holistic education to develop necessary life skills is felt along with the necessity of specific knowledge imparted by educational institutions.

In this paper we try to find out about various aspects of financial literacy displayed by new job entrants. Firstly, we investigatedaspects of financial literacy (knowledge, attitudes and behaviour) on a sample of final-year students i.e. new job entrants. Also, differences are explored on basis of gender, educational background and the region of India to which they belong. Secondly, we examined the differences in personal and non-personal influences on the level of financial literacy of college students.

BACKGROUND TO THE STUDY

According to a report, "Financial Literacy of Youth --A Sensitivity Analysis of the Determinants", by the International Journal of Economic Sciences and Applied Research (55-70) the effects of financial illiteracy are seen in all types of communities -- be it high-income or low-income groups. A high income does not translate into financial

security without financial education. Even well-educated, high-income consumers in many countries including developed and westernized societies find themselves living pay-cheque to pay-cheque because they have not been taught how to budget or manage their money.

The need for financial education is felt in developed and developing countries alike. In developed countries, the increasing number and complexity of financial products, the continuing shift in responsibility for providing social security from governments and financial institutions to individuals and the growing importance of individual retirement planning make it imperative that financial education be provided to all. In the developing countries also, the increasing participation of a growing number of consumers in newly developing financial markets will necessitate the provision of financial education if these markets are to expand and operate efficiently. In addition, the substantial growth of international transactions during the last decade, resulting from new technologies and the growing international mobility of individuals, makes the improvement in financial education, increasingly, an international concern.

As a response to the recent financial crisis, the United States government set up the President's Advisory Council on Financial Literacy in January 2008, charged with promoting programmes that improve financial education at all levels of the economy and helping to increase access to financial services. In the developing world, the Indonesian government declared 2008 "the year of financial education," with a stated goal of improving access to and use of financial services by increasing financial literacy. Similarly, in India, The Reserve Bank of India launched an initiative in 2007 to establish Financial Literacy and Credit CounsellingCentres throughout the country to would offer free financial education and counselling to urban and rural populations. The World Bank too has followed this trend – it recently approved a $15 million Trust Fund on Financial Literacy.

Financial literacy can be considered to be low among youths as seen in most of the research,which shows that it is due to the level of complexities and variety in the financial world. In Australian society, as is the case in most western democracies, from the age of 15, a typical teenager learns to drive, starts part-time work and receives superannuation (pension) from the employer of the minimum statutory requirement of 9%. At 18, the youth buys a car, gets a credit card (normally offered through promotion by banks with special rates to university students) and works longer hours and or studies full-time or part-time. This scenario is typical as the youth is involved in complex and highly responsible and possibly demanding situations and has to make financial decisions on income and expenses, budgets and future investments. Australian youth debt levels are a major concern. A major study by the ANZ in 2003 found that low levels of financial literacy were associated with low levels of employment, single and ages from 18-24

(ANZ, 2005). In the USA, undergraduate students carried an average of three credit cards and had an average credit card debt of $2,327 in 2002. This was a 15% increase from 2000 (Nellie Mae, 2002, cited by Tucker, 2003).

In India, the need for financial education is even greater considering the low levels of literacy and the large section of the population, which is still out of the formal financial set-up. A report titled "Financial literacy: Reserve Bank of India's Initiatives" by V.S. Das, Executive Director, Reserve Bank of India, Mumbai talks about the need for financial literacy in India and RBI's moves in this direction. One such project "Project Financial Literacy" with the objective of disseminating information regarding the central bank and general banking concepts to various target groups, including school and college going children, women, rural and urban poor, has been taken up by the central bank.

To conclude, economic and financial sector reforms have allowed higher disposable incomes for the public, making financial education important for financial stability. Financial education would benefit the financially-excluded by enabling them to understand the benefits and the ways to join the formal financial system. It could also benefit the financially-included by helping them make informed choices about the products and services available in the market to their best advantage. This paper endeavours to assess the perceived importance of financial awareness among new job entrants and their current level of financial knowledge of specific financial instruments. As demographic and socio-economic variables are known to govern perceptions, attitude and behaviour, the study also makes an examination of the impact of gender, educational background and geographical region on the above-mentioned issues.

