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The Impact of Social Status on Financial Education and Saving Behaviour in Young Adult Population (A Case Study for Romania)

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Abstract

Financial education in Romania is at the lowest level among countries in the European Union (Study Standard & Poor's, 2015; OECD, 2018, 2020). In the midst of challenging times, the financial well-being of the population is fundamental for achieving sustainable growth of the economy. This implies knowledge, skills, and competences in the area of personal finances. This exploratory analysis examines the relationship between financial saving behaviour in the young adult population in Romania, their financial education level and their social status, focused on their living situation, whether parents are divorced, and the level of income. Individual psycho-characteristics were explored, such as self-control and future orientation. A sample of more than 2000 Romanian young adults participated in a web-based questionnaire, aged 14 to 30 years.

We explored to find the determinants of financial saving behaviour and investigated the relationship between financial saving behaviour and level of income, self-control, future orientation, financial education, social status, living with family, divorced parents, number of siblings, and other socio demographic characteristics. For exploratory analysis, we proposed the statistical test t-test to test hypotheses of gender differences in the financial savings behaviour and self-control scores and a regression model with financial savings behaviour as a dependent variable.

The results are discussed in terms of recommendation for effective financial education methodology, the role of family through social status, focusing on enriching skills, competences, and behaviour, targeting the financial well-being of the population for sustainable growth of the economy.

Keywords: financial savings behaviour, financial education, social status, sustainable growth, sustainable economy, financial well-being, young population.

JEL Classification: G 53, G 51, G 50, G 41, G 40.

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1. Introduction

Financial well-being is highly dependent on financial behaviour and financial education. However, research indicates that a person's socioeconomic status can have an important impact on their financial education, financial literacy, and saving habits. The purpose of this paper is to investigate how social status affects young adults' financial literacy and saving habits in this exploratory analysis.

Given that Romania has the lowest financial literacy rating in the European Union (Standard & Poor's, 2015; OECD, 2018), the country deserves special consideration in scientific research in this regard. Romanians came close to last in the OECD/INFE 2020 International Survey of Adult Financial Literacy (OECD, 2020). In this context, the case of Romania merits consideration in scientific research because it doubles as one of the poorest nations in the EU, and has a population that is heavily indebted (a debt-to-income ratio of 45-47 % was allowed for loans to population until the end of 2018, a limit of 40 % was enforced by the National Bank of Romania from 2019). Young people are the subject of our research as the road map of adult financial behaviour and well-being established through early-life financial knowledge and abilities, according to Beverly and Burkhalter (2005).

2. Problem Statement

According to research, social status, particularly among young individuals, can have a major impact on someone's financial literacy, financial education, and saving behaviour. The 2015 results for Students' Financial Literacy from the OECD Programme for International Student Assessment (PISA) demonstrate that parental education and income have a favourable impact on young people's financial literacy. Financial literacy was higher among young adults from high-income families with more educated parents than among young adults from low-income families (OECD, 2017). This research implies that a person's family-related background can have an impact on their education and financial literacy.

Financial literacy is positively correlated with saving behaviour, particularly for people with lower income levels, according to another study by Lusardi and Mitchell (2014). According to the study, people who were more financially literate were more likely to have savings and were less likely to incur expensive debt. The authors also recommended that in order to improve young adults' saving habits, financial education programs should focus on fostering financial literacy abilities, such as budgeting, debt management, and saving techniques.

A study by Behrman et al. (2012) also looked at the influence of financial education on young adults from low-income families' savings habits. The authors discovered that receiving financial education earlier in life had a greater impact on improving saving behaviour. The study also revealed that financial education improved both the quantity and quality of saving behaviour. The authors propose that in order to enhance saving behaviour among young adults from underprivileged backgrounds, financial education programs should prioritise the development of enduring financial skills and habits.

Furthermore, individuals with higher levels of social status are more inclined to save money versus those with lower levels and, interestingly, they have different savings objectives. According to a study by Han and Sherraden (2009), youth originating from households with higher incomes and higher educational are more likely to save for retirement and other long-term goals, in contrast to lower-income and lower-education groups, that are more bound to save for short-term goals, such as emergencies.

