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An Examination of the Antecedent and Corollary of Personal Financial Planning: The Need for Early Education

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ABSTRACT

Within the broad context of services, financial services play an integral part in the well-being of people's lives. There is little doubt that, in a number of advanced economies, responsibility for long-term financial well-being is being shifted from the state to the individual citizen. This study provides an exposé of financial planning and whether it is informed by the advertising efforts of a financial services institution and, in turn, whether that advertising is influential.

Using a survey based approach amongst UK citizens, we reveal that advertising has an impact on financial planning. For practitioners, this means that communications must be an integral part of ensuring citizens are making the best decisions for themselves. This, we argue, has important implications for citizens and policy. We advocate that financial education should start as early as possible so as to highlight the longer-term benefits of good financial planning. This approach could be based on strategies used to educate and increase financial engagement. Another of our survey's important contributions shows that good financial planning and decision-making lead to a greater level of financial ability. Financial ability leads to trust.

Key Words: Financial Planning; Financial Ability; Advertising Influence; Trust

INTRODUCTION

In the UK and elsewhere there has been a growing narrative around citizens taking greater responsibility for their long-term financial planning which for example, underpins private pensions and other long-term saving products (Atkinson, McKay, Collard & Kempson, 2007).

As a result of deregulation and disintermediation of the financial services sector, there is a greater accessibility to financial services that may previously have been out of the reach of individual citizens. In tandem, there are increasing sources of information, such as the Internet and other media platforms, providing information regarding financial services. The UK Government, for instance, publicises the Money Advice Service to provide free, independent financial guidance on a range of financial products and services. Lusardi and Mitchell (2014) note that despite the explanation of financial services, for the unsophisticated citizen this information is challenging to master. Furthermore, they that at the same time there has been a shift away from traditional long-term savings, such as pensions. In the UK, for example, outside of the public sector, nearly all the defined benefit pension schemes have been closed to new entrants (at the least) and are being replaced by defined contribution schemes. Therefore, the latest generation is having to save in a different way. Because the onus is increasingly placed on citizens, with a plethora of new types of products that they are exposed to, there is a greater responsibility placed on them to make the correct complex decision. As the mechanisms for savings have altered, they may be open to miss-selling and abuse, and if poor decisions are made, citizens may well accuse government of failing them.

As an example to the preceding discussion, to ensure pension savings are sufficient to fund an aspirational lifestyle, there is evidence that financial literacy, which is related to financial planning, plays a compelling part in the accumulation of wealth (Monticone, 2009).

Thus, within an increasingly complex financialised economy, financial planning is a central aspect of pensions, meaning that understanding some of the antecedents and corollaries of financial planning is important for understanding citizen behaviour. Failure to manage finances can have negative long-term effects (Perry & Morris, 2006) and it is as a consequence of greater financial literacy that societal benefits can be accrued.

Given the challenges faced by citizens when it comes to financial planning and long-term savings, based on a survey of we undertook, we discuss how advertising communications inform a number of key outcomes. We discuss how advertising informs financial planning and, in turn, how the latter influences financial ability. Finally, we discuss how financial ability influences trust.

INFLUENCE of ADVERTISING COMMUNICATIONS

Relationship Between Advertising and Financial Planning

The literature pertaining to communications, in the form of advertising, is well documented and normally positions advertising as a tangible outcome that contributes to a firm's success (Sekhon, Roy, Chadwick, & Devlin, 2016). Moreover, advertising has a cumulative effect over a period of time. Because advertising can influence behaviour, there is an important distinction between its effects and effectiveness (Delre, Broekhizen & Bijmolt, 2016).

There is some evidence pointing toward financial knowledge affecting a wide range of behaviours (Monticone, 2009). Lusardi and Mitchell (2014) showed that good financial planning behaviour has an influence on a citizen's wealth holdings, while in their earlier work i.e. Lusardi & Mitchell (2007), they commented that many people in the US and other countries were ill-informed about the most basic concepts, meaning that they were unable to make an informed decision and this, therefore, had a major impact on their financial well-being.

