IMPORTANCE OF FINANCIAL LITERACY ON MANAGEMENT OF PERSONAL FINANCES AMONG MILLENNIALS: CASE STUDY USIU-AFRICA

BY

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UNITED STATES INTERNATIONAL UNIVERSITY
AFRICA

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UNITED STATES INTERNATIONAL UNIVERSITY AFRICA

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STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution, or university other than the United States International University in Nairobi for academic credit.

Signed: ______________________        Date: ______________________

Elizabeth Karina (ID 620534)

This project report has been presented for examination with my approval as the appointed supervisor.

Signed: ______________________        Date: ______________________

Mr. Kepha Oyaro

Signed: ______________________        Date: ______________________

Dean, Chandaria School of Business
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ABSTRACT

The purpose of the study was to assess the importance of financial literacy on the management of personal finances among Millennials. The study was guided by the following research objectives; to establish the level of literacy among the millennials, to explore the relationship between financial literacy and good money management practices and to explore the financial strategies employed by millennials to ensure future security after retirement.

A descriptive quantitative research design was adopted for this study and the data received from the questionnaire, used to interpret, with the aim of understanding the relationship of financial literacy on the management of personal finances among the Millennials. The select target population of this study consisted of USIU- Africa master’s students based in Nairobi. Determination of the sample size was made possible using the Slovin Formula, taking into consideration the confidence level and the confidence interval of the population. A sample size of 100 respondents was identified for this research study, with the response rate being 86%.

The data obtained was analyzed using the statistical tools, Statistical Package for Social Science (SPSS) and Microsoft Excel. The questionnaire consisted of both open ended and closed ended questions and the results were presented in the form of tables and figures. Pearson correlation analysis was used to investigate the relationship between the independent and dependent variables and multiple linear regression analysis was also used to analyze the findings.

Based on the first objective, which was to measure of the level of financial literacy among the millennials. The study has shown that most students in the master’s program have a basic understanding of financial literacy yet they engage with finance related decisions on a day to day as they manage their finances, this includes budgeting and saving.

The second objective was to explore the relationship between financial literacy and good money management practices. The data analyzed shows that there is a strong correlation between financial literacy and good money management practices. The findings show that the respondents do practice some form of good management practice like saving for emergencies and budgeting.
The final objective was to explore the financial strategies employed by millennials to ensure future security after retirement. The study has shown that masters students at USIU-Africa have investments, pension plans and insurance as part of their financial planning strategies, however they have a low satisfaction rating with the investments they currently hold.

The study concludes that financial literacy is very important to ensure millennials are able to navigate this fast-paced financial industry. With the current economic landscape investing, saving and retirement planning has shifted from being a government or employer concern to being an individual’s responsibility, it is due to this shift that financial literacy should be taken seriously.

The study therefore, recommends that education bodies should include practical financial education programs with real life simulations in the high school and university curriculum to ensure students are well equipped with financial knowledge when they enter the workplace. Employers should also offer financial planning courses as part of its training portfolio for employees to be able to take charge of their current financial situation and avoid financial distress due to lack of financial planning skills.

Further studies should be carried out on individuals in the informal sector to examine what major issues they face in their financial journey, what tools they require, and analyze the impact financial literacy can have on the management of their personal finances.
ACKNOWLEDGEMENT

I would like to express my appreciation to my Supervisor Mr. Kepha Oyaro for his personal commitment to seeing this project through to completion, his encouragement throughout the process and his mentorship throughout every chapter, were vital in the completion of this project.

I would also like to express my gratitude to all the respondents who spent their precious time giving feedback to the questionnaire with enthusiasm, without which we would not have data for analysis.
Asante Sana!!!!
DEDICATION
I dedicate this work to God Almighty my maker, pillar of strength, source of inspiration, knowledge and understanding. He has given me strength through the most difficult times and good health throughout this program.

This work is also dedicated to my family especially my parents, The Late Samuel Karina and Mrs. Joan Karina, for the sacrifices they made to enable me to attain this level of education. Their love, support, guidance, and encouragement inspired me to keep on pushing to achieve this goal.

To my siblings Kamau and Njoki thank you for standing by me and offering your encouragement and comic relief in times of need.