Nevertheless, there could be serious repercussions due to differences in financial literacy and saving habits among various socioeconomic groups. People with lower socioeconomic status may be more constrained to restricted economic mobility and face financial vulnerability. When comparing groups of different levels of income, people with low financial resources are more likely to suffer from financial stress and low financial well-being (Sano et al., 2021).

According to research, socioeconomic standing, which includes parental education and money, has an important impact on young adults' financial literacy and saving habits. An individual's familial background can have an impact on their financial education, financial socialisation, and financial literacy. Additionally, financial education programs that emphasise the development of lifelong financial habits, financial literacy abilities, and skills can assist young individuals, especially those from underprivileged homes, save more money.

3. Aims of the Research

This research aims to identify the predictors of financial saving behaviour amongst these variables: level of income, self-control, future orientation, financial education, social status, living with family, divorced parents, number of siblings and other socio demographic characteristics.

This analysis, which is exploratory in nature, investigates the young adults in Romania.

We have formulated the following hypotheses:

H1: There is a significant difference between the Financial Saving Behaviour score and gender.

H2: Gender (male) has a positive effect on Financial Saving Behaviour.

Financial behaviour research has repeatedly shown that there is a gender difference in financial behaviour between men and women (Lusardi, 2008; Walczak, Pieńkowska-Kamieniecka, 2018), typically linked to a difference in financial literacy or risk attitude, female shown as a vulnerable group.

H3: There is a significant difference between the Self-Control score and the gender.

Self-control and gender differences is a widely researched hypothesis, mostly finding that women have better self-control, especially at a young age (Trzcińska et al., 2018; Wang et al., 2017; Jo, Bouffard, 2014).

In addition, we expect the following dependences of Financial Saving Behaviour:

H4: Self-control has a positive effect on Financial Saving Behaviour.

H5: Future orientation has a positive effect on Financial Saving Behaviour.

Based on the Behavioural Life-Cycle Hypothesis formulated by Shefrin and Thaler (1988), there is an ongoing conflict within every person between present and future, between the ‘planner’ and the ‘doer’, self-control being the paramount characteristic for planning. Financial behaviour in planning, including the saving behaviour, is determined by the ability to control impulses; therefore, individuals with low self-control are not expected to save enough for future retirement (Choi et al., 2011), while future orientation impacts positively on savings, especially on long-term goals (Rey-Ares et al., 2018).

H6: Financial literacy/ financial education has a positive effect on Financial Saving Behaviour.

There are mixed results in the literature; traditional research suggests financial education enhances planning capability, particularly saving for long-term objectives such as retirement (Rey-Ares et al., 2018); nevertheless, the impact seems to be of low significance for the low-income population and the long-term consistency is not proven (Fernandes et al., 2014).

4. Research Methods

For the purpose of this study, data was collected through a web-based questionnaire in the period November-December 2018. The questionnaire was distributed through the national public schools’ network via various professors from secondary school, high school, and university level and, in addition, through various social media channels. The respondents were pre-selected in the first section of the questionnaire in a diligent manner, whereas exclusively individuals within the age criteria 14 to 30 years were provided access to the remainder of the questions. To avoid question order bias, a question shuffle tool was automatically enabled for each respondent. To increase the accuracy of raw data collected, control questions were set up in the questionnaire to ensure the understanding of the questionnaire and to avoid random answers, without reading the questions. No monetary compensation was provided to the respondents.

The dataset consisted of 2364 validated responses, and the criteria for inclusion consisted of the Romanian youth population, age 14 to 30 years old. Participants outside this age interval were automatically excluded, as this research studies the determinants of financial saving behaviour in youth. This ability was observed in relation to two variables included in the sociodemographic characteristics with regard to the money the young adults were utilising in their lives. The first variable, *Money Own*, measured the level of income obtained through the youth’s own work: employment, entrepreneurial projects, scholarship, etc.). Nearly half of the sample declared that they do not earn their own money (43 %), while the largest group of money-earners is at the lowest level of income below 700 RON (35 %). The second variable, *Money Other*, quantified the “pocket money” or allowances from parents, family, other persons, etc., including the official state allowance. Only 4.7 % of the youth in our sample declared that they have no “pocket money” or other money allowance, while the majority of the young adults receive quite a small allowance, quite evenly split among the five categories for the level of income: 0-100 RON, 101-200 RON, 201-300 RON, 301-400 RON and over 400 RON.

