

# Factors Affect Financial Planning Among the Young Adults in Klang Valley

Cheong Pui San<sup>1</sup> & Vikneswaran s/o Manual<sup>2</sup>

<sup>1</sup>Faculty of Banking and Finance, Research Scholar, Asia Pacific University of Technology and Innovation, Malaysia

<sup>2</sup>Lecturer, Asia Pacific University of Technology and Innovation, Malaysia

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***Abstract:** The purpose of this study is to determine the factors that affect the financial planning among the younger adults in Malaysia. The data for this was collected via self-administered questionnaire and distributed through target respondents in resided in Klang Valley. A total of 130 completed and usable questionnaires were compiled within the Klang Valley area. The findings revealed that there was a significant correlation between the independent variables and dependent variable. In another words, this indicates that financial planning is affected by family structure, educational level, inflation rate and income level. Also, the findings of this study are limited by the area and location covered, and the absence of other variables to examine the relevant factors. The outcome of this study is important for the academic researchers and financial planning practitioners to understand the factors that can affect financial planning.*

## 1. Introduction

Personal financial planning generally means the process of planning one's spending, financing and investing in order to optimize their financial situation (Lawrence, 2013). During the year 1960s, financial planning was defined as a trade made between brokers and insurance salesman in operating the financial planning firms at the storefronts across the country of America. At that period of time, there is very least number of financial planners that made their efforts in determining their client's or customer's goals and objectives through collecting data, provide necessary solutions and to monitor the clients' progress. During the 1970s, the fundamental of financial planning industry has changed from brokers to become a real financial planner. It is a turning point of time where the public begins to realize that financial planning is actually more than just stocks, bonds and insurance (Jonathan, 2012).

In Malaysia there is a report show that many adults below 40 years old were declared bankrupt due to unpaid credit card debt and report shows that majority of them do not have any retirement plan, according to the Federation of Malaysian Consumers

Association, 2011. In year 2012, statistics show that total bankruptcy cases based on age is between 35 to 44 years old, and 5% are caused by credit card debt (Malaysian Bankruptcy, 2012).

Researchers see the trend these days where young adults like to sign up credit cards from different financial institution and swipe their card without the knowledge of financial planning. Statistics show that majority of Malaysians involved in bankruptcy are university graduates and young working adults, and the reason they were caught bankrupt is because of study loan default, failure to settle vehicle loan and also credit card debt (The Star Online, 2014).

From the case of bankruptcy we know that financial planning is relatively important for every one of us to start to plan for our own financial well-being. Therefore, Malaysian government entrust financial planning as a professional body that provides financial planning services starts from year 2004 (Malaysian Financial Planning Council, 2014). Financial planning is to help us to develop strategies that able to help us to manage our financial affairs and meet our life goal (Financial Planning Association of Australia, 2012).

Financial Planning Association of Malaysia (FPAM), it is formed on 13th of December 1999, FPAM main objective is to raise the standards of competence and ethical practice for the licensed financial planners in Malaysia and to spread the information and knowledge of financial planning in Malaysia. FPAM is a non-profit organization and it is represented by professional people from diverse financial services industries such as insurance, unit trusts, banking, legal services, stockbroking, accounting services and asset management (Financial Planning Standard Board, 2014).

FPAM has administered the Certified Financial Planner and Islamic Financial Planner certification programs; the organization is recognized by the Securities Commission and Bank Negara Malaysia in giving licensed to the financial planner. It is also an international body that owns and looks over the development activities for more than 4000 members. The Financial Planning Standards Board is

responsible in establishing, upholding and promoting the globally wide professional standards in financial planning industry (Financial Planning Association of Malaysia, 2014).

Malaysia is still new in the industry of financial planning and in year 2008 Ministry of Higher Education has launched the Shariah Registered Financial Planner Program. The main concern of this program is to equip a professional financial planner with not only general financial planning but also Takaful and Islamic financial planning principles and knowledge (Malaysian Financial Planning Council, 2014). Thus, Malaysia Financial Planning Council and financial planning agencies play the main role to raise the awareness of financial planning among people especially the youth, in order to reach domestic and international level (Financial Planning Association of Australia, 2012).

### 1.1 Statement of Problem

According to a survey done in the United States in year 2012, Insights on Wealth and Worth Survey, there are more than two-thirds of parents believe that their children are not capable to handle their own wealth. However, this isn't surprising as ways to manage wealth is not generally taught in the education system neither it is used to be discussed it within the family members. NextWave is a Newport Private Wealth's initiative to have the mission of filling the financial knowledge gap for the young adults to ensure that they are equipped with the wealth management knowledge through a series of tailored discussions specifically for the young adults (Chapman, 2012).

Young adults need to understand the concept of budget and live within the means where it means young adults should be start to accumulate their assets that are not depleting them by setting a proper budget plan and stick to it. This is the first step to build wealth, and also learn to balance their finances between spending, saving and giving is the main key to achieve long term financial goals. This is due to children that are born from wealthy families are often to be fortunate because they have a financial backstop by their parents, however, these young adults must also learn to stay on their own but not dependents on their parents (Chapman, 2012).