To my husband it was an honor to walk this journey with you.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the problem
“The number one problem in today's generation and economy is the lack of financial literacy.” (Blair 2016;3)
Finance is a field of study that is omnipresent in our day to day life yet there is a distinct lack of knowledge and urge to find out more information on this area of study (Hardley 2012). Based on research done there is a strong correlation between the lack of financial knowledge and poor financial decisions, which impacts not only individuals but also the entire economy.

Millennials are set to hold the biggest share of the labor market and are also projected to be the highest spenders by 2025 (Schawbel, 2012). Their financial behavior and attitude towards money is therefore ever more important as their impact on the economy will be felt more than the preceding generations. The term Millennials refers to the generation of individuals born from early 1980’s and early 2000’s.

The Millennial Generation or commonly referred to as Generation Y, as they are the generation that follows Generation X or the baby boomers, have their recorded birth period between the early 1960’s and 1980’s. On the other hand, there are varied birth date ranges for millennials with one study classifying millennials as individuals born between 1980-1994, making the oldest 37 years and youngest 23 years today (Martin and Turley, 2004). Javelin Strategy and Research (2011) classify Millennials as individuals born between 1979-1999 which would mean they are around 38 years and 18 years old today. Finally, another classification is 1977-1992 (Bauerlein, 2008), individuals will be between the 40 years-19 years age bracket. It is based on Bauerlein’s classification that the population was selected.
Due to the tendency of Millennials moving back with their parents, they have also been given the name the Peter Pan or Boomerang generation. The reasons for moving back to their parents’ home are varied however some of the theories proposed are that individuals are moving back due to economic challenges, brought about by lack of a jobs, or retrenchments. This generation in comparison to Generation X are characterized with delaying some of the typical adulthood rites of passage like starting a career, settling down in marriage as well as starting a family. It is on this basis that the study was conducted to better understand the financial challenges of this group of our society who form almost 80% of the population.

Financial Literacy is considered very important for promoting financial inclusion, consumer protection and ultimately financial stability of an individual and subsequently of the whole financial system of a country. As a result of emerging technologies and the ease in which it is connecting various facets of the financial world focus on financial literacy has become very important. Understanding when to invest, which instruments are more suitable for an individual depending on their stage in life, how much savings one should have, the optimum debt levels to have and how to service this debt can all be mind boggling to a person.

Having financial literacy skills therefore becomes ever so important to avoid financial problems or distress in the future. Financial problems have often been cited as the basis for divorce, mental illness, and generally unhappy individuals. (Yeung and Hoffert 1998)

To avoid this unhappy cycle, it is paramount to nip the destructive nature of financial illiteracy in the bud and educate the younger generation who form a high percentage of the population, on good financial planning habits. It is estimated that millennials in Africa account for 70% of the population according to the 2011 Africa Development Bank report. The Millennial generation are characterized as an energetic and ambitious workforce, with very high expectations for both their professional and personal lives (Bishop, 2006). Despite having all the right qualities e.g. access to unlimited information, higher education levels they still face adversity that imposes immense financial pressure which limits their
economic opportunities. A delicate economy, rising levels of debt in the country, and an unstable job market are a few of the issues they encounter. Indeed, the personal finances of this generation is more relevant for the state of the economy than those of any preceding generations due to their numbers.

This is an important area of study as this generation is also at an important stage in life in which major life decisions need to be made of which could either lead to their future prosperity or downfall. The financial systems of the 21st Century have been growing with speed, complexity, and have a wider product offering than ever before therefore it is paramount for individuals to take control of their finances (Hilgert and Hogarth, 2002). The economic and social environment in which people take financial decisions has also changed drastically, and this change is set to continue with the dynamic and ever-changing technology (Mitchell, 2011). Financial products and services have multiplied along with technological and other means of marketing them (Greenspan, 2005). Today thanks to the internet one can easily trade in a stock exchange market in London while enjoying their morning cup of tea in Nairobi and vice versa. With the advent of internet banking and mobile banking the impossible has been made possible through technology.

Against this backdrop, this study discusses key factors associated with Millennials’ personal finances and identifies critical issues for the financial future of the Gen Y population.

It will also explore the relationship between financial literacy and good money management practices, e.g. explore the factors affecting the millennials savings habits, while appreciating the strategies employed by this generation to ensure future security after retirement.