The objective of advertising communications is to create favourable outcomes (Buil, Chernatony & Martínez, 2013) and these outcomes could also be used to help improve citizens' financial planning. However, when we look at adevertising's influence and its ability to create awareness, it has to be appealing to ensure action on the part of the citizen. As a consequence of the importance of advertising, we hypothesise that the following relationships exist:

H1: Advertising influence has a positive effect on short-term financial planning

H2: Advertising influence has a positive effect on long-term financial planning

H3: Advertising influence has a positive effect on struggling to manage finances

Relationship Between Financial Planning and Financial Ability

Financial planning is increasingly important due to the financialisation of products and services which is moving financial responsibilities and risks onto the individual citizen. This shift of responsibility from the state to the citizen places the onus on the citizen to make sure they have resources for their old age and ongoing financial security.

The requirement for individual citizens to provide resources for themselves has accelerated in the UK since the 2008 financial crisis and the austerity programme designed to address the fiscal deficit. For instance, since 2010 in the UK there has been a 'freeze' on or negligible increases in public sector pay, although, arguably, this has been offset by historically low interest rates and lower rates of inflation. During the same period, the UK's pension reforms have seen the introduction of a new type of pension scheme, where, like the KiwiSaver Scheme, the individual citizen has to opt out. While this has seen saving rates improve, the behavioural economic position is one of citizens saving the minimum default amount, which will probably be inadequate in relation to retirement expectations.

We contend that the dimensions of financial planning include making ends meet, controlled spending, organised money management, planning ahead, choosing products and staying informed. Managing money well (i.e. saving regularly, and budgeting well so that expenditure is less than income) on a short-term basis indicates that citizens are able to plan their finances due to having sufficient income and being financially capable.

Financial capability is considered to be an ability to make informed decisions with a desired outcome (Mason & Wilson, 2000). Key determinants of financial ability include age and the level of household financial wealth. Those with lower financial ability tend to be younger with lower financial wealth due to a lack of experience and less time to accumulate assets. Conversely, those who are older with higher levels of financial wealth are considered to have higher levels of financial ability. Therefore, it is unknown whether 'wealth influences financial capability or that, conversely, financial capability influences wealth' (Finney & Hayes, 2015: 29). On this basis, we can estimate that those with higher levels of financial planning are more likely to plan ahead, budget, save, stay informed of new products and the financial environment, and choose appropriate financial products and services. Thus, we can say that the following relationships are likely to emerge:

H4: Short-term financial planning has a positive effect on financial ability

H5: Long-term financial planning has a positive effect on financial ability

H6: Struggling to manage finances has a negative effect on financial ability

Relationship Between Financial Ability and Trust

It is reasonable to assume that those citizens who are engaged with their finances are more likely to be trusting of their financial services provider. In 2005 the Organisation for Economic Co-operation and Development (OECD) outlined three main reasons for improving financial ability: (a), a shift in responsibility from the state to the individual citizen; (b), increasing level of consumer spending and debt; and (c), the deepening role of financial institutions in citizens' lives. Within the broader financial services literature there is a linkage between ability and trust in financial institutions (e.g. Sekhon, Ennew, Kharouf & Devlin, 2014). Thus, we are of the view that those citizens who are less engaged may be less trusting of their financial services provider. Based on the evidence of its importance, therefore, we present the following hypothesis.

H7: Financial ability has a positive effect on trust in the financial institution

METHOD

Main Survey

The survey data for our study were collected during June/July 2016, with the fieldwork completed by a reputable market research company (Qualtrics). Survey participants were screened based on (a), being a UK resident; (b), holding a bank account; and (c), having viewed an advertisement for a financial institution during the six months prior to the survey. As a result, 1,113 individuals completed the survey.

The survey was further stratified to ensure that we reached the various age groups, as we had estimated that there may be differing attitudes and behaviours towards financial planning depending on life stage. For example, it is well known that there is a pensions' saving gap because younger members of society are not saving as much as is required to provide the retirement life-style to which they aspire. The sample stratification was built into the survey parameters that we provided to Qualtrics.

Questionnaire

In developing the questions for our survey, we sought guidance from and adopted questions from well-regarded studies. Our measures were adopted from well-known scales. The influence of advertising was measured with three questions adapted from Wyllie, Carlson and Rosenberger (2014). Short-term financial planning was measured with three questions taken from Finney and Hayes (2015). Long-term financial planning was measured with three questions modified from Finney and Hayes (2015). Struggling to manage finances was measured with three questions from Finney and Hayes (2015). Financial ability was measured as a second order construct, in our proposed model. Trust in the financial institution was measured with three questions adapted from Sekhon et al. (2014). All questions are shown in Table 1.

