THE SOCIO-ECONOMIC FACTORS, CURRENT FINANCIAL STATUS, FINANCIAL MANAGEMENT PRACTICES AND THE FUTURE FINANCIAL WELL-BEING AMONG GOVERNMENT EMPLOYEES

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Introduction

Every individual wants to be financially adequate to support their needs and wants. Having a stable income is usually the indicator as to how well off a person is. If an unforeseen event is to happen which will result in loss of income, an individual will have to depend on other resources to ensure the support of their needs which will last either a few months or can last for several years, depending on how financially fit they are. However, income is not the only important factor to ensure a better financial state. Overall subjective well-being is important as it refers to how people evaluate their lives and includes variables such as life and marital satisfaction, lack of depression and anxiety and positive moods and emotions (Diener, Suh, & Oishis, 1998). There are many dimensions of well-being such as job, finance, house, health, leisure and environmental satisfaction according to Flecther and Lorenz (1985).

Recent statistics in 2010 by the Economic Planning Unit (EPU) show that at least half of the household income were used for household expenditures since 1995 to 2009. Therefore, the ratio between income and expenses hasn't changed. Consistent with Porter and Garman's (1993) findings who found that even though income has increased, 30.8 percent of their respondents never seem to get ahead. This shows that even if income increases, expenditure do not decrease. Furthermore, a higher income does not necessarily ensure a better financial well-being.

Bankruptcy can also cause problems to an individual as they have high amount of debts. In Malaysia, anyone with an accumulated debt of minimum RM30,000 will be declared bankrupt. Even though there is an act to protect the consumers, it is important to determine what causes bankruptcy and how it can be avoided. Malaysian Department of Insolvency (2012) reported that the main causes of bankruptcy in 2012 are due to car hire purchase loans (25%), followed by other indebtedness (21%), personal loans (13%) and housing loans (13%). The burden of debt repayment will eventually lead to low level of future financial well-being. Thus, it is imperative for government employees to manage their finances well especially in debt repayment to avoid bankruptcy.

Apart from bankruptcy, insurance is one form of risk management. Life insurance is one of the many types of insurances available in the market which is practical during retirement and is known as endowment life insurance. Current statistics by Bank Negara Malaysia (BNM) show an increase in new policies issued with a total of 209,933,000 and 225,105,000 in the year 2009 and 2011 respectively. This is a good sign that Malaysians are now purchasing this policy. There is an increase of policies issued every year which indicates consumers are now more aware of insurance and see its importance for the future especially when an endowment policy is purchased. This endowment for retirement is essential for retirees especially government employees as they will have other sources of income besides their pension which will lead to a better future financial well-being.

Besides risk management, the preparation for retirement is important as it helps provide a better financial well-being for an individual. Malaysia's government employees have a choice of either opting for Employees Provident Fund (EPF) or a pension scheme during their retirement period. If they opt for EPF, their savings can only last for 6 to 7 years on average, provided they spend RM2,000 a month. The data are based on EPF statistics in 2011. This is worrying as the money saved is not enough especially with the rising cost of living. Thus, they will need to look for other sources of income after they have exhausted their EPF savings, and they will need to spend it wisely. On the other hand, government employees who opted for the pension scheme will be less vulnerable to loss of income as they will be provided with a stable income every month.

The main objective of this study is to determine the factors that relates to future financial well-being of government employees. The specific objectives of this study are to: 1) investigate the current financial status of the respondents, 2) explore the financial management practices, and 3) examine the items of future financial well-being.

Literature Review

Several variables are used in this study and they include socio-economic factors, current financial well-being, financial management practices and future financial well-being. Firstly, the socio-economic factors in this study are income, age, gender and education level. Income is commonly related to the financial status of an individual and there have been many past studies shown to have a positive relationship between income and financial well-being (Beh & Folk, 2012; Joo & Grable, 2004; Penn, 2007; Porter & Garman, 1993).