Besides that, young adults and teens need to understand that the amount of family wealth passing from one generation to the next generation will be likely to be lesser than the originally projected amount. This is because of the weak economic cycle and also low interest rates. However, many self-succeed wealthy individuals they wants their children to experience the joy of striving hard and succeed in the path they have choose. This is due to by inheriting wealth to the child will destroy their

passion in pursuing their dream. Therefore, young adults should not expect for a large inheritance but plan for their finances as inheriting money or gifts are not an entitlement (Chapman, 2012).

The average age of working population has been reducing steadily over the years; people in the early 20s and 30s will have more disposal income to invest in any kind of long term of short term investments such as the mutual funds. Also, households now are also having dual-income where both husband and wife working to maintain a stable income. According to a survey done, average of Indians in India with their monthly expenditures mainly on the assets such as house/apartments, cars, study loans, other essentials such as having dinner outside the mall, having premium electronic stuffs and the people living in the semi-urban area has been shifting out to the urban sectors gradually. Change in the lifestyle need to be factored in the financial plan, this is because if one's lifestyle has exceeded on what have been presumed in the financial plan, then the individual will be facing the problem of unable to achieve their financial goals (Holistic Investment Planner, 2011).

Shaun Spellman a 27 years old owner of an Internet marketing firm has recently spend \$300 for the latest Android cell phone at the day the phone was released, even though he believes that the price will drop within a few months after another new phone release but for him it is worth to own the latest gadget and is preparing for a wedding and a new home in the end of the year. However, he said that it doesn't stop him from purchasing the "necessities". Spellman is part of the generation that has represents the fast growing economy on the segment of luxury goods and services. Millennials included those born between 1980 and 2000, however, most of the millennials are burdened with the huge amount of study loans, thousands of them are unemployed (millennials had makeup one of the highest employment rate in United States). Despite all these, they are still making luxury goods and services as their main priority (Halpert, 2012).

One of the type of financial planning included is retirement planning, regardless of age from 18 years old to 108 years old, it is important to think and plan for retirement. Many young people see retirement seems like an eternity away, they think that it is still early too plan for retirement at their age. However, retirement investment is growing over the time, therefore, it is better to start planning and saving early. Young people often postponed their savings for retirement to other expenses of life such as travel and entertainment (University of Kentucky, 2014).

Especially for young married couples, often they avoid to plan for the losing their partner if an uncertain events or accidents happened. In order to financially prepare for the possibility of loss, it is

significant to have a backup plan that can replace the lost income. By carrying an appropriate life insurance as the replacement income will allow one's to continue to meet the financial obligations. Young married couple should have an open conversation regarding finances and develop a financial plan together. However, not many of the young married couple would do these, as they have the thought that it is still early to do financial planning (University of Kentucky, 2014).

Colorado Division of Insurance wants people to understand the importance of having health coverage especially young people. As young people are healthier therefore of then they may ask the question "Why do I need health care insurance? Isn't it just for sick people?" However, health insurance is more than just about health but also being prepared for the unexpected events. Some important points to consider are if one's still under 26 years old they are still covered by their parents in terms of expenses, however, unexpected events such as sudden loss of job or involved in a severe accident it needs a huge amount of money to pay for the medical bills, if the injured doesn't have emergency funds or an insurance it will cause them to bankrupt, medical bills are the top cause of personal bankruptcies (Colorado Consumer Health Initiative, 2014).

Furthermore, inflation also need to be taken into account while planning for not only education, but also retirement, medical and other expenditures. If an investor is overly conservative where he/she doesn't take into account for the inflation while constructing his financial plans, it might be a worst hit from the impact. This is because even though the monthly cash flow of the investor remained fix, however, the value of his earning and investments will remain under uncertainty over the long term. When the general price level increases, personal and household expenses will also arise, while the income level remain the same (Personal FN, 2013).

## 1.2 Research Objective

General Objective

- To determine the factors that affect financial planning among the young adults in Klang Valley, Malaysia.

Specific Objective

- To investigate on the factors that affect financial planning among the young adults.
- To determine the level of understanding personal financial planning among the young adults in Klang Valley.
- To identify the correlation between the factors of financial planning and the young adults in Klang Valley.

## 1.3 Research Questions

- What are the factors that affects financial planning among the young adults in Klang Valley?
- What is the level of understanding personal financial planning among the young adults in Klang Valley?
- Is there correlation relationship between the factors of financial planning and the young adults in Klang Valley?

## 1.4 Significant and Scope of Study

- Management Perspective

This paper is to identify the factors that affected the financial planning in the perspective of young adults, as financial planning is very important as it help us to attain our short and long-term financial goals by creating a financial plan. Young adults might not be aware of the importance of financial planning in the early 20s. It is important to let them know the knowledge on how to prepare a financial budget that covers how is the daily inflow and outflow of cash. Record every detail of each expenses and incomes.