Table 1: Survey Questions

Area of Investigation	Question
Advertising influence	
	Not Exciting (1): Exciting (7)
	Unappealing (1): Very Appealing (7)
	Not Entertaining (1): Entertaining (7)
Short-term financial planning	
	I would be able to find the money to meet a major expense, equivalent to one month's income, from my savings
	I am organised at managing my money on a day-to-day basis
	I believe it is important to save for a rainy day
Long-term financial planning	
	I know accurately how much spending money I have
	I can read the balance on my bank statement
	I am confident at managing my money
Struggling to manage finances	
	I am too busy to sort out my finances
	I normally run out of money before the end of the month
	In the last year, I have not been able to save because I could not afford to
Trust in financial institution	
	Is always honest with me
	I trust to do what it says it will do
	makes every effort to address my needs

The survey question responses were scaled from 1= strongly disagree to 7= strongly agree. For the middle point of our scale, we used the term "neither agree nor disagree".

FINDINGS

Demographic Analysis

The participant demographic of the sample consisted of 50% male (n=556) and 50% female (n=557). Most of the participants were 30 to 50 years old (see Table 2). The percentage of respondents in full-time employment was 42.3%.

Table 2: Sample Age and Status Breakdown

Age Group	n=	%	Status	n=	%
18 - 20	94	8.4	Full-time student	87	7.8%
21 - 29	125	11.2	Part-time student	9	.8%
30 - 39	243	21.8	Full-time work	471	42.3%
40 - 49	248	22.3	Part-time work	143	12.8%
50 - 59	188	16.9	Full-time parent/carer	76	6.8%
60 - 69	149	13.4	Unemployed	116	10.4%
70+	66	5.9	Retired with a state pension	33	3.0%
			Retired with a private pension	155	13.9%
			Prefer not to say	23	2.1%

The ethnic background of the participants is shown in Table 3. The ethnic profile of the majority of the sample is white British, followed by other white. The demographic profile achieved in this study is broadly consistent with ethnicity at a national level, in the UK (see Office for National Statistics, 2012).

Table 3: Ethnic Background

Ethnic Background	n=	%	Ethnic Background	n=	%
White British / English / Welsh / N. Irish / Scottish	925	83.1%	British Bangladeshi	5	.4%
Other White	43	3.9%	British Chinese	10	.9%
Mixed White and Black Caribbean	12	1.1%	Other Asian	5	.4%
Mixed White and Asian	11	1.0%	British African	10	.9%
Mixed White and Black African	3	.3%	British Caribbean	5	.4%
Other Mixed	7	.6%	Other Black	4	.4%
British Indian	20	1.8%	Arab	3	.3%
Other Ethnic Group (please describe)	5	.4	Prefer not to say	29	2.6%

Table 4 shows that the income for most of the participants ranged from £10,000 to £32,000, with 8.4% earning less than £10,000 and only 2.1% classified as high earners.

Table 4: Income Breakdown

Income	n=	%	Income	n=	%
Lower than £10,000	93	8.4%	£65,000 - £75,999	43	3.9%
£10,000 - £20,999	263	23.6%	£76,000 - £86,999	25	2.2%
£21,000 - £31,999	211	19.0%	£87,000 - £99,999	20	1.8%
£32,000 - £42,999	190	17.1%	£100,000 - £119,999	11	1.0%
£43,000 - £53,999	100	9.0%	£120,000 and above	12	1.1%
£54,000 - £64,999	55	4.9%	Prefer not to say	90	8.1%

We asked the survey participants to indicate where they could recall an advertisement from their financial services provider. The majority could recall a television advertisement (85.4%), followed by an advertisement online (5.5%) and newspaper (2.2%). The rest could recall advertisement via radio (0.5%), mail (1.3%), poster (2.1%) and billboard (2.9%). We also assessed advertising recall for the participants in relation to how many times they had seen the advert. Table 5 reveals that most survey participants had been exposed to the advertisement at least three times or more.

Table 5: Frequency of Advertisement

Frequency advertisement viewed	n=	%
One time	85	7.7
Two times	151	13.6
Three times	193	17.3
Four times	201	18.1
Five times	121	10.9
Six times	49	4.4
Seven times or more	313	28.1

Testing the Relationships

To test our hypothesised relationships, we used SmartPLS 3. The results of testing the seven hypotheses, as shown in Table 6, indicate that H1 was not supported with $\beta = 0.011$NS. H2 was supported with path coefficient $\beta = 0.18$. Advertising influence on those struggling to manage finances (H3) was significant with β = 0.2. H4, H5 and H6, which assessed the dimensions of financial ability, were positive and significant with β = 0.55, β = 0.51 and β = -0.58 respectively. Finally, our result also supported H7, indicating that the higher a citizen's financial ability the more likely they are to trust the financial institution.