Millennials as they are commonly referred to comprises of the group of persons who were born between the late 1970s and the mid-1990s. They are young, educated, well-travelled, have access to infinite amount of information through interactions with the online space, and peers, they are ethnically diverse and optimistic even in the face of a staggering economy.
Dissimilar from its predecessors, the Baby Boomers and Generation X, Generation Y is the largest, most diverse generation in history. It is made up of the 70 to 80 million individuals born between the late 1970s and the mid-1990s. Its ethnic composition also makes it distinctive. In America, minorities who are more broadly represented among Generation Y’s most educated, high-achieving members, and 11% of all millennials have at least one immigrant parent (National Chamber Foundation 2012). In addition to being more ethnically diverse than previous generations, Millennials are indeed the most open and educated generation in history (Fry and Parker 2012). At least one third of bachelor’s degree holders are between 25-29 years old therefore millennials will become the largest labor force in the United States and abroad. It is predicted that, by 2025, three out of every four workers globally will be a Millennial (Schawbel 2012).

Often referred to as the “instant-gratification generation,” Millennials have been characterized as having high expectations for both their professional and personal lives (Bishop 2006). The literature attributes this generation’s buoyant optimism, supreme confidence, and high achievement to changed social values regarding children and family life. The confidence instilled in this generation has, indeed, informed its attitudes about professional achievement. Additionally, millennials are the first truly digital generation, raised amid laptop computers, cell phones, tablets, and other rapidly advancing technologies that are changing the way consumers conduct business.

According to Javelin Strategy and Research, (2011) in just two years, by 2015, millennials income will exceed that of Baby Boomers. By 2020, their income is projected to exceed that of both Baby Boomers and Gen X. By 2025, millennials combined income is expected to account for 46% of the nation’s income. Their consumer spending is expected to grow to $1.4 trillion annually and represent 30 percent of total retail sales by 2020. So, while this tech savvy generation might not have assets or a lot of spending power today, they will be the largest consumer sector in the future. It is due to this fact that we need to protect them and their future families especially in this tough consumer targeted market.

Financial Literacy according to Basu (2005;2) refers to the ability to make informed judgements and to actively take control of the current and future use and management of money. Financial literacy includes the ability to understand financial choices. For example,
the ability to compare offers before applying for a credit card, having a current and savings
counts, having a book keeping system, planning for the future using strategies like
spending less than you earn to ensure you have some savings tucked away for unforeseen
expenses or investing for long term goals like education, home, vacation etc. Financial
literacy also calls for wise spending. This means preparing budgets, tracking expenditures,
paying bills on time, and ensuring that credit card balances are paid in full each month.
Financial literacy affects financial decision making. Ignorance about basic financial
concepts can be linked to lack of retirement planning, lack of participation in the stock
market, and poor borrowing behavior (Lusardi, 2008).

Financial literacy however needs to be practical not just theoretical, after analyzing a host
of papers on the subject, Huston (2010) proposed that financial literacy must also include
application of financial knowledge; the argument being that absent demonstrated ability to
apply financial knowledge, an individual cannot be regarded as being financially literate.

Lusardi et al (2010) investigated financial literacy among the youth in the USA using data
collected through the National Longitudinal Survey of Youth in 2007-08. In the research
questions, they sought answers that related to preparedness of the youth to make sound
financial decisions, determinants of financial literacy among the young and policy
initiatives needed to improve financial literacy of the young. They found that the level of
financial literacy among the young professionals was low, an inference that is consistent
with findings across the world that despite concerted efforts to improve financial literacy, it
continues to be inadequate among this segment of the market. They found that socio-
demographic attributes significantly influenced the level of financial literacy, hence the
family financial situation and sophistication. The question we would like to answer is
whether financial literacy is related to good money management practices or not.

Topics around finances need not be taboo, it should be widely discussed to ensure the
populace is adequately equipped with knowledge that can grow the economy. In Africa
topics around money have always been perceived as a no-go zone, yet this is something
that impacts everyone. Financial topics are only discussed in hush tones among “grown-
ups” or financial representatives, and even then, not all information is divulged.
**Personal Financial Management**

Personal finance management refers to all the financial decisions and activities that a person could make or undertake, this includes budgeting household incomes and expenditures, savings, investments, mortgages, insurance purchases, and all other decisions that require money. The most important factor of personal finance management is financial planning, which should involve analyzing the current financial position by measuring the net worth and setting of short-term and long-term goals. In Kenya, as well as other countries financial goals may include, future retirement fund, children education fund, etc. According to Kempson (2009), money management skills are influenced by three important factors; financial control, making ends meet and understanding the approaches to financial management.