The structure of this sample was 88 % in the age category 14-20 years and 12 % in the category 21-30 years (mean age 17.43 years, median 17 years), with 61 % female respondents.

The questionnaire was developed using validated scales from the literature to measure the variables of concern for the model.

The dependent variable Financial Savings Behaviour used a validated 3-item scale developed by Xiao and Dew (2011).

In the vast majority of research literature, the concepts of financial literacy and financial education are used synonymously. The 13-item scale for *Financial Literacy* applied in this study, was well-researched to test all areas of personal finance knowledge and was developed by Fernandes et al. (2014) as part of meta-study.

The construct of *self-control* was measured through a 5-item validated scale named “The Brief Self-Control Scale” developed by Tangney et al. (2004), in the dimension of resisting temptation.

Future orientation variable utilised the “Short-Term Future Orientation Scale”, a 4-item scale (Antonides et al., 2011).

Data was analysed utilising a series of linear regression to determine the predictors of financial savings behaviour amongst the following variables: self-control, future orientation, financial education and the socio demographic characteristics collected through the questionnaire: gender, age, education and social status encompassed by the level of income (*Money Own and Money Others)*, whether the young adult lives with family and how many siblings, the marital status of the parents, the household income and the number of income earners in the household. The empirical regression model built through analysis included as explanatory variables: self-control, gender, money other, and age, with an R-squared of 16.77 %, which is a good model for behavioural economics.

The gender differences in the financial savings behaviour and self-control scores were tested by applying the statistical T-test. The data provides sufficient evidence to conclude that, on average, there is a gender difference in the Financial Savings Behaviour and Self-Control scores, at a level of significance of 5 %, therefore, being consistent with our formulated hypotheses (Figures 1 and 2).

Figure 1. Testing H gender & FSB score in R

```
> t.test(df$FSB_score~df$GENDER)

        Welch Two Sample t-test

data:  df$FSB_score by df$GENDER
t = -2, df = 2000, p-value = 0.03
alternative hypothesis: true difference in means is not equal to 0
95 percent confidence interval:
 -0.1904 -0.0108
sample estimates:
 mean in group Feminin mean in group Masculin
                  3.23                   3.33
```

Source: Own research.

Figure 2. Testing H gender & SC score in R

```
> t.test(df$SC_score~df$GENDER)

        Welch Two Sample t-test

data:  df$SC_score by df$GENDER
t = -1.9964, df = 1878.5, p-value = 0.04603
alternative hypothesis: true difference in means is not equal to 0
95 percent confidence interval:
 -0.132029069 -0.001173492
sample estimates:
 mean in group Feminin mean in group Masculin
              2.950174               3.016775
```

Source: Own research.

5. Findings. Conclusions

This exploratory research reiterates the gender difference amongst male and female financial savings behaviour and self-control. The implications could be important when developing financial education programs and gender-targeted training might prove more successful, especially when addressing the enhancement of self-control ability. This finding could be paramount in the current context, whereas financial education initiatives to date do not appear to have a significant effect on financial saving behaviour and this weak impact seems to disappear in the long-term (Fernandes et al., 2014).