Next is to let the young adults know that, they should have a minimum of 3 months saving that able to cover monthly essential expenses. In case there is any emergency incident such as sudden loss of job, he/she still can suspense their expenses for 3 months' time while searching for a new job. Also it is never too late to start a retirement plan now than later. Young adults have to be aware when they grow older the effort to have "free" flowing money will be restrained. The beneficiaries will be the young adults that are currently without a proper financial plan or not updated financial plan. Hence, it is better to start to invest now than later.

- Academic Perspective

This research will benefit the students to understand the importance of financial planning in the early stage. College and university students can also able to gain knowledge from this study as a reference for their assignments. Besides that, it is also useful for researchers that wanted to further study financial planning in different segments and perspective. They will be provided with a pre-information on what is happening to young adults about financial planning. It will provides an opportunity for researchers to further continue and expand their findings on this area to come out with a more rounded research papers.

## 1.5 Scope of Study

The area that covered in this proposal is young adults in Klang Valley area. This is because Klang Valley is centered in Kuala Lumpur, where it also include the cities and towns area in the state of Selangor. Klang Valley is the heartland of Peninsular Malaysia where the total population in Klang Valley

is about 30% of Malaysia population which is 7.5 million people. Therefore, it is the most suitable to choose Klang Valley to conduct this research. Respondents consist of young adults of both female and male from the occupation of students, business owner, entrepreneur, young working adults and unemployed individuals. The coverage of year for this study is from year 2005 until 2016 (current).

## 2. Literature Review

- Financial Planning

Financial planning is defined as financial goal and with developed strategies to achieve the goal. Individuals are not encourage to only solely depend on employee or government benefits to retire comfortably. Through creating a flexible financial plan and regularly revising the plan is the key to build a sound financial future. A successful financial planning will bring rewards include greater flexibility, improved standard living, wise spending habits and increased wealth.

Financial planning is also defined as a dynamic process because as one is moving through different stages of life, their needs and goals will change accordingly. Financial goals are important regardless of age, by having extra resources during the fall back on economic downturn or period of unemployment no matter how old one's age is. This is because certain events happened unexpectedly, then one will face "financial shock" such as a sudden loss of job, a car accident and etc. However, when one have financial planning, they can easily go through the tough times. Backup plan such as set up an emergency fund or reduce monthly expenses will help protect one's family and its dependents.

Everyone will experience different life stages from childhood to retirement age. The personal financial planning life cycle has illustrated the various components where each different stage one's will go through, as shown in below (figure 1).

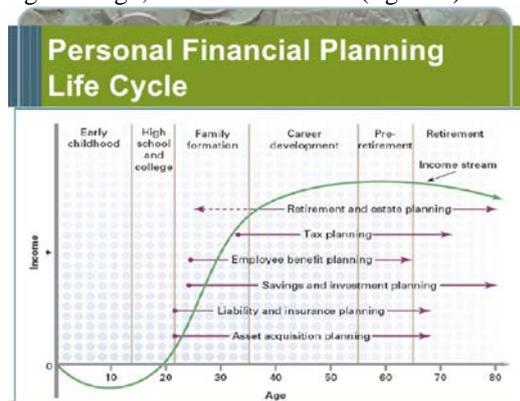


Figure 1: Personal Financial Planning Life Cycle (Source: Gitman, Joehnk and Billingsley, 2011).

Refer to figure 1, when individual is moving from one stage to another, their patterns of income, home ownership, and debt will also changing. During the early childhood, ones will rely on parents for support, when moving on to adulthood, when ones start to hold a job and starts a family, ones will notice that there will be a change on the income patterns. For example, those in the age of 45 to 64 will tend to have a higher income than those at age 45.

- Family Structure

The main circumstances of life that will influence the financial concerns and plans that will be discussed is family. Marital status whether a young adult is married or single is one of the factors that can affects their financial planning decision. If the young adult is married his/her dependents such as kids and elderly parents will determine an individual whether one's planning for themselves or for others as well. Therefore, if an individual is married or have a spouse, they have responsibilities towards each other where it shall include in making financial decision. The author has said that there will be an expectation of where dependence upon parents or spouses will be end at a point.

However, an individual will have lifelong responsibilities to take care of their dependents said by the Chartered Financial Analyst .The author has also said partners and dependents will eventually affect the financial planning such as paying for children's education fees. Parents these days will typically wanted to give a quality lifestyle for their children. To provide for others and being responsible to others will affects the attitude of the person towards tolerance of risk. People sometimes will seek for protection for their income or assets; therefore, they will seek for protection policy such as the life insurance policy, retirement policy naming their spouse or dependents as the beneficiaries (Siega, 2012).

The author of Money Crashers Personal Finance said that while the Boomers parents has not catch up with the latest growing of technology such as 3D flat screen televisions or smart phones, millennials are constantly bombarded with the latest and trendy electronics. Most of them are affected by peer pressure over the ownership of the gadgets; therefore, while the parents are coveting the latest design of jeans, young people would demand for the most modern and iPad and also a 4G smartphone, they viewed it as their necessities but not discretionary .The main financial sources of the youth are from their parents, many millennials are struggling as there is a huge amount of affluent young are willing to spend money on discretionary item where they viewed it as necessities for them without thinking about the long-term consequences. They also tend to apply and use credit cards,

however their main financial support are from their boomer parents (Halpert, 2012).