Financial control relates to budgeting, keeping records and knowledge of daily living costs and the ability to meet the financial obligations as they fall due. Making ends meet refers to a person’s ability to predict times when finances may be low, and to remedy that situation. This also includes assessing the ability to maintain spending and keep up with commitments. Approaches to financial management relates to impulsiveness during spending, using credit instead of cash and general spending patterns that result in using more money than is available.

Budgeting and living within means involves keeping track of finances and reducing unnecessary spending while saving and planning means putting aside a fund for an emergency through savings or taking out an insurance policy. Some age-old attitudes to financial planning include saving and planning for retirement; and saving and planning for expected expenses. It is important to have good skills of personal finance management to make correct day-to-day financial decisions such as what to buy, what not to buy and when to buy. This would help to save lots of money in the long run, as the purchase of unnecessary products will be controlled or reduced all together. The ability to make these decisions more responsibly would improve the wellbeing of the households, but for all this to be beneficial there is a need for financial literacy, which would help understand various financial services and make financial decisions. Looking into all the approaches towards personal finance might seem complicated for an individual without financial education, as
such people usually do not understand ways of managing (planning, saving, investing and borrowing) money as may be necessary from time to time (Greenspan, 2005).

1.2 Statement of the problem
Millennials are characterized by their love of tangible things like gadgets, clothes, and advanced technology, this is quite understandable with the advent of the technological boom, items can easily be purchased and shipped seamlessly between countries with the payment hassle being solved by online platforms e.g. PayPal or by use of either a credit or debit card. A study by Visa found that Millennials claim they cannot survive without their laptops (89%) and smartphones (80%). With this value being placed on gadgets many have taken out insurance on their gadgets. They also find that clothes represent their social status among their peers and they spend majority of their income buying expensive brands. With the consumer driven nature of the world and societal pressures, the millennials biggest problem lies in planning for their future. Millennials live for the moment and think the future will take care of itself. This is evident in the fact that only 21% of Millennials save part of their disposable income while the rest spend it paying off debt. Millennials have poor financial planning skills, and feel that they are still young and healthy to be bothered with life insurance, health insurance, income protection cover or even home insurance.

Bernheim (1995; 1998) was among the first to emphasize that most households lack basic financial knowledge, leading them to use crude rules of thumb when engaging in saving behavior. While these studies include no direct financial literacy measure, the authors do find that poorer, and less educated households, characteristics associated with low financial literacy, are more likely to make financial mistakes.

In a research done by Hilgert, Hogarth, and Beverly (2002), they discovered a strong correlation between financial literacy and the skills an individual has that enables them carry out day-to-day financial management. Moreover, there is evidence that the more an individual is conversant with simple accounting practices and are financially aware, they are more likely to engage and become a player in the financial markets by investing in financial instruments like stocks, bonds, etc. (Kimball and Shumway 2006; Christelis, Jappelli, and Padula 2010; Van Rooij, Lusardi, and Alessie 2011; Yoong 2011; Almenberg
and Dreber 2011; Arrondel, Debbich, and Savignac 2012). It has also been shown that those who are more financially literate and aware are also more likely to undertake retirement planning, it is also seen that those who plan also accumulate more wealth (Lusardi and Mitchell 2007; 2011)

Financial planning is still relatively new to academia and to date little research has been conducted in the growing financial planning industry.

1.3 Purpose of the study
Statistics prove that as the economy grows over its lifetime, each generation improves their financial position to be higher than that of their parent’s generation. Breaking from this tradition, Millennials are the first generation in a century that is unlikely to end up better off than their predecessor’s due to how badly they’ve been affected since the 2008 recession, which led to job cuts, and loss of assets attributable to poor financial skills (Dugas 1).

1.4 Research Objectives
1.4.1 To establish the level of literacy among the millennials
1.4.2 To explore the relationship between financial literacy and good money management practices.
1.4.3 To explore the financial planning strategies employed by millennials to ensure future security after retirement

1.5 Significance of the study
This study will be important to the following stakeholders:

1.5.1 Millennials
The findings from the study will be important to them to understand where they stand in relation to their peers as they form the generation poised to overtake their predecessor’s the Generation X or Baby boomers as the largest living generation. There is therefore immense pressure on this generation to perform better financially than the earlier generations given the abundance of information at their disposal. The feeling on the ground however is “At this age we are expected to be at a certain point in our lives and we are not there”. The truth is that with all the social pressures, good financial practices often
take a back seat, therefore understanding that they aren’t alone in this walk is very important.