As for age, most studies found that older individuals are more likely to have a better financial well-being compared to their younger counterpart. Past studies by Malone *et al.* (2009) and Folk *et al.* (2012) found that financial well-being increases with age. Gender is also closely related to financial well-being as there have been several studies reported to have found a difference in financial well-being between male and female respondents (Gudmunson & Danes, 2011; Gutter & Copur, 2011; Leach *et al.,* 1999; Shim, Xiao, Barber & Lyons, 2009).

Education level has also been known to have a relationship with financial well-being. Many past studies have shown that those holding a degree or higher in their education tend to have a better financial well-being (Folk *et al.,* 2012; Headey & Wooden, 2004; Malone *et al.,* 2009). Net worth was also found to have a significant impact on financial satisfaction according to Mugenda, Hira and Fanslow (1990). Furthermore, financial adequacy was used as a measurement of financial satisfaction based on past research (Chuan, Kok & Chen, 2012; Draughn *et al.,* 1994a; Fernatt & Anderson, 2012; Grable, Cupples, Sumarwan & Hira, 1993). Therefore, since there have been many past research showing a relationship between the above socio-economic factors, it is important for this study to investigate the factors that may have a relationship with future financial well-being of government employees.

Financial well-being is a broad concept which is measured using more than one measure. It is a comprehensive, multidimensional concept which incorporates financial satisfaction, objective status of financial situation, financial attitude, and behaviour (Joo, 1998). Thus, financial well-being can be measured using subjective perception, financial satisfaction and financial behaviour. The subjective perception of financial well-being is divided into two which are financial attitude, i.e., their perception of either their current or perceived future financial well-being.

Financial well-being was also measured by financial management practices in most of the past studies where they use dimensions such as budgeting, saving, credit usage behaviour and compulsive behaviour (Gutter & Copur, 2011). There have also been studies that use savings, credit, record keeping, debt repayment and insurance purchases to determine the financial well-being of an individual (Beutler & Mason, 1987; Hira & Mueller, 1987, Jeries & Allen, 1986; Peck & Stewart, 1985; Titus *et al.,* 1989).

However, for this study, current financial well-being is measured using subjective perception and future financial well-being is measured using financial satisfaction with financial emergencies, satisfaction with savings level, debt level, current financial situation, ability to meet long-term goals, as well as preparedness to meet financial emergencies and financial management skills (Chan *et. al,* 2010; Fazli *et al.,* 2012; Hogarth & Anguelov, 2004; Joo & Garman, 2004; Joo & Grable, 2004; Kim, Garman, & Sorhaindo, 2003; Leila & Laily, 2010).

Methodology

This study was conducted among government employees in five states in Peninsular Malaysia which are Pahang, Kelantan, Johor, Melaka and Negeri Sembilan using multi-stage random sampling method. States in East Malaysia were excluded due to constraints of transportation. Each of the states were chosen according to urban and rural areas. The list of urban and rural areas are as follows; Pahang consists of Kuantan (28) and Bera (28), Kelantan consists of Kota Bharu (37) and Gua Musang (51), Johor consists of Johor Bahru (67) and Segamat (105), Melaka consists of Ayer Keroh (25) and Alor Gajah (48) and finally Negeri Sembilan consists of Seremban (45) and Jelebu (29). The list of urban and rural areas was acquired from the Populations Distribution by Local Authority Areas and *Mukims* (2010). Those listed under the administration of Municipal and City Council was classified as urban areas and those under the administration of the District Council are classified as rural areas. Two government departments were drawn randomly for each state based on a list of departments. A total of 472 usable self-structured questionnaires were distributed and collected in 2012.

There are several variables used in this study namely socio-economic factors, financial management practices, and financial well-being. Socio-economic factors consist of age, gender, education level, and personal income. Financial management practices consist of several dimensions and they include cash-flow, savings, credit management, investment and risk management dimensions which were based on items previously used by Husniyah and M. Fazilah (2009). As for current financial status, the items were measured using perceived net worth and perceived financial adequacy based on a past study by Husniyah (2002). Whereas, the measurement for future financial well-being was adapted from Hira and Mugenda (1999) consisting of 6 items using Likert scales with a Cronbach alpha value of 0.881. Factor analysis was conducted as it is considered a form of construct validity and the items were all found to be in one category. A pilot test was also done to test the validity of the instrument as it is a form of face validity (Harvey, 2014).