The following sections present the methodical framework and findings of the study.

METHODOLOGY

The purpose of this study is to explore new job entrants' perceptions on the *need for financial education* and *importance of having awareness of financial behaviour.* Additionally, it explores the current *influences* on how to manage money and the *level of financial knowledge* on specific areas such as investment, taxes, debit/credit card usage, insurance and loans/debt. Further, it investigates the difference on these variables vis. a vis. gender, educational background (such as non-technical or technical) and regional areas (such as north, west, south, east and central India).

The study therefore hypothesises the following:

H1: The level of *importance of financial awareness* will be different for (a) male and female students (b) technical and non-technical students and (c) students from different regions.

H2: The level of *learning about managing money* (a) from personal sources will be significantly higher than

non-personal sources (b) will differ for male and female students.

H3: The level of *information on investment options* will be different for (a) male and female students (b) technical and non-technical students.

H4: The level of *information on taxes* will be different for (a) male and female students (b) technical and non-technical students.

H5: The level of *information on debit/ credit card usage* will be different for (a) male and female students (b) technical and non-technical students.

H6: The level of *information on insurance policies* will be different for (a) male and female students (b) technical and non-technical students.

H7: The level of *information on loans and debt* will be different for (a) male and female students (b) technical and non-technical students.

A structured questionnaire was used in data collection. The questionnaire consisted of statements that were designed using the Likert scale to measure the perceptions of new job entrants on the need for financial education and importance of having awareness on financial behaviour; the current influences on how to manage money and the level of financial knowledge on specific areas such as investment, taxes, debit/credit card usage, insurance and loans/debt. The questionnaire also included descriptive measures including gender, educational background and regional area.

Sample

Data for the study weregathered from a web survey on the facebook account of one of the authors over a one-month period. The snowball sampling technique was primarily employed to encourage responses. The resultant sample of 159 consisted of 61% males and 39% females; 83.6% technical students and 16.4% non-technical students with 78.6% students originating from the north; 6.9% from the west; 6.3% from the east; 3.8 % from the south and 4.4 % from central India.

Measures

The constructs used in this study such as *importance for financial awareness;learning about managing money*; *information on investment options,information on taxes*, *information on debit/card usage, information on insurance and information on loans and debts* were measured as multi-item scales. As the extant literature did not present scales that specifically measured the importance of these constructs, they were designed and content validated for use in this study. The details are presented below:

Importance of financial awareness

A four-item Likert scale was employed with the following indications (1) Not important (2) Somewhat unimportant (3) Not sure (4) Somewhat important (5) Very important. A higher value reflects high level of importance on the scale. Scale items included statements on importance of maintaining records, balance between

income and expenditure and maintaining adequate financial coverage. Coefficient alpha was used to measure the internal consistency of the scale. Cronbach alpha was reported to be 0.718, which deems the scale reliable (Nunally, 1978).

Learning about managing money through personal sources

A five-item Likert scale was employed with the following indications (1) None (2) Very little (3) Not applicable (4) To an extent (5) A lot. A higher value reflects high level of learning on the scale. Scale items included statements on learning about managing money from parents, friends, school, life experiences and financial planner/counsellor. Coefficient alpha was used to measure the internal consistency of the scale. Cronbach alpha was reported to be 0.51, which deems the scale reliable.

Learning about managing money through non-personal sources

A five-item Likert scale was employed with the following indications (1) None (2) Very little (3) Not applicable (4) To an extent (5) A lot. A higher value reflects high level of learning on the scale. Scale items included statements on learning about managing money from books, media, internet, informal public seminar/class. Coefficient alpha was used to measure the internal consistency of the scale. Cronbach alpha was reported to be 0.665, which deems the scale reliable.

Information on investment options

A four-item Likert scale was employed with the following indications (1) Very knowledgeable (2) Somewhat knowledgeable (3) Not sure (4) Somewhat ignorant (5) Very ignorant. A higher value reflects low level of information/knowledge on the scale. Scale items included statements on level of information/knowledge on fixed deposits, mutual funds, stocks and shares and post office schemes. Coefficient alpha was used to measure the internal consistency of the scale. Cronbach alpha was reported to be 0.806, which deems the scale reliable.