1.5.2 Employers
The finding of this study will be beneficial to employers as they will gain more insight on the financial position of their millennial workforce and may put in place measures to assist employees become more financially aware. The benefit to employers is that financially aware employees are able to concentrate better in the workplace and avoid financial distress. According to Borden, Lee, Serido and Dawn (2008), higher levels of financial knowledge are associated with sound record keeping. Furthermore, the probability that individuals will choose the most appropriate option when provided with a hypothetical scenario concerning a financial decision is higher than for those individuals who lack personal financial knowledge. Moreover, high levels of financial knowledge may positively influence individuals to make better-informed financial decisions that will likely result in the attainment of long-term financial goals (Symanowitz, 2006).

1.5.3 Educators in the Financial Field
The study findings will provide insight to financial educators on the areas they will require to lay more emphasis on and subsequently inform the study material to be used while addressing this group of cohorts.

1.5.4 Policy Makers and Business Community
The study findings will provide insight to policy makers on the level of financial literacy among the millennials and this will form the basis to make financial literacy accessible to all consumers as this is an important area in our day to day lives. This generation is also rapidly taking over the consumer space therefore it would be important to understand them better and create products that addresses their needs.

1.5.5 Researchers and Academic Practitioners
The study results will contribute to the field of knowledge and will form a basis on which further research can be done by academicians and researchers in the field of financial literacy.
1.6 Scope of the study
The focus of the study will be on the millennials with special emphasis being on the Masters students at United States International University Africa (USIU-A), in Nairobi. The geological focus could be perceived as a limitation due to only one location being considered. The research process was undertaken over a period of five months from February 2017 to July 2017.

1.7 Definition of Terms
1.7.1 Financial literacy
This refers to a combination of awareness, knowledge, skill, attitude, and behavior required to make financial decisions and ultimately achieve individual financial well-being. (OECD, 2013).
According to Criddle (2006), being financially literate includes learning about the choice of many alternatives for establishing financial goals.

1.7.2 Millennials or Generation Y
There are several varying time periods used to define the millennial generation.


According to Erickson (2008), Generation Y’s population is currently estimated at between 70 and 90 million individuals, depending on the specified boundaries

1.7.3 Financial Planning
This refers to process either done individually or through a financial planner that takes into account the client’s personality, financial status and the socio-economic and legal environments and leads to the adoption of strategies and use of financial tools that are expected to aid in achieving the client’s financial goals. (Warschauer, 2002)
1.7.4 Financial Distress

This can be defined as the mental or physical discomfort, which is brought about by the state of one’s financial well-being. Some triggers to this discomfort could be the ability or inability to pay bills, repay debts owed or even provide for the needs or wants in life. (Kim & Garman, 2003)

1.7.5 Financial Inclusion

This is achieved when financial services are within the reach of a vulnerable group of a society especially of the lower income segment. (Sharma, 2008)

1.8 Chapter Summary

This chapter provides an overview of the study specifically highlighting the background of the study, the importance of the study, the scope of the study, the research objectives and the bodies that could benefit from the study.

In summary, financial literacy is ever so important today especially among the millennials as the role played by governments and employers in managing investments on behalf of individuals has shrunk significantly in the recent past because of changes in the social support structures across the world. This has increased individual’s responsibility in managing their own finances and securing their financial freedom. In an environment where the range and the complexity of financial products continue to increase, it is imperative that individuals develop some understanding of the world of finance to be able to make choices that are most appropriate to their financial goals and needs.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
As highlighted in the Journal of Consumer Affairs, “. . . young people are leaving school without the basic skills to manage their personal financial affairs, putting them at a high risk for not being able to plan responsibly for their financial future.” (Howlett, Kees, & Kemp, 2008, p. 240). In order to obtain competence in financial literacy, this generation of consumers must understand the problems faced in the marketplace. They must have the training to discern the best way to protect them from becoming victims of financial distress.