There are a few common traits that defined to Millennial Generation where it included technology savvy where these people are aimed at the latest gadgets, laptops and etc where it is plugged-in 24 hours a day and 7 days a week; family centric it means that these people are willing to trade higher pay for fewer working hours, flexible schedules and a better working life, therefore, older generation will viewed this attitude as narcissistic or lack of commitments and self-discipline; lastly is achievement oriented where these people are nurtured and pampered by their parents if they are able to achieve of goals in the form of gadgets or monetary (Haataja, 2011).

According to a research done in United Kingdom has found out that, the participants in the research which is single young adult has remained financially and materially dependent on their parents. This is because they are given monetary assistance such as educational loan which is defined as expected to be repaid, and in terms of monetary. However, it is in contrast where the receiver of such financial assistance has treated it as a reciprocation of gifts. The researcher has conclude that housing prospects of young adults that are from less affluent family background are much less likely to have a ready access to parental financial resources; for this group of young adult they are engaged into complex negotiations over whether an exchange of any form of assistance or supports is either a gift or a type loan, when in the situation of absence of both, which it will be a luxury where they were not able to afford (Heath and Calvert, 2013).

Researcher has also found out that the early Baby Boomers in year 2004, and individuals in the same age group in 1992. The Baby Boomers rely more on their housing equity than on their predecessors where the level and patterns of the total net worth have change relatively small over the time (Lusardi and Olivia, 2007). An NC State sociologist's research has found out that in year 2008, there is more than 40% of unmarried young adults that no longer live with their parents, but yet they are still receiving financial support from their parents. Where a survey held at the same year by the National Longitudinal Study of Adolescent to Adult Health has found that 41.4% of the participants between the ages of 25 to 32 they still relied on their parents for financial support. Therefore, the researcher said that there is a gap of discrepancy between the family structures of a family with an individual's wealth management behavior.

***H0.a: There is no significant correlation between financial planning and family structure.***

- Educational Background

Education background is another sub-element that has been identified by the researcher as one of the important determinant on financial market participation. Researcher has shown that the studies that mainly focus on the wages earning has in fact underestimate the returns to investment in human capital, therefore, such estimates had misses out the deduction in the possibilities proportion of bankruptcy and ends up with foreclosure. Therefore, this has suggested that it shall be adjusting on earlier at cost-benefit analysis of educational programs (Cole, Paulson, and Shastry, 2012).

Both micro evidence the recent experience had suggested that some of the financial mistakes are costly. Increasing educational attainment in the United States could effectively improve the financial management, where the consequences one will experienced such as bankruptcy and defaults in payment can be avoided, as it may even able to facilitates a more stable financial system of the economy (Mian and Sufi, 2009).

A research done by researchers has found out that college education helps to improve the knowledge of personal finance. Furthermore, a larger proportion of female participants (32%) say that college courses help little in planning for finance. However, when asked about the awareness of personal finance class offered by the college, there is only 46% of male and 30% of female aware of the class (Haiyang and Volpe, 2002).

Educational level also have a positive impact on one's savings where an individual that have higher educational level they will have a better understanding of their personal financial matters compared to those that have little or low educational level. Therefore, these people are able to make financial decisions and have ability to manage for their future financial planning. Evidence that can be show is that educated individuals are able to manage their own wealth in terms of insurance, investment, and savings and do budgets.

Financial literacy in the high school doesn't influence the attitudes and behaviors of the young people towards money management. Where financial-economic knowledge that has been acquired in the secondary education doesn't influence on the level of the young people's financial knowledge. A study that has been done that when examining the educational criteria found that the economic nature of training has a significant relationship with the practical knowledge, while the number of semesters spent on studying the relevant subjects related has a stronger influence on theoretical knowledge (Hogarth, 2002).

A research had been conducted among the college students whom had took the personal financial management course and with those who had not taken a course in personal financial management. The findings had indicated that those who took the

course were not really financially literate than those who had not. In addition, those who have taken the course did not evaluate themselves to be more savings-oriented and results have shown that they did not really appear to have a better financial behavior than those who had not taken the course (Mandell and Klein, 2009).

A finding attempted by Berheim, Garrett and Maki in year 2001, has showed a positive impact on savings from high school financial education which contrast with the survey done by JumpStart where it shows little impact. Therefore, Mandell (2007) has come out with two hypothesis that shows that what is learned in the high school financial education classes may still remained in the mind of the students until much later life when they have sufficient resources utilized what they have learned. Therefore, in such situation it can be conclude that personal financial management or personal finance course may not have an immediate impact on financial literacy until the knowledge is actually applied in later life.

A research done by National Financial Capability Study to examine the financial literacy and financial behavior among the young adults had found out that young adults now are lack of basic financial knowledge. Therefore, their financial literacy is relatively lower even with a high educational background, financial literacy of an individual is not guaranteed. Hence, only 49% of young respondents with a college education and 60% of young respondents with a postgraduate education can answer a three simple questions designed in the questionnaire to assess the financial literacy.