Figure 3. Regression Model in R

```
Call:
lm(formula = df$FSB_score ~ df$FSI + df$GENDER + df$Money_Other +
    df$Age + df.sc$score_IV1 + df.sc$score_IV2)

Residuals:
     Min       1Q   Median       3Q      Max
-2.69950 -0.56702  0.04865  0.58839  2.73865

Coefficients:
                                     Estimate Std. Error t value Pr(>|t|)
(Intercept)                          3.022878   0.138721  21.791  < 2e-16 ***
df$FSI101 - 250 RON/lună             0.235618   0.045215   5.211 2.04e-07 ***
df$FSI251 - 500 RON/lună             0.292261   0.053341   5.479 4.73e-08 ***
df$FSInimic                         -0.793265   0.063735 -12.446  < 2e-16 ***
df$FSIPeste 500 RON/lună             0.397349   0.059724   6.653 3.56e-11 ***
df$GENDERMasculin                    0.068239   0.036465   1.871  0.06142 .
df$Money_Other201 - 300 RON         -0.069221   0.053154  -1.302  0.19295
df$Money_Other301 - 400 RON         -0.086483   0.060746  -1.424  0.15468
df$Money_Othernu primesc bani de buzunar  0.072867   0.092293   0.790  0.42989
df$Money_Otherpeste 400 RON         -0.143550   0.054624  -2.628  0.00865 **
df$Money_Othersub 100 RON            0.044803   0.051156   0.876  0.38122
df$Age                              -0.016982   0.006952  -2.443  0.01465 *
df.sc$score_IV1                      0.268547   0.025054  10.719  < 2e-16 ***
df.sc$score_IV2                     -0.104616   0.024616  -4.250 2.22e-05 ***
---
Signif. codes:  0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1

Residual standard error: 0.8485 on 2350 degrees of freedom
Multiple R-squared:  0.1723,	Adjusted R-squared:  0.1677
F-statistic: 37.63 on 13 and 2350 DF,  p-value: < 2.2e-16
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Source: Own research.

The preliminary results (Figure 3) indicate that age appears to have a small but significant negative effect on the level of financial savings behaviour. This reinforces the importance of developing financial education programs for youth at an earlier age, as part of the National Strategy for Financial Education, currently under development under the coordination of the National Bank of Romania.

The gender variable, male, exerts a very weak positive effect on savings behaviour, which is consistent with our hypothesis and can only accentuate the importance of prioritising vulnerable female groups in designing the National Strategy for Financial Education.

Interestingly, we could have expected that the level of income and the level of financial education to implicate a high prediction of the level of savings. However, our regression model does not include financial education among the explanatory variables, in line with the findings of Fernandes et al.'s meta-study (2014), which concludes that current financial education initiatives are not effective. Amongst the level of income variables (*Money Own, Money Others, Household Income*), uniquely money received from others has a significant effect on saving behaviour, but the impact is negative and solely when the level of money received from others is at the highest level, above 400 RON. This finding is astonishing from a policy-maker perspective, as it is a classical conception that more disposable income could lead to higher level of savings. However, in the context of the youth population under research, this result could be explained by the lack of awareness of the value of money, ‘*easy come, easy go*’, money not earned through own effort seems to swiftly be converted into expenditure. Alternatively, the negative impact on savings behaviour of the higher level of money received from others could indicate that the young population under analysis does not have any long-term savings goals or the savings’ goals they have are small in value and, if they receive an extra amount of money, their tendency would be to spend it. This conclusion is also supported by the fact that money earned through their own work did not entered the regression model to explain the financial saving behaviour.

Self-control appears to have a small negative, but significant effect on financial savings behaviour. This result is not consistent with our hypothesis. More research is needed, as this discrepancy with the literature to date could either suggest a specific characteristic of the Romanian youth population or the youth today require an additional motivation to exert their self-control on financial saving behaviour. Perhaps this additional motivation is linked to future orientation as it appears that this variable does not explain the savings behaviour, as hypnotised.

The empirical regression model constructed in this research does not contain any of the family social status variables, such as whether the young adult lives with family and how many siblings, the marital status of the parents, the household income, and the number of income earners in the household. From a research point of view, this is great news to show that there is a possibility for less long-term financial inequity based on family social status. However, it is recommended to further study this finding. The role of family, if not through social status, could be explored in the area of parental education and parental financial behaviour, as young adults have a natural tendency to replicate the behaviour of parents.

The findings suggest that financial education programmes for youth, in order to be effective, should explore the implication of family, gender-targeted training could prove useful, especially as it is a strong statistical result that there is a gender difference in financial saving behaviour and in self-control. Differences might be analysed to build the trainings on enhancing the positive differences and build capabilities for the negative differences. It is quite clear that the National Strategy for Financial Education in Romania could learn from the research on financial literacy, financial education, financial behaviour, and financial well-being, to present suggestions for an efficient financial education approach, involving, directly or indirectly, the family of the young person and focusing on enhancing skills, competences, and behaviour, targeting as a goal the population's financial well-being for long-term economic progress.

The value of this research is based on the novelty of studying the determinants of financial savings behaviour in a large sample of Romanian young adults. This is the first quantitative study of this type, to the best of our knowledge.

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