2.2 Level of financial literacy among Millennials
Americans born between 1977 and 1994 are commonly referred to as millennials, they came of age in an America that is different than it was for previous generations. Millennials grew up in a country characterized by more diversity in terms of race, (Hobbs and Stoops, 2002; Humes, Jones and Ramirez, 2011), with more and more women attaining higher education levels therefore the gender gap in educational attainment has narrowed considerably, (Theodos, Kalish, McKernan and Ratcliffe, 2014) the costs of higher education have also increased and finally defining events of 9/11 bombing had an impact on the economy. In addition, millennials faced the Great Recession early in their lives and careers, the effects of which they continue to wrestle with in a post-recession economy. A recent study by National Capabilities in the United States, showed that 23% of Millennials between the ages of 18 and 35 spend more than what they earn on financial investments (Mottola, 2014). Making up nearly a third of the population, millennials are a significant force in the U.S. economy and therefore their financial literacy levels need to be addressed for future prosperity of the country.

All generations come with its own unique demographic and behavioral differences, and the same rings true for millennials. Millennials between 18- 26 years have lower incomes and are less likely to plan ahead and as such struggle more to make ends meet than the older millennials between 27-40 years due to their differing circumstances. By virtue of millennials delaying marriage until they are financially secure only 20 percent of young
millennials are married or with children, compared to 52 percent of older millennials who are married with young ones to cater for.

2.2.1 Studies on Millennials literacy levels

A 2014 study to evaluate financial knowledge asked its respondents questions that covered fundamental concepts of economics and finance encountered in everyday life, these questions involved the calculations of interest rates and inflation, principles surrounding risk diversification, and the correlation between bond prices and interest rates, and the impact of faster payment on loans can have on total interest payments over the life of a mortgage. (Mottola, 2014). Based on the results only 24% managed to answer four or five questions which supports the theory that millennials need more financial literacy courses.

Those who are not willing to take risks are less likely to participate in the stock market (Van Rooij, Lusardi & Alessie, 2011). Likewise, preferences for risks are an important determinant of stock ownership and may explain some of the differences among households. Some researchers have further argued that financial knowledge and cognitive ability may have an effect on preferences such as risk aversion, investment duration and their overall effect on financial decision-making. In fact, decision makers are far more successful when they are focused and equipped with a process to guide them through their conversations than if they let these conversations just “happen”. (Schwarber, Rausch, Peters, Osborne, & Snowden, 2005).

Given the younger age and lower household incomes of millennials, it is understandable that they are struggling a little more than older generations to pay their bills and make ends meet.

Millennials are also less likely to plan ahead—but given their youth, this is not entirely unexpected. Thirty-three percent of millennials have rainy day funds, a figure that is actually higher than gen Xers (32 percent), but lower than boomers and the silent generation. And only about four in 10 millennials are saving for retirement, which is significantly lower than all the other generations. (2010 Pew report)

Financial literacy levels are fairly low across the board for students and workers, but full-time workers have the highest level of financial literacy, with 32 percent being classified as
high financial literacy compared to a low of 15 percent for respondents who are both part-time workers and part-time students. In the management of financial products, millennials do differ from the other generations on some important measures, Twelve percent of millennials are unbanked a figure that is more than double the boomers’ and silent generation’s unbanked rates according to the National Financial Capability Study (2012).

2.2.2 Millennials in developing economies

According to a research done by Subha and Priya (2014) they argued that financial literacy is needed especially in the developing market due to the fact that a majority of the population relies on agriculture as the main income earning activity. They are as a result vulnerable to economic shocks due to the reliance on rain fed agriculture which is a risk in itself, the price volatility is also another risk given that they are a raw material exporter. Saving therefore becomes a very critical habit as it allows households to adjust to any future shock while still supporting long term investments. Understanding the various financial and insurance products offered specifically for this segment of the economy can dramatically change the financial well-being of an individual. For those millennials who are not engaged in agriculture as the main source of income inflation risk is often a factor to consider while choosing investments therefore this concept of financial literacy is required to understand which assets provide protection against inflation. Similarly, a nuanced understanding of the importance of how the value of various assets correlates with each other can help households diversify risk efficiently.