Results and Discussion

Background of respondents

The details on the background of respondents are listed in Table 1. Majority of the respondents are Malays and two thirds of them are male employees (66.0%). The respondents are aged between 26-30 years old (20.9%) and 31-35 years old whereas the mean age of respondents is 38 years old. As for the marital status of the employees, majority of the respondents are married (80.0%). In addition, majority of the respondents are non-graduates (96.0%). The income of the respondents is mostly between RM 751 and RM 1,500 (33.7%). The precentage of savings is mostly between 0 percent to 20 percent (60.3%).

Table 1: Background of respondents

Item	Percentage
Gender	
Male	66.0
Female	33.8
Age (years)	
21-25	9.2
26-30	20.9
31-35	15.5
36 and above	9.4
Ethnic	
Malay	96.4
Chinese	0.6
Indian	2.8
Others	0.2
Marital Status	
Single	20.0
Married	80.0
Education Level	
Non-Graduate	96.0
Graduate	4.0

Table 1 (continued)

Item	Percentage
Individual Income	
≤ RM 750	6.1
RM 751 – RM1,500	33.7
RM1,501 – RM2,500	33.5
RM2,501 – RM 3,500	18.8
≥RM3,501	7.8
Percentage of Savings/Income	
0%	8.9
0% - 20%	60.3
20% - 40%	25.8
> 40%	4.8

Current financial status

The current financial status of the government employees were measured using net worth and financial adequacy.

Net worth

Net worth was measured by comparing the asset and debt value using a single item measurement listed in Table 2. The respondents answered equally between the three items except for value of asset equal to debt (35.2%) which is slightly higher than the other two items. This may be due to the fact that individuals are not able to identify how to determine the value of their assets. Thus, it can be summarized that most of the respondents have an equal amount of wealth to debt.

Table 2: Net Worth

Item	Percentage (%)
Value of asset is less than debt	32.5
Value of asset is equal to debt	35.2
Value of asset is more than debt	32.3

Financial adequacy

Financial adequacy in this study was measured using the items listed in Table 3. Slightly more than half of the respondents have only enough for basic needs (59.5%) whereas only a small percentage are inadequate financially (9.8%). There is a small number of respondents who claimed to have enough to cover even their wants (8.3%). The important result shows that respondents only have enough for their basic needs and they are not able to purchase extra items or durables that can meet their wants.

Table 3: Financial Adequacy

Item	Percentage (%)
Inadequate	9.8
Adequate enough for basic needs	59.5
Enough for most things	22.4
Enough to buy wants and able to save	8.3

Financial management practices

Financial management practices in this study were categorized into 5 dimensions which were cash-flow, credit, savings, investment and risk management based on factor analysis. The items for each of the dimensions are shown in Table 4 in their respective section and was measured using a scale of 1 to 5 ranging from never to very frequently. This study found that most of the respondents had an average score in terms of their practices in cash-flow, credit and savings.

The highest practice for cash-flow dimension was paying bills within a specified duration and planning for long term goals, whereas the least frequent practice done by respondents was having a complete system for record keeping. The wide availability of facilities such as the Automatic Teller Machines (ATM) and online banking simplifies payment of bills and also in determining the total amount of income. The results suggest respondents basically have good cash-flow practices but infrequently keep track of their finances.

As for the credit dimension, the results suggest that the respondents have good credit management because they plan carefully before committing to any loans or credit and thus, are able to pay their loans according to schedule. Similar to cash-flow practices, loans and credit can be managed via online banking by using the automatic monthly deduction from account specific to loan payment. Cash Deposit Machines (CDM) in banks also makes it easier to make payments as it saves time. The respondents were found to frequently make savings for emergency needs and for long-term goals. Emergency savings will be used during unexpected events such as during a car breakdown or for medical needs which requires cash at hand.