Information on taxes

A four-item Likert scale was employed with the following indications (1) Very knowledgeable (2) Somewhat knowledgeable (3) Not sure (4) Somewhat ignorant (5) Very ignorant. A higher value reflects low level of information/knowledge on the scale. Scale items included statements on level of information/knowledge on personal taxation and indirect taxes. Coefficient alpha was used to measure the internal consistency of the scale. Cronbach alpha was reported to be 0.832, which deems the scale reliable.

Information on debit/credit cards

A four-item Likert scale was employed with the following indications (1) Very knowledgeable (2) Somewhat knowledgeable (3) Not sure (4) Somewhat ignorant (5) Very ignorant. A higher value

reflects low level of information/knowledge on the scale. Scale items included statements on level of information/knowledge on the use and penalties on debit/credit cards. Coefficient alpha was used to measure the internal consistency of the scale. Cronbach alpha was reported to be 0.642, which deems the scale reliable.

Information on insurance

A two-item Likert scale was employed with the following indications (1) Very knowledgeable (2) Somewhat knowledgeable (3) Not sure (4) Somewhat ignorant (5) Very ignorant. A higher value reflects low level of information/knowledge on the scale. Scale items included statements on level of information/knowledge on life and auto insurance. Coefficient alpha was used to measure the internal consistency of the scale. Cronbach alpha was reported to be 0.763, which deems the scale reliable.

Information on loans/debt

A four-item Likert scale was employed with the following indications (1) Very knowledgeable (2) Somewhat knowledgeable (3) Not sure (4) Somewhat ignorant (5) Very ignorant. A higher value reflects low level of information/knowledge on the scale. Scale items included statements on level of information/knowledge on housing loan, personal loan, auto loan and educational loan. Coefficient alpha was used to measure the internal consistency of the scale. Cronbach alpha was reported to be 0.903, which deems the scale reliable.

RESULTS

The findings of the study reveal important insights on inclinations and attitudes of new job entrants towards financial literacy and behaviour. Firstly, as can be seen from Table 1, almost 69% of the youths feel the need to improve their financial knowledge. Table 1 also reveals the importance of financial awareness to them; the mean score for this construct is 4.37 (SD=0.601). This indicates that these new job entrants highly rate the importance of being financially aware. In addition to this the study also explores the sources (personal, non-personal) from which the new job entrants learn to manage their monetary affairs.

Fig.1 reveals the samewith parents as the most popular source and financial planner/ counsellorasthe least popular source.

The study also made an appraisal of the present financial knowledge on specific areas such as investment, taxes, debit/ credit card, insurance and loans /debt. The findings reveal that these new job entrants are most knowledgeable on taxes and least knowledgeable on debit/credit card usage.

The hypotheses postulated in the previous section were examined as follows:

H1 (a) and H1 (b): An independent sample *t*–test was performed, comparing the mean score of *importance of financial awareness* for male students (M=4.26, SD=0.65) with that of female students (M=4.54, SD=0.46). This test was found to be statistically significant, t (158)=2.949, p=0.004. Hence, H1

TABLE 1
Mean Scores on Key Variables

1.	Need for a personal finance course (in percentage)	
	Yes	68.6
	No	18.2
	Not Sure	13.2
2.	Importance of Financial Awareness (mean scores on five-point Likert scale)	
	GENDER	
	Male	4.26
	Female	4.54
	EDUCATIONAL BACKGROUND	
	Technical	4.44
	Medical	3.98
	REGION	
	North	4.38
	West	4.4
	East	4.62
	South	4.2
	Central	3.92
3.	Sources of learning about Managing money (mean scores on five-point Likert scale)	
	PERSONAL	3.38
	NON-PERSONAL	2.94