Most poverty ridden African developing countries, where high unemployment, low education enrolment, have a high vulnerability to various socio-economic shocks which in most of the cases are coupled with low rate of personal and national saving, daunting investment and lower employment and income generating activities. Policy makers are making gradual steps towards improving financial literacy with an effort to change existing socio-economic realities. This signifies that mainly the aforesaid benefits of financial literacy identified with respect to individuals, financial system, the economy and the community at large are related with the ongoing social and economic programs in most African countries.
Looking to the future, it is promising that more millennials report being offered financial education and participating in financial education programs relative to the other generations. Of course, financial education is only one contributing factor to financial capability for example, age and experience contribute to overall financial capability as well but it is encouraging that financial education may be more common today than it has been in the past.

As life expectancy is increasing, the pension question is particularly important as individuals will be enjoying longer periods of retirement. Individuals who will not be able to choose the right savings or investment plans for themselves, may be at risk of fraud or not being financially prepared if they are financially illiterate. On the other hand, if individuals are financially educated, they will be more likely to save and to challenge financial service providers to develop products that truly respond to their needs, and that should have positive effects on both investment levels and economic growth.

There is a lot of debate on what exactly financial literacy entails with a lot confusing it with financial education. According to Norman, and Gove (2006, 2009; 1961) financial education refers to knowledge or an understanding on the importance of money and the use of money, it answers the question, why spend on this as opposed to that. It can literally be summed up as wise use of money. Financial literacy on the other hand is the ability to understand finance. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions through their understanding of finances. The most common definition of financial literacy is the ability to make appropriate decisions in managing an individual’s personal finances.

Onea and Dornean (2012) categorized different definitions given to financial literacy into theoretical, applied and awareness. They also studied how the two terms: financial and literacy are defined on various dictionaries. Based on their analysis, they formulated a study framework viewing that: “Financial literacy implies a persons’ minimal knowledge about financial terms such as money, inflation, interest rate, credit and others, but besides this the abilities and skills of that person to use all this information in personal life, being aware about the consequences of its financial actions” (Onea and Dornean, 2012, p 113-129).
According to Organization for Economic Co-operation and Development (2016) financial literacy is increasingly important, and not just for investors. It is becoming essential for the average family trying to decide how to balance its budget, buy a home, fund their children’s education and ensure they have an income when they retire and are unable to work. The growing sophistication of financial markets means consumers are not just choosing between interest rates on two different bank loans or savings plans, but are rather being offered a variety of complex financial instruments for borrowing and saving, with a large range of options e.g. the introduction of REITs, Government bonds being sold on the mobile phone platform etc in Kenya. The responsibility and risk for financial decisions that will have a major impact on an individual’s future life, notably pensions, are being shifted increasingly to workers and away from government and employers.

2.3 Relationship between financial literacy and money management

Michael (2009) argues that “A lack of financial literacy can hamper the ability of individuals to make well-informed financial decisions. For people who exhibit problems with financial decision making, financial advice has the potential to serve as a substitute for financial knowledge and capability”

Early studies found that the relationship between financial literacy and financial distress are due to financial problems faced by individuals who do not have financial literacy (Research Works, 2009; Joo and Garman, 1998). The findings of this study are supported by Chen and Volpe (1998) who revealed that college students who fall within the millennial bracket, do not have the knowledge about personal finance. This incompetency will reduce their ability to make informed financial decisions based on knowledge. Lack of financial literacy brings about negative impact as individuals are anxious about their financial situations which can affect productivity at the workplace.

2.3.1 Financial Literacy Theories

The conventional microeconomic approach to saving and consumption decisions dictate that a fully rational and well-informed individual will consume less than his income in times of high earnings, thus leaving aside some saving to support consumption when
income falls case in point during retirement or after retrenchments which is now the norm as the economy shrinks. Modigliani and Brumberg (1954) and Friedman (1957), proposed that a consumer in his financial planning journey is expected to arrange his optimal saving and decumulation patterns to smooth marginal utility over his lifetime. Many studies have shown how such a life cycle optimization process can be shaped by consumer preferences case in point, the risk levels an individual can take, the preference for discount rates while purchasing, the economic environment, risky returns on investments and liquidity constraints, and social safety net benefits, the availability and generosity of welfare schemes and Social Security benefits, among other features.