The end results on the research has shown that the respondents with a good financial knowledge have better financial outcomes and behaviors where they are less likely to use high-cost borrowing methods to do funding and they are also more likely to plan for their retirement and set aside partial income saving for emergencies purpose. Therefore, these had suggested to the researcher that promoting of financial education among the young could be relatively important. However, there is still a growing gulf between financial responsibility provided to the young individuals and their ability in making financial decisions and take the financial opportunities (Scheresberg, 2013).

Even though literature has found out that there is a positive association between the financial knowledge and financial behavior yet the studies also shown that students that have not received any proper education in financial planning and financial management. Mandell (1997) has also found out that the majority of high school graduates were not be able to make correct financial decisions. This is because the undergraduates started their college life without any adequate financial knowledge. Therefore, researcher had also suggested that young adults need to be educated with the risks and

consequences of using debt-funding tools such as withdraw of cash in the credit card, so that the young adults can make a good financial decisions (Lynne, Borden, Sun-A, Serido and Collins, 2007).

Researchers have conducted a random experiment on low income urban households in India, where the participants were taught with a five-week comprehensive video-based financial education program with the modules on savings, credit, insurance and budgeting. The result has shown that financial education does not really increases the respondent's numeracy, however, there is only 4% of the respondents had a secondary education. Therefore, the researchers of the experiment had conclude that financial education did positively influence the awareness of the participants and attitudes toward the financial products and financial planning tools (Carpena, Cole, Shapiro and Zia, 2011).

The researchers of "Impact of Financial Literacy Education on Subsequent Financial Behavior" has shown that students with educational background and without educational background of studying personal financial management course has indicated that there is no significant relationship between the thriftiness and had taken the course of personal financial management. In fact, the survey conducted showed that those who had taken a course in personal financial management only had a slightly higher mean score compared with those who had not taken. Even though the respondent had taken course in personal financial management during their study, but they had also identified themselves with the identity of "very-spending oriented". Therefore, these data do not support a conclusion that those who had an educational background of financial management are more financially literate or more savings and planning oriented than those who had not.

***H0.b: There is no significant correlation between financial planning and educational background.***

- Inflation Rate

Researcher has found that if assumption of there will be inflation to happen in the future, it will have a possibility to make or break a financial plan, this is because in making assumption of a lower value due to the economy may put the client in the position of risk of insufficient resources in the future, however, vice versa if assuming there is a high value may lead the client exposed to a situation where there is undue and unnecessary investment risks (Sreekant, 2008).

People nowadays are not willing to plan far ahead for their future, however, authors of Economics and Asset Allocation has said that people need an idea of life expectancy in order to make short-term decisions, such as how much accumulated wealth during the retirement years. Over the past 100 years,

the inflation has an average of 3 percent, it seems like there is no significant impact on wealth management. However, based on the table of Loss Due to Inflation Overtime (figure 2) has found that 3 percent of inflation over ten years means that there will be a 26 percent loss in the real wealth value of one's, and if presumed if it is over 30 years it means that inflation has consumed 60 percent of one's financial wealth (Michael and Clark, 2015).

**Loss Due To Inflation Over Time**

Time	2% Inflation	3% Inflation	4% Inflation
10 Years	18% loss	26% loss	34% loss
20 Years	33% loss	46% loss	56% loss
30 Years	45% loss	60% loss	71% loss

Source: calculations performed by Stan Clark, CFA, CFP, MBA

Figure 2: Loss Due to Inflation Over Time (Source: Stan Clark)

In India, over the past 10 years, people living in urban area their income has been raising exponentially by approximately 19%. This means that the Gross Domestic Price of India has risen, where in turns it has become one of the policy factor that increases the consumer prices and spending rates. This in turns has created a forward pressure on the interest rate across India. At last, there will be an increase in consumer prices on the average goods and services; hence it leads to a situation that will affect the savings of the people for their future (Holistic Investment Planners, 2011).

Inflation is often known as the silent thief, as there is a rise in the price of goods and the cost of living on one's. Therefore, over the time it can reduce the buying power and eventually erodes one's retirement savings. Hence, considering a balanced portfolio between the savings, stocks, bonds and mutual funds can help to protect an individual against the inflation (University of Kentucky, 2014). Imagine that if the interest rate of an individual's savings account was 1% per year, however, the country's inflation rate was 2% per year. After one year, an individual will not have the capability to buy more, however it will be less than today with the same amount of money, the purchasing power is reduced (Lutsardi and Mitchell, 2008).

Researchers had found that most of the respondents of a survey conducted "to examine the inflation expectations and behavior, whether the respondents act on their beliefs" have acted on their inflation expectations which shows a consistent pattern with an economic theory. Where the respondents which are not rationalized are tend to have lower education and lower financial literacy. Therefore, particularly households should take into consideration of the expected inflation that can happen in the future when they make financial

decision such as debt management, (re)financing, savings and wages negotiation. In general equilibrium, these intertemporal decision made by the households will in turn affects the economy of the country and therefore, will realized the inflation to happen (Armantier, Bruine De Bruin, Topa, Van Der Klaauw and Zafar, 2015).

