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Finance Literacy of Management in Personal Finance

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Abstract: *The objective of this paper is to present a review and synthesis of recent studies on financial literacy and related issues Financial literacy is the mix of one's knowledge, skill and attitude towards financial matters. It helps to make informed decisions and well-being of an individual. Research has been conducted globally for measuring the level of financial literacy. And also financial literacy survey has been conducted at country level by the governments. Most of the surveys have thrown light on their poor level of financial literacy. It includes knowing how to budget, save, invest, and plan for retirement, among other things. Financial literacy is essential for everyone, regardless of age or financial situation. In this article, we will explore the Financial literacy can help protect individuals from becoming victims of financial fraud, a type of crime that is becoming more commonplace Although many skills might fall under the umbrella of financial literacy, popular examples include household budgeting, learning and evaluating the trade offs between different credit and investment products. These skills often require at least a working knowledge of key finance.*

Keywords: financial literacy.

I. INTRODUCTION

Financial literacy is the major challenge faced by all countries globally. Financial literacy is the mix of one's acquaintance, skill and attitude towards financial matters. It helps to make informed decisions and well-being of an individual. In today's world which has a market with complicated products, the need for financial literacy becomes predictable. Country like India which has high young population, the government is in a position to increase the level of financial literacy. The government and other private institutions have taken ladder through financial education programs. Financial literacy can cover short-term financial strategy as well as long-term financial strategy, and which strategy you take will depend on several factors, such as your age, Financial literacy encompasses knowing how investment decisions made today will impact your tax liabilities in the future. From day-to-day expenses to long-term budget forecasting, financial literacy is crucial for managing these factors. It is important to plan and save enough to provide adequate in retirement while avoiding high levels of that result in might bankruptcy, and foreclosures. Financial literacy is an issue with broad implications for economic health .Financial literacy refers to the ability to understand and manage one's finances effectively

1.2 NEED FOR THE STUDY

Complicated financial products, low level of awareness and lack of knowledge about financial matters makes the want of financial literacy noteworthy. The level of financial literacy differs from individual to individual. Gender gap also plays an important role is deciding the level of financial literacy. A woman's decision or relationship with money is often determined by her personal life experience. Emotion, money and family are interlinked in the life of a woman. Lack of equipped access of consistent information to make informed decision leads to low level of confidence and knowledge about financial issues Understanding concepts such as compound interest, and budgeting, for example, could help her students manage the student loans that they might rely on to fund their college education and keep them from amassing dangerous levels of debt and endangering their credit scores.

1.2 AREAS OF PERSONAL FINANCE

Income

Income is the starting point of personal finance. It is the entire amount of cash inflow that you receive and can allocate to expenses, savings, investments, and protection. Income is all the money you bring in. This includes salaries, wages, dividends, and other sources of cash inflow.

Spending

Spending is an outflow of cash and typically where the bulk of income goes. Spending is whatever an individual uses their income to buy. This includes rent, mortgage, groceries, hobbies, eating out, home furnishings, home repairs, travel, and entertainment.

Saving

Savings is the income left over after spending. Everyone should aim to have savings to cover large expenses or emergencies. However, this means not using all your income, which can be difficult.Regardless of the difficulty, everyone should strive to have at least a portion of savings to meet any fluctuations in income and spending—somewhere between three and 12 months of expenses.

Investing

Investing involves purchasing assets, usually stocks and bonds, to earn a return on the money invested. Investing aims to increase an individual's wealth beyond the amount they invested. Investing does come with risks, as not all assets appreciate and can incur a loss.

Protection

Protection refers to the methods people take to protect themselves from unexpected events, such as illnesses or accidents, and as a means to preserve wealth. Protection includes life and health insurance and estate and retirement planning. Several financial planning services fall under one or more of the five areas. You're likely to find many businesses that provide these services to clients to help them plan and manage their finances. These services include:

- Wealth Management
- Loans and Debt
- Budgeting
- Retirement
- Taxes
- Risk Management
- Estate Planning
- Investments
- Insurance

1.3 BENEFITS OF FINANCIAL LITERACY

Being financially literate is a skill that brings forth an assortment of benefits that can improve standard of living for individuals through an increase in financial stability. Listed below are the assortment of benefits of being financially literate

- Ability to make better financial decisions
- Effective management of money and debt
- Greater equipped to reach financial goals
- Reduction of expenses through better regulation
- Less financial stress and anxiety
- Increase in ethical decision-making when selecting insurance, loans, investments, and using a credit card
- Effective creation of a structured budget
- Making steps to becoming financially literate is an important component of life that can ensure financial solidity, reduce anxiety, and stimulate the achievement of financial goals.

II. RESEARCH METHODOLOGY

The foremost purpose of research methodology is to give work plan of study to the researcher. In the present study with keeping in mind the objectives and the available data the study is interested in exploration and description. Sample: In the sampling unit retail investors are considered by using judgmental sampling and only contacted with them. The population is infinite but for the sake of research the sample size is taken 125. This size is indicative and represents the demography we intend to study. For study both primary and secondary data has been collected. The survey was organized with the help of questionnaire. For the collected data simple statistics like descriptive analysis with the help of frequency distribution, cross tabulation, compute mean etc. are used. Measure: A questionnaire has been used as research instrument for the purpose of determining the financial literacy level of the respondents. It is divided in two parts; first for investors‟ demographics and second is related to financial literacy. Second part includes assessment of both basic and advanced financial literacy level of investors. Basic financial literacy includes the concept of saving accounts, life insurance, risk and return, inflation, stock market etc. whereas the advance financial literacy includes the concept of fixed deposits, PPF, equity shares, mutual funds and debentures. To calculate the financial literacy level one mark each was given for every correct answer and zero for incorrect answer.

III. CONCLUSION

After systematic, logical and comparative analysis of literature and survey of Lithuanian population between 18 and 30 years old it is clear that financial literacy influence on personal finance management is very high. After comparison of questionnaire results with foreign authors' researches conclusion can be made that not only Lithuanian, but also OECD and USA countries lacks financial literacy. The research has shown that young households do not know the basic concepts of financial literacy, such as simple and compound interest. This effects their decision making, while choosing mortgages, leasing, bank deposits, retirement funds, etc. In the long run these decisions can combine into huge amount of money and this is the reason why financial literacy education program has to be implemented. Tendency towards inflation is also very clear-even 40% of the population does not understand how inflation affects their purchasing power, which is also a sign of very low financial literacy level. As results show, there is a part of Lithuanian young age society that has money to save and invest, but only 44% know the basic difference between stocks and corporate bonds, which means, that even though people have money to invest, they lack knowledge to do so. Despite all the observations made by policy-makers or researches made by scientists these is still very little done to raise the financial literacy of young households. So, lack of financial literacy means that households cannot manage their personal finance properly, spends a lot of money because of impulsive or unnecessary buying, which eventually leads to lower saving rates and lower investment returns. Moreover it might reduce countries' competitiveness in the global market in long term perspective. Countries that will introduce and improve financial literacy education programs for people of all types of age will be much better-off in the long run comparing to the countries which will not make it.

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