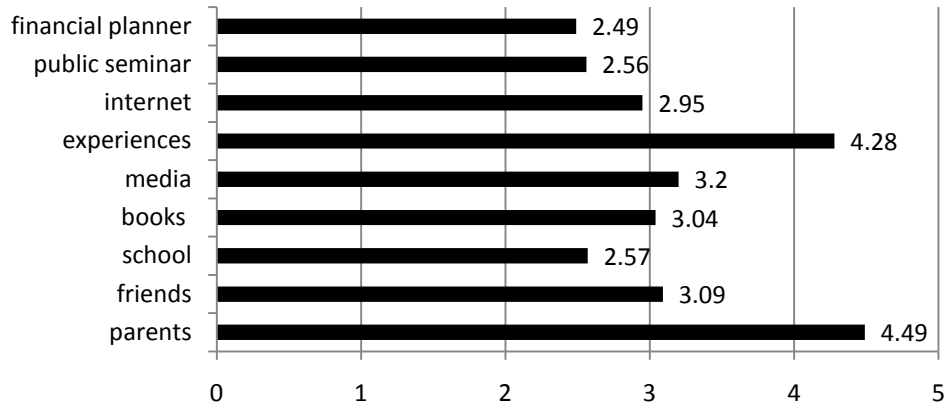

Fig.1: Learning about managing money

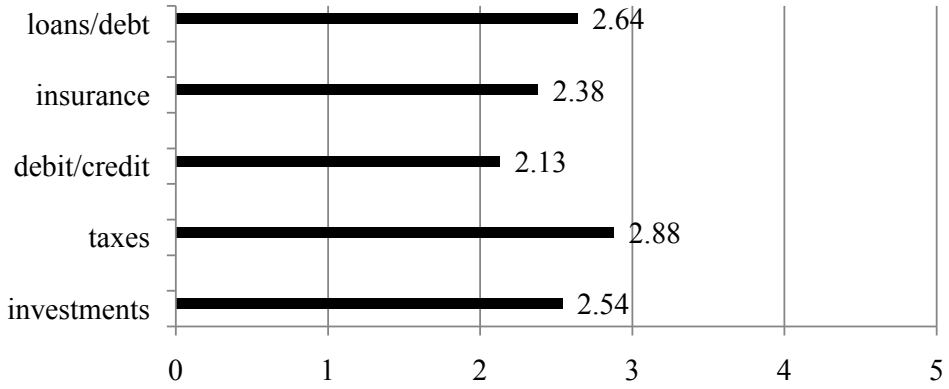

Fig.2: Level of knowledge

(a) stands supported. Similarly, the *t*-test was used to evaluate H1 (b). The scores for technical students (M=4.44, SD=0.48) and non-technical students (M=3.98, SD=0.92) were compared. This test was found to be statistically significant with t (158)=14.31, p=0.000. Thus H1 (b) finds support from the findings of this study.

H2: A 2 (sources for information) X 2 (Gender) mixed model ANOVA revealed a significant effect for sources ofinformation, F (1,158)=46.35, p< .000. Eta –squared = 0.29. Information acquired from *personal sources* measured as M=3.38 (SD=0.66) and *from non-personal sources* as M=2.94 (SD=0.91). However, there were no significant main or interaction effects of new job entrants' gender on the sources of information. The mean score for male respondents for personal sources was 3.26 (SD=0.69) and for female respondents as 3.58 (SD=0.57); the scores for non-personal sources are as follows – male respondents (M=2.84, SD=0.93) and female respondents (M=3.09, SD=0.84). Thus support for H2 (a) is found from this investigation but H2 (b) i.e. gender based-differences stands rejected.

H3 (a) and H3 (b): An independent sample *t*–test was performed, comparing the mean score of *information on investment options* for male students (M= 2.53, SD=0.98) with that of female students (M=2.55, SD=0.83). This test was found to be statistically not significant, t (158)=0.108, p=0.914. Hence, H3 (a) stands not supported. Similarly, the *t*-test was used to evaluate H3 (b). The scores for technical students (M=2.48, SD=0.87) and non-technical students (M=2.85, SD=1.11) were compared. This test was found to be statistically significant with t (158)=3.63, p=0.050. Thus H3 (b) finds support from the findings of this study.

H4 (a) and H4 (b): An independent sample *t*–test was performed, comparing the mean score of *information on taxes* for male students (M=2.88, SD=1.19) with that of female students (M=2.87, SD=0.92). This test was found to be statistically not significant, *t* (158)=0.087, *p*=0.903. Hence, H4 (a) stands not supported. Similarly, the *t*-test was used to evaluate H4 (b). The scores for technical students (M=2.75, SD=1.01) and non-technical students (M=3.5, SD=1.28) were compared. This test was found to be statistically significant with *t* (158)=10.53, *p*=0.001. Thus H4 (b) finds support from the findings of this study.

