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Impact of Education on Personal Financial Planning

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Abstract

Personal financial planning is an important part of financial well-being today. Rising inflation, a large array of different financial products, an increasing number of online banks and services as well as an increasing number of financial responsibilities require more and more effective management of current income and assets by means of saving, investing & planning for the future. The way in which people are educated is especially important for financial well-being. For the planning of personal finances, financial education is needed in order to support financial literacy, responsible saving and prudent investment decisions. In addition, financial education promotes long-term financial security. people with higher levels of educational exposure typically possess greater financial knowledge & apply better financial behaviours and decision-making in terms of budgeting or saving or investing in financial products, debt management, and retirement planning, as well as in managing financial risks through diversification. This research paper has been designed to review and critically evaluate the impact that formal education has on personal financial planning amongst individuals. In order to answer the research question, a variety of secondary data has been collated from a range of sources, including relevant academic journals, academic papers, Government reports and published studies. The material has been selected on the basis that it was relevant and was published between the years 2001 and 2025. The primary themes identified throughout the body of knowledge, which have been used to explain the impact that education has upon financial planning, include financial education and financial literacy, savings behaviour, investments & long-term financial planning & finally, debt and financial management. The research also identifies the fact that those individuals who are best equipped financially are those who have formally been educated and who have gone on to draw up personal financial plans, hold sufficient emergency funds and who invest by spreading risk through a variety of different products in order to avoid getting into unnecessary debt. Even with the increase in the levels of education available to citizens of developing countries such as India, there is little improvement in their financial literacy. Hence, there is a great required inculcate practical financial undersatnding in the school curriculum and also in the college

curriculum so that individuals can develop into financially literate and confident citizens and go on to become economically stable and be able to develop into good personal financial planners.

Keywords: Financial Planning, Personal Finance, Education, Financial Literacy, Financial Behaviour.

Introduction

In today's environment of swift change in the field of personal finance, it is increasingly complex for individuals to manage their personal finances on an on-going basis. There is a need for individuals to make informed and timely decisions on a host of financial issues such as saving, investing, insurance, tax, retirement planning and debt management. The proliferation of banking, investment, credit and other financial services, many of which are delivered online, has increased choice but also requires individuals to have the requisite knowledge and skills to make best use of available services and to plan their personal finances effectively. Personal financial planning is about managing financial resources with a view to trade-off between short-term and long-term performance. Thus, personal financial planning involves making appropriate financial decisions to meet various financial objectives such as maintaining financial stability and reducing financial stress. It helps individuals to lead better life and thus to enhance their standard of living.

The impact of education in improving personal financial planning has increased significantly as education helps to develop an analytical mind, financial awareness and ability to make sound decisions. With financial education individuals are able to better understand various financial products, their characteristics and associated risks to make suitable financial decisions. As stated by Lusardi and Mitchell (2011) in their study financial literacy helps individuals in understanding basic financial concepts that aid in planning for retirement and creating wealth. Financial education in school years, as found by Bernheim, Garrett, and Maki (2001), also influences saving behavior of individuals and helps them in adopting sustained financial discipline.

Future research directions stresses that though financial inclusion has gone up and banking services are reaching every nook and corner of the country, the financial awareness level is extremely low. The study states that a large proportion of the population does not even have sufficient knowledge about concepts like budgeting, inflation, insurance and diversified investing to name a few. The need for financial education thus cannot be stressed enough and the present study aims to find out how education impacts an individual's personal financial planning behaviors.

This study attempts to investigate the role of education and financial literacy in influencing personal financial planning and achieving financial security and financial well-being.

Research Objectives

- To find the relation between education & personal financial planning.
- To check the impact on saving and investment behaviour of a human being through education.
- To analyze how financial literacy is improving financial awareness,
- To comprehend the influence of education on the budgeting & financial decision-making of an Individual
- To achieve long-term financial security, how education on handling finances can be useful for an individual.

Literature Review

A large number of studies conducted in various countries have used education & financial awareness as key determinants of individual financial planning behavior. These studies have found that financially more aware individuals are more likely to save and invest on a regular basis and possess higher levels of financial stability.

Huston (2010) defined financial literacy in terms of both financial knowledge and ability to apply that knowledge. He explained that financially literate individuals manage their financial affairs more effectively. In her research paper – ‘Measuring Financial Literacy’, Sandra J. Huston has mentioned 2 main dimensions, which are Financial Knowledge and Financial Application. Both are interrelated, as without knowledge, you cannot do financing, and if you do, you might end up with huge losses, and if you possess a high level of knowledge of finance and you are not applying it, then it is a complete waste.

Mandell and Klein (2009) found that financial education at an early stage of life influences future financial behaviour in a positive manner. Their research highlighted that students who receive financial education establish better money management practices and stronger saving habits when they grow up. Lewis Mandell and Linda Schmid Klein also added in their research paper - "The Impact of Financial Literacy Education on Subsequent Financial Behaviour" that there was no significant difference in the behaviour of the students who had studied Finance in their school/college and the students who did not study Finance in their school/college. The reason behind this was surprising as they called the information students gained from school as Dormant education as when they were learning, they did not have money to invest as they are students and does not have a proper job, and when they

age and get a job, till that time they have forgotten what they have learned in school/college.

Lusardi and Mitchell (2011) stated that financial literacy significantly affects retirement planning and long-term financial readiness. The study found that individuals with higher educational experience prefer to use to participate in old-age income security instruments and investment planning activities than those who do not possess the similar experience.