The transition experience, memories of the economic turbulence has played a role in financial literacy. This can argued that the older generation are less financially literate that lives in the countries that has moved from planned to market economies, this is because lack of experience in managing their finances. However, at the same time these people has lived through times of economic transition and this could have raised their awareness and understand the economic concept such as inflation. When respondents were ask about whether they have experienced losses during the financial crisis, when there is a high inflation rate in the economy, the results have provided the indication that the experience of financial crisis has affected the savings behavior and also increased their financial literacy (Beckmann, 2013).

Researcher has found that people are not able to make self-beneficial financial decisions when there is a negative ramification on the economy of the country where it includes inflation. Federal Reserve of the country has been focusing on the basic financial applications when running the financial market (Braunstein and Welch, 2002). Besides that, another research done by other researchers has also found out that most of the young adults are not well equipped to make financial decisions, there is only 27% of young adults in the sampling research has possess basic financial concepts which include inflation, however, 50% of the participants do have savings habit even though there did not managed to answer the inflation question correctly (Lusard, Mitchell and Curto, 2009). Therefore, there is a gap existed between the inflation and financial planning.

***H0.c: There is no significant correlation between financial planning and inflation rate.***

- Income Level

Researchers had found that educated male with high income level and high financial wealth (earning power of 500 thousands euro) are associated with greater financial literacy, where these people are more financially knowledgeable. Besides that, researcher also find that risk averse investors, older households, low-income and low-educated people is tend to be less financial sophisticated (Guiso and Jappelli, 2008). Women's views on wealth and the planning process is what they value for, researchers have found that women doesn't think like how men think, especially it come to matter related to money. Men's response towards managing wealth is typically based on goals such as purchase a second

home, paying for children or grandchildren's education fees; it is more towards concrete rewards.

However, for women, it is more towards value and considers wealth to be a means to less tangible ends such as desire to have security, freedom and independence but not wanting to be a burden to their children or grandchildren. According to the U.S Census Bureau, 59% of Americans were in couples while another 41% are single. Among the single Americans, there were 54% are single women; they have the perception of only responsible for their own finances at some point in their life. It eventually means that women are more likely to endorse themselves in legacy planning and as a mean of wealth planning (Wojnar and Meek, 2011).

According to the life-cycle theory possess that individuals follow the hump-shaped saving pattern over their lifetime. Therefore, during the high earning periods, most of the individuals will also increase their savings amount and in order to smooth out the expenses. In vice versa, during the low income periods people will probably use up their savings to fund for their lifetime spending needs and expenditures (Mahdzan and Tabiani, 2012).

A study done said that students have to manage their expenses and save the money for financial plan at any income level. This is to ensure that the available funds are prepared for important financial goals and financial events. This is because saving act as a cushion against the shortage of funds and to facilitate the long term financial planning. Also, it is either the young or older adults are lack of basic knowledge in making wise financial decisions. One's financial planning decision has been affected by the limited amount of income generated (Ching Hwa, Siaw Bei, Wai Ying, Gah Hee and Yun Cheng 2013).

A research that had been done by researcher has found out that income and education are important predictors of financial literacy. Without take the reference group into consideration, the financial literacy increases sharply with the level of income and education. The findings of the research has found out that income and education are positively associated where those with high income and high education are much less likely to use high-cost methods of borrowing and there are more likely to have a precautionary savings and already planned for their retirement. Furthermore, those who are using high-cost borrowing method and less likely to have a backup emergency funds have experienced a large income shock due to uncertain incidents. Suggestions given by the researcher is it is important to have an emergency fund and to improve individuals' retirement security (Scheresberg, 2013).

Individuals will tend to consume lesser in times of high earnings, where he/she will save to support for future consumption when their income tends to fall, according to the conventional economic approach, for example after their retirement. However, a

portion of young high-income respondents have relied heavily on high-cost borrowing (potentially due to they were not high-income in the past five years). Therefore, high-cost borrowing is deemed to be prevalent among the respondents who are separated or single, where it is common among the non-caucasian individuals and these findings are consistent with other papers (Bourke, Horowitz and Roche, 2012). Where financial literacy is varies according to income (Lusardi and Tufano, 2009) as well as by the type of employment. However, in worldwide the level of financial literacy is usually higher for those that are employed than those which are unemployed (Lusardi and Mitchell, 2011).

According to the research of "an analysis of personal financial literacy among college students", the researchers have indicated that race, nationality and income variables does affect the level of financial knowledge in terms of decision making and issues on personal financial literacy in the one way Anova, however, these variables are no longer have any significant impact on the logistic regression where all the variables are held simultaneously in explaining the level of financial knowledge. In another word, HaiYang and Volpe has argued there is a discrepancy existed between income level and financial planning which has also contradict with the authors of other researchers which has said that there is a relationship between the income level and financial planning.