As for investment and risk management, it was found to be below average as these financial practices are not done frequently compared to the other practices. Investments in unit trusts and company shares are normally done only once or twice as a form of long-term investment. Meanwhile, for life insurance, health insurance and education insurance, it is normally purchased as one product but paid monthly. Insurance for credit or loans are similar as it will only be purchased when buying a house or a car which are generally done once every 10 years.

Table 4: Financial Management Practices

Item	Mean	Standard Deviation
Cash-Flow Dimension		
Plan for long-term financial goals.	3.85	1.029
Pay all bills within specified duration.	3.98	1.075
Have a complete system for financial record keeping.	3.12	1.187
Mentally make financial plans for all expenses.	3.59	1.345
Manually record financial plans for all expenses.	3.36	1.177
Determine total amount of income.	3.45	1.116
Spend according to plan.	3.72	1.047
Credit Dimension		
Plan before taking any type of credit/loans.	3.73	1.211
Have a list of debts.	3.21	1.246
Keep a record for the list of debts.	3.36	1.249
Payment of credit/loans is done according to schedule.	3.73	1.235
Savings Dimension		
Savings made for emergency needs.	3.76	1.063
Savings made for long-term goals (e.g: Education, purchasing a house or for Hajj).	3.79	1.156
Investment Dimension		
Invest in multiple investments.	2.37	1.167
Invest in unit trust.	2.96	1.359
Invest in company shares.	1.83	1.113
Risk Management Dimension		
Insurance is purchased for house or vehicle.	3.62	1.251
Life insurance or health insurance is purchased for myself.	3.09	1.379
Life/ Education/ Health insurance is purchased for my family members.	2.93	1.391
Insurance is purchased for credit or loans.	2.83	1.408

Future financial well-being

Future financial well-being in this study was measured using the respondent's satisfaction level with 8 items as listed in Table 5. The items were measured using a Likert scale ranging from 1 to 5 where 1 represent very unsatisfied and 5 represent very satisfied. The highest mean score is for health while the least mean score is for investment level. Health is found to have the highest mean score as respondents are financially secured in terms of health due to the healthcare scheme provided for government employees. This serves their expectation that their healthcare expenses will be provided for. Similar to financial management practices where the results show investment level has the lowest mean. This may be a result of the infrequent practice of investment in company shares and unit trusts as it is one form of long-term investment. The respondents are also satisfied with their sense of preparedness in the future in terms of savings, debt, income, asset and wealth as well as preparedness for emergencies and expenses level. When one is prepared with savings and have managed their debt, income, asset and wealth well, they will expect a better future financial well-being.

Table 5: Future Financial Well-Being

Item	Mean	Standard Deviation
Savings level	3.10	1.013
Debt level	3.15	1.631
Investment level	2.93	1.017
Income level	3.19	0.973
Asset and wealth level	3.19	0.969
Health	3.46	0.870
Preparedness for emergencies	3.35	0.900
Expenses level	3.33	0.900

Conclusion and Implications

Results from this study found that the respondents have an equal amount of debt to wealth and their current financial adequacy is only enough for basic needs. Respondents of this study were also found to have good financial management practices in terms of paying bills on time and plan before taking loans or credit. Insurance is not frequently purchased and the respondents did not partake in investment frequently. As for the future financial well-being of respondents, the highest item was found to be health as it is a benefit provided by the government for government employees.

The implication of this study is that emphasis on credit management and good cash-flow practices should be encouraged from an early age to ensure a better future financial well-being. The importance of insurance should also be rooted as insurance is a form of a safety net in case of emergencies. Apart from that, having a good form of investment can ensure a better financial future especially towards retirement as it will be an additional source of income besides the pension scheme for government employees.

Furthermore, the current financial situation of an individual is important in determining their future financial well-being especially current financial adequacy. To be financially prepared in the future, one must be financially prepared in the present which includes better financial management practices and help from other parties. Therefore, a combined effort from all parties such as the government and related agencies such as the Credit Counselling and Debt Management Agency (AKPK) is important to ensure a healthier state of future financial well-being.

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