H5 (a) and H5 (b): An independent sample *t*–test was performed, comparing the mean score of *information on debit/ credit card usage* for male students (M=2.11, SD=0.89) with that of female students (M=2.16, SD=0.89). This test was found to be statistically not significant, *t* (158) =0.294, *p*=0.769. Hence, H5 (a) stands not supported. Similarly, the *t*-test was used to evaluate H5 (b). The scores for technical students (M=2.01, SD=0.77) and non-technical students (M=2.76, SD=1.14) were compared. This test was found to be statistically significant with *t* (158) =17.38, *p*=0.000. Thus H5 (b) finds support from the findings of this study.

H6 (a) and H6 (b): An independent sample *t*–test was performed, comparing the mean score of *information on insurance policies* for male students (M=2.33, SD=1.15) with that of female students (M=2.45, SD=0.92). This test was found to be statistically not significant, *t* (158) =0.715, *p*=0.476. Hence, H6 (a) stands not supported. Similarly, the *t*-test was used to evaluate H6 (b). The scores for technical students (M=2.32, SD=0.99) and non-technical students (M=2.69, SD=1.37) were compared. This test was found to be statistically significant with *t* (158)=2.61, *p*=0.010. Thus H6 (b) finds support from the findings of this study.

H7 (a) and H7 (b): An independent sample *t*–test was performed, comparing the mean score of *information on loans and debt* for male students (M=2.66, SD=1.15) with that of female students (M=2.61, SD=1.05). This test was found to be statistically not significant, *t* (158)=0.300, *p*=0.765. Hence, H7 (a) stands not supported. Similarly, the *t*-test was used to evaluate H7 (b). The scores for technical students (M=2.56, SD=1.05) and non-technical students (M=3.08, SD=1.34) were compared. This test was found to be statistically significant with *t* (158)=4.95, *p*=0.020. Thus H7 (b) finds support from the findings of this study.

CONCLUSION

The findings from the study provide many meaningful insights. Firstly, it can be seen that a majority of the youths feel strongly to improve their present level of financial

knowledge. This is in congruence with the research results of Lalonde Kelly et al (2009) which indicate that students are aware of their financial literacy or lack thereof. Thus, there is a need for greater academic rigour in providing training, education and exposure to holistically train young new job entrants.

Secondly, the importance of being financially aware was also highly rated and particularly so by female students. A separate study on female studentsrevealed a more significant increase in financial knowledge as a result of the curriculum than for male participants (Danes et al, 2007). Hence, it may be stated that gender-related roles are deep rooted, and female students seem to be more financially prudent. This study also made an assessment vis-à-vis academic background. Technical students rated the importance of being financially aware higher than non-technical students. It can be implied from this that non-technical courses need to revisit their curriculum and better design courses to meet present-day requirements of youth.

An interesting facet of the study was to explore the sources of information for managing money. Information acquired from personal sources such as parents, friends, school, life experiences etc. was rated higher than non-personal sources such as books, media, internet etc. Thus greater attention is required to develop and design integrated programmes to promote financial literacy among youth. Further, the study specifically aimed to assess the present level of knowledge of new job entrants on specific financial aspects. The findings reveal that these new job entrants were the most knowledgeable on issues related to taxation followed by loans, investment options and insurance and least on debit/ credit card usage. However, they have a moderate level of understanding of these aspects. Once again, this draws attention to the fact that new job entrants require better training related to these vital financial aspects which will eventually govern their financial behaviour. It may also be noted that male and female new job entrants had a similar level of knowledge on these aspects. This is similar to the findings of Murphy (2005) which revealed that gender differences in scores were found, but they were not found to be significant. However, new job entrants in technical areas had a lower level of information on these aspects.

This study provides meaningful insights for both academicians and practitioners. The findings provide an initial platform from which to develop programmes and policies for a holistic development of youth. Given the limited academic research attention on these aspects particularly in India, this study makes a meaningful contribution to academicians, researchers and organisations.

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