There is substantial research done, both theoretical and empirical, around the economies of education however there is less attention placed on how individuals can acquire and deploy financial literacy. In the last few years, however, a few papers have begun to examine the decision to acquire financial literacy and to study the links between financial knowledge, saving, and investment behavior (Delavande, Rohwedder, and Willis 2008; Jappelli and Padula 2013; Hsu 2011; and Lusardi, Michaud, and Mitchell 2013). For instance, Delavande, Rohwedder, and Willis (2008) present a simple two-period model of saving and portfolio allocation across safe bonds and risky stocks, allowing for the acquisition of human capital in the form of financial knowledge (à la BenPorath 1967, and Becker 1975). Their study implies that an individual will choose to invest in financial knowledge to be able to acquire assets which have a higher return. The training they acquire would help them identify assets that would perform better or alternatively they would engage the services of financial advisors thereby reducing their investment expense. Hsu (2011) uses a similar approach in a household setting where husbands specialize in the acquisition of financial knowledge, while wives increase their acquisition of financial knowledge mostly when it becomes relevant (such as just prior to the death of their spouses). Research done by Jappelli and Padula (2013) predict that indeed there is a strong correlation between financial literacy and wealth acquisition over an individual’s life cycle, the correlation is expected to rise until retirement and subsequently fall. They also discovered, in countries with good Social Security benefits, there is lower propensity to save and accumulate
wealth and as a result there is less reason for individuals to invest in financial literacy courses.

Xu and Zia (2012) in their paper, review of financial literacy across the globe, quoted survey results in sub-Saharan Africa that indicated that, “…… a large proportion of the population in countries such as Mozambique, Malawi, and Nigeria lack awareness of basic financial products and concepts such as saving accounts, interest on savings, insurance, and loans. Similarly, a FinScope Survey in Uganda pointed out that, an overall low level of financial literacy in the country, where majority of adult’s lack basic concepts of personal finance and unable to comprehend issues such as interest rate, discount rate, and money lending, hindered access to finance (Uganda FINSCOP Survey III, 2013). This shows the fact that low level of financial literacy is correlated with low level of financial inclusion in Africa.

2.3.2 Personal Financial Budgeting as a money management tool

According to Clark (2007) a budget is simply a game plan for managing income to cover the cost of living over a set period of time. Moeti (2007) defines budgeting as a process that involves documenting and monitoring sources of anticipated income and expenditures over a specific period of time. Budgeting is a process that helps in organizing and planning how we manage our money efficiently. Bring aware of our spending habits will enable individuals to understand their current financial situation and get off the cycle of living pay check to pay check.

Budgeting is also very important as it directs your money where is matters most, including budgeting items for one off spending sprees ensures you also get to enjoy the fruits of your income. Creating a budget will highlight if you a spending more of less than you can afford, and an individual can immediately take action to either reduce the expenses based solely on necessities.

According to a survey done by Monster.com and Harris Financial Literacy Study, of the polled individuals 57% do not have a budget while 50 % of the Americans have less than one month of savings for emergencies. These figures are quiet concerning especially in the current economic environment.
Studies have shown, individuals with a budget have been able to achieve their financial goals as they understand their cashflow and are able to make savings and investment plans. One common misconception when it comes to budgeting is that “I do not need a budget because I have a general idea of what I earn and how I spend my monies” this may be the case however there is however a natural tendency to overspend as expenses are easier to underestimate without a budget.

Another misconception where budgeting is involved is that we need to spend first then save what remains, that theory has been overturned by different scholars who propose that a fixed savings amount should be incorporated in the budget to ensure financial goals are achieved (Gitman, Joehnk, and Billingsley, 2014).

A budget should consist of all the following components, the expected income e.g. Salary, the fixed costs e.g. Rent, the variable costs e.g. food, transport, savings percentage, and finally the discretionary amount. The discretionary amount refers to the amount of money one will not feel guilty spending, this could include monies for gifts and shopping. (Clark, 2007)

**2.3.3 Personal Savings Plan as a money management tool**

Savings can be defined as putting aside a portion of one’s income for future spending on unforeseen expenditure (Family Economics & Financial Education, 2010). Mandell & Klein, (2009) define saving as forgoing consumption for storage in some form of assets. Saving is one aspect of managing money, that is highly important given the volatility of the modern economic climate and factors that are often beyond an individual's control (Perry and Morris 2005). The effects of savings are not only beneficial to the individual households, but it also influences the economy of a nation as savings provides a base for long term investments in infrastructure which eventually contributes to the overall economic growth of a nation. National investments tend to contribute to industrial growth