***H0.d: There is no significant correlation between financial planning and income level.***

## 2.1 Research Framework

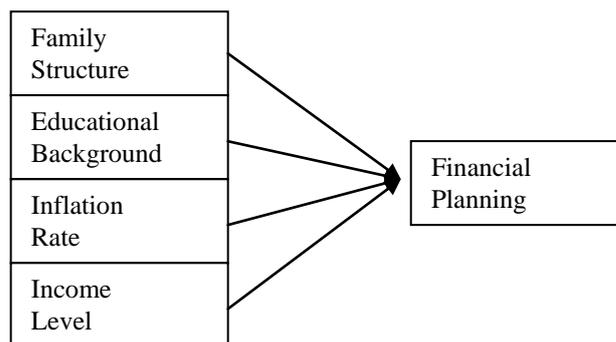


Figure 2: Research Framework

A good financial plan need to involve the dreams, goals, resources and responsibilities of the entire family. Therefore, if one have a spouse, partner, or children, a guidance is necessary when developing a financial plan. Success of a financial plan is subject to the reason of support, persistence, and dedication of all people involved. Responsibility increases with children said by Sophie Beckmann, a certified public account and financial planner. This is because the person now is responsible for their spouse and

children, which is the meaning of planning. According to a survey done, couples nowadays live on paycheck to paycheck monthly and they do not take a long view on their finances especially young married couple (Fottrell, 2015). Ones need to take into consideration of their kids and spouse after having their own family because it is just the beginning of future money problems that can be one of the factor to restrain a marriage and could be a catastrophe if one spouse dies or is incapacitated (Reeves, 2005).

The financial empowerment of the South African population is a key challenge facing in South Africa. This is because the South African educational system does not cater for the structured and targeted education and training for the school children, students and adults in managing their personal financial matters. Therefore, these had led to a financially uneducated community which have no insight into financial affairs. If early financial education is provided to them, there would be a difference to these people. Furthermore, personal financial planning does not really exist at all in certain target groups, therefore, these people do not know how to deal with money matters as such it will give a negative impact on the economy of the country and personal financial situation. Therefore, education level is another independent variable that is chosen to be investigated in this research (Swart, 2004).

Inflation is a vital concern of financial planning, this is because it is not only affect the amount an individual need to spend for its goods and services but also the amount he/she is going to earn in their jobs. Inflation also directly affects the interest rate, when there is a high rate of inflation it will drive up the cost of borrowing money as lender will tend to demand more compensation due to their eroding purchasing power. Generally, low inflation is good for a country's economy, for interest rates and stock and bond prices, and also for financial planning. Therefore, inflation is chosen to be one of the independent variable in this research.

According to the personal financial planning life cycle, people with low incomes fall into the age group of very young or very old, whereas the age group between 45 and 64 are those with the highest earnings. This is because those that are below the age of 45 are in the process of developing their career or just begin to move up in their jobs, and many over 64 are working part-time or are retired. One's income is varied over the time, therefore, when drawing a financial plan shifting of earnings should be taken into consideration, hence, income level is another independent variable that is chosen to be investigated in this research.

### 3. Reliability Statistics

Cronbach's Alpha	N of Items
0.776	5

Table 1: Reliability Test

Table 1 reliability statistic is for questions of personal financial knowledge in section B with the total of 5 questions, it has the Cronbach's Alpha value of 0.776 which is more than the average value of 0.5. It means that this research can be assume to be acceptable to proceed for further research.

Cronbach's Alpha	N of Items
0.625	4

Table 2: Reliability Test, Section C (a)

Table 2 reliability statistic is for the questions of the independent variable of family in section C with total of 4 questions, it has the Cronbach's Alpha value of 0.625 which is above the average value of 0.5.

Cronbach's Alpha	N of Items
0.665	4

Table 3: Reliability Test, Section C (b)

Table 3 reliability statistic is for the questions of the independent variable of educational in section C with total of 4 questions, it has the Cronbach's Alpha value of 0.665 which is above the average value of 0.5.

Cronbach's Alpha	N of Items
0.624	4

Table 4: Reliability Test, Section C(c)

Table 4 reliability statistic is for the questions of the independent variable of inflation in section C with total 4 questions, it has the Cronbach's Alpha value of 0.624 which is also above the average of 0.5.

Cronbach's Alpha	N of Items
0.646	4

Table 5: Reliability Test, Section C (d)

Table 5 reliability statistic is for the questions of the independent variable of income in section C with total 4 questions, it has the Cronbach's Alpha value of 0.646 which is also above the average of 0.5. Therefore, it can be presumed that the questions are reliable for testing and used for further research.

#### 4. Pearson's Coefficient Correlation

- Family Structure

Correlations			
		Financial Planning	Family Structure
Financial Planning	Pearson Correlation	1	.366**
	Sig. (2-tailed)		.000
	N	120	120
Family Structure	Pearson Correlation	.366**	1
	Sig. (2-tailed)	.000	
	N	120	120

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 6: Correlation between Financial Planning and Family Structure

As depicts from table 6, based on the result obtained from Pearson's Coefficient Correlation there is a positive relationship between financial planning and family structure. This is proven with the correlation results of 0.366 where it shows a positive-weak significant relationship between both variables. However, this indicates that there are still substantial factor which enable to determine the association on the relationship between the financial planning and family structure.