Table 6: Results of Testing Relationships

	Path	**β**
H1	Advertising influence → Short-term financial planning	0.011NS
H2	Advertising influence → Long-term financial planning	0.18***
H3	Advertising influence → Struggling to manage finances	0.20***
H4	Short-term financial planning → Financial ability	.55***
H5	Long-term financial planning → Financial ability	.51***
H6	Struggling to manage finances → Financial ability	-.58***
H7	Financial ability → Trust in financial institution	.21*
	Q^2	0.40

To ensure accuracy of our findings we completed the analysis by assessing the model's predicted accuracy. Our results show that all the resulting cross-validated redundancy values (Q^2) were above zero, supporting the model's predictive accuracy (see Table 6). This result is also supported by the R^2 values, which suggest that our proposed model has satisfactory in-sample predictive (Hair, Ringle & Sarstedt, 2011; Schlägel & Sarstedt, 2016).

DISCUSSION and CONCLUSION

UK citizens are living longer, with greater responsibility for their own long-term financial well-being. This is happening at a time when, as the mid-2000s study by the OECD reported, levels of financial capability are at a record low level. More recently, the White Paper by the World Economic Forum (2017) observed that the retirement saving gap was forecast to rise from US $70 trillion to US $400 trillion by 2050 in the eight countries that informed their research: Australia, Canada, China, India, Japan, Netherlands, the UK and the US. As the

World Economic Forum goes on to say, this was further compounded by long-term returns being at a low level, continued low levels of financial literacy and inadequate savings rates. Thus, taken together, the challenges for citizens and central governments are deep and varied.

Similar to Atkinson et al. (2007), we reveal that advertising communications can have an influence on financial planning. For financial service providers, this means that there is a need to make a compelling case for the benefits of a regular savings plan. Anecdotally, at least, while citizens' indebtedness coupled with insecure employment does not allow that to happen, at least there seems be an awareness that regular savings are important.

We show that advertising communications do not have an influence on short-term financial planning, but do so on long-term financial planning and those struggling to manage finances. The purpose of advertising communications is to influence behaviour (Kotler & Zaltman, 1971) and in order for them to be most effective, they have to be part of an integrative approach (Naik & Raman, 2003). The authors go on to posit that in its broadest sense, adopting an integrative approach has the key benefit of adding value by incorporating a number of communications activities that fall above and below the line.

Advertising communications related to improving capability and ultimately planning have to be related to citizens' motivations, disposable income and education to build lasting financial capability. We advocate an approach that is similar to the one adopted to reduce tobacco consumption which was built around the health benefits and education introduced at an early stage. As an integral component of the motivation and education agenda, life-style benefits of adopting an earlier life-stage approach to savings planning could be put forward by service providers. Thus, improving communications has to serve the purpose of being an educational piece because, as Huston (2010) contends, financial knowledge is a corollary of financial education with the benefit that citizens will be prepared to make informed judgements. For example, given today's typical equities growth rates, a citizen starting to save into a long-term product (e.g. pension, start savings at the age of 40) will need to save three times more per month than they would have had to do if they started saving at age 20, to achieve the same return. We are of the view that this educational process will support those who are struggling to manage their finances.

Our study also illuminates the relationship between short- and long-term financial planning and financial capability, those struggling to manage finances and financial capability. In relation to this, the need for ongoing financial capability has never been greater due to the changing financial marketplace (Atkinson et al. 2007). In addition, as we posited, given its characteristics, financial capability is intrinsically linked to financial ability (e.g. Taylor, 2011) because they are both congruous with a citizen's ability to manage their finances. While the main emphasis of this study was to examine the relationship, adding to prior studies we too would encourage policymakers and financial services to take a targeted approach to increase levels of financial ability, particularly as inadequate provisions are being made for a well-funded retirement (World Economic Forum, 2017).

While there is a need for long-term financial planning, for it to be successful it has to happen in conjunction with a compelling educational agenda. The centrepiece of the educational agenda has to be part of a coherent, integrative communications strategy that starts as early as possible during a citizen's lifecycle. We conclude by saying that our survey shows that good financial planning and decision-making will lead to a greater level of financial capability, and with financial capability leading to greater trust in financial services.

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