OECD (2020) described that financially educated men/women are more likely to maintain emergency savings, compare financial products sensibly, and formulate structured financial plans. The report also emphasised that financial literacy improves financial inclusion and strengthens economic stability. The Organisation for Economic Co-operation and Development, in their report "OECD INFE 2020 International Survey of Adult Financial Literacy" also emphasises³ main points: Financial Knowledge, Financial Behaviour, and Financial Attitude. How much knowledge you have, how you manage your funds in real life, and whether you plan for short-term or long-term as well. The report also highlighted that women have less financial knowledge as well as a lower confidence score as compared to men.

Xiao and Porto (2017) observed that financial education positively affects household financial fulfilment and helps in reducing financial stress. Individuals with financial planning knowledge facilitates to make more rational choice regarding insurance, retirement savings and usage of credit.

Remund (2010) asserted that financial literacy encompasses understanding budgeting, investing, risk, and planning. The study assessed that educated people are more likely to make better financial and portfolio allocation.

Atkinson and Messy (2012) noted that better financial literacy strengthens financial resilience when faced with adversity. Financially educated people are more likely to cope with a financial crisis and not incur an excessive amount of debt.

Looking at the Indian situation, Agarwalla et al. (2015) evaluated that financial literacy in the youth is low, ich despite higher education. The study argued that Indian higher educational institutions should include practical financial education to enhance financial planning for the youth.

Joo and Grable (2004) assessed that financial education strengthens financial worth and the ability to form and realise long-term financial goals. Their findings suggested that budgeting and saving behaviours were enhanced through the participation of educational workshops and financial counselling.

Overall, the existing literature specifies a significant association between education, financial literacy, & personal financial planning behaviour. Education and knowledge not only improve financial awareness but also helpmen/women achieve financial security and long-term economic well-being.

Research Methodology

Education fosters financial planning and financial security and improves long-term economic welfare. The current study focuses on secondary data. The research focuses on an analysis of research journals, books, published articles, reports, government and financial literacy surveys, and personal financial planning surveys that are available on the Internet.

Nature of the Study

This study is illustrative and analytical. It is a formal analysis of the impact of education on the financial planning action of an individual and an analysis of public findings.

Sources of Data

- Research journals and academic articles
- Government and NCFE reports
- OECD financial literacy reports
- Published research papers and books
- Online academic databases and websites

Tools Used

- Comparative analysis
- Interpretation of published findings
- Percentage analysis
- Secondary data interpretation

Data Analysis and Interpretation

Analysing the secondary data shows the impressive impact education has on one's personal financial planning behaviour. People who completed higher levels of education are more likely to create monthly budgets, open savings accounts, purchase a variety of financial products, and think ahead to retirement and make plans for it.

The research of Lusardi and Mitchell (2011) showed that individuals lacking financial literacy are more likely to feel financial stress and less confident about handling their finances. Kaiser et al. (2022) showed that financial education likely leads to better financial discipline and the adoption of a regular saving habit.

It is also likely that individuals who have completed education in areas of commerce, business, or finance are more likely to have higher levels of understanding about the diversification of investments, the risks and returns associated with investments, and the greater importance of managing one's wealth.

Financial education also teaches individuals the various important financial concepts of inflation, taxes, interest, credit, and retirement. Individuals with financial knowledge also have a higher likelihood of making sound financial decisions by avoiding high-risk, and likely fraudulent investments.

It is shown that financial education likely leads to a greater financial well-being and lesser financial stress. People who are knowledgeable about financial planning also have the ability to better manage financial emergencies, avoid financial crises, and achieve financial stability.

Overall, education is shown to influence personal financial planning behaviour in a greatly positive way..

Findings of the Study

- The personal financial planning behaviour of a Human Being is positively influenced by the Education he has received
- Financial literacy is key to improving savings and investment and to greater budgeting competence.
- They also have a much better investment awareness and are able to deal with risks better.
- Financial planning with financial education will enhance the long-term financial security and financial stability, which in turn enables a human to live a better lifestyle.
- In situations of financial stress, individuals with financial knowledge are able to handle a financial crisis better than those who do not have such knowledge.
- Financial education can reduce financial stress and increase financial confidence, resulting in a better life.
- Practical financial education programs can help strengthen the financial decision-making abilities of young people.

Conclusion

Based on the above analysis, we can conclude that education plays a very important role in improving personal financial planning & in making sound financial decisions. A financially educated human being is better equipped to manage his / her income, savings & investments in a systematic manner. He / She is better able to manage his / her risk & is aware of various financial products & services, including life & health insurance, various tax schemes, pension & retirement schemes, etc.

Research studies into the planning of personal finances of individuals have found that greater levels of financial education can improve saving behaviour and increase investment awareness, and therefore can improve a person's budgeting

practices and financial discipline. It has been found that individuals with greater financial literacy are better at making decisions regarding their finances and are less likely to get into debt and make poor long-term financial decisions.

Theoretical knowledge is not sufficient to cope with financial issues. Financially educated individuals also need practical financial education and financial awareness. In order to help individuals to cope with financial real-life situations and with products on the financial market, educational institutions, government and financial services institutions have to promote financial literacy by means of workshops, financial campaigns and by including financial education in curricula of schools and universities.

In summary, education is crucial to financial wellness & economic stability. Improving the financial literacy of individuals can lead to better personal financial planning and a financially secure society.

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