- Educational Background

Correlations			
		Financial Planning	Educational Background
Financial Planning	Pearson Correlation	1	.459**
	Sig. (2-tailed)		.000
	N	120	120
Educational Background	Pearson Correlation	.459**	1
	Sig. (2-tailed)	.000	
	N	120	120

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 7: Correlation between Financial Planning and Educational Background

As depicts from table 7, based on the result obtained from Pearson's Coefficient Correlation there is a positive relationship between financial planning and educational background. This is proven with the correlation results of 0.459 where it shows a positive-weak significant relationship between both variables. However, this indicates that there are still substantial factor which enable to determine the association on the relationship between the financial planning and educational background.

- Inflation Rate

Correlations			
		Financial Planning	Inflation Rate
Financial Planning	Pearson Correlation	1	.239**
	Sig. (2-tailed)		.009
	N	120	120
Inflation Rate	Pearson Correlation	.239**	1
	Sig. (2-tailed)	.009	
	N	120	120

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 8: Correlation between Financial Planning and Inflation Rate

As depicts from table 8, based on the result obtained from Pearson's Coefficient Correlation there is a positive relationship between financial planning and inflation rate. This is proven with the correlation results of 0.239 where it shows a positive-weak significant relationship between both variables. However, this indicates that there are still substantial factor which enable to determine the association on the relationship between the financial planning and inflation rate.

- Income Level

Correlations			
		Financial Planning	Income Level
Financial Planning	Pearson Correlation	1	.260**
	Sig. (2-tailed)		.004
	N	120	120
Income Level	Pearson Correlation	.260**	1
	Sig. (2-tailed)	.004	
	N	120	120

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 9: Correlation between Financial Planning and Income Level

As depicts from table 9, based on the result obtained from Pearson's Coefficient Correlation there is a positive relationship between financial planning and income level. This is proven with the correlation results of 0.260 where it shows a positive-weak significant relationship between both variables. However, this indicates that there are still substantial factor which enable to determine the association on the relationship between the financial planning and income level.

#### 5. Recommendation

This study is recommended to be conducted not only restricted to the area of Klang Valley, but throughout the whole Peninsular Malaysia in order to have a more accurate results. Where respondents from different states may have different opinions on their perception towards financial planning. Besides that, it is also recommend to conduct this study not only restricted to young adults but more specific

target group such as working young adults, non-working young adults and etc. Where there will not be a problem of constrain due to lack of available information. Furthermore, it is recommend to have financial planning as a compulsory module due to Malaysians doesn't really practice financial planning nor seek help from financial advisor in assistance of financial problems and guidance. Hence, it would a difficulty for the researcher to search information about financial planning in Malaysia. Also, the amount of sample collected should be more than 130 samples in order to obtain a more accurate data. Lastly, it is recommended to carry this research with a longer period of time frame, which able to allow the researcher to conduct a more precise research.

## 6. Conclusion

The main aim to conduct this study is to research on the factors that affect financial planning among the young adults in Klang Valley area. It is important to use the methodology proposed above in order to further progress this research. Appropriately managing the wealth during young ages is extremely important in order to achieve the financial goals in the future. During this research, it was started with the background of the study with identified problem statements and objective to be achieved. Follow by the second chapter, where reviews of the authors that have different opinions, recommendations and ideas are determined under literature review which included family, social, economic and personal factors that are deemed to be the main review of this study.

Continue with chapter three which is the methodology of the research, it was categorized into few parts which included the research framework, research questions, research hypothesis, and research methodology and data analysis techniques that will be used to carried out related data analysis. Chapter four which is the analysis of the collected data using different types of testing methods which include Pearson's Coefficient Correlation, Regression Analysis and Reliability Test, where each tests are for different purpose. Chapter five which is about the findings and discussions which summarizes the findings in chapter four and whether the objective of the research had been achieved.

Conclusion for literature review in chapter two is family structure is one of the components that literally affect financial planning to be done by the youth adults. Based on the opinions from different authors, there are different financial planning behaviors for married young adults and young adults. However, there are authors said that there is no relationship between family structure and financial planning. Also, different authors have different opinion towards the influence of educational background on financial planning. Some authors

said that educational background and level will influence on the financial planning in future; however, there are authors said that there is not relationship between educational background and financial planning.

Besides that, different authors have different opinions towards the relationship between financial planning and the inflation rate. Research done by different authors have shown different results as some said that there is a relationship exists between inflation rate and financial planning and there is also vice versa. Lastly, is a different author has different opinion towards the relationship between income level and financial planning. As different study done by the researchers have shown different results. Therefore, there are authors said that there is a relationship exists between income level and financial planning; however, there is also author contrary with the relationship.

In a nutshell, personal financial planning is essential for everyone to promote the concept of financial literacy. Government should also take the initiative to encourage people to do savings for their own through basic educational programs regarding the financial issues. Financial planning is a very new topic in Malaysia; therefore, further research should be conducted in this area of study. This research is relatively useful for me to further progress and do in-deep research in this field during my final year, where financial planning is significant for people in order to have an organized way to manage their finances for their future. Perhaps, will try to collect more data from different resources and expand the research in order to further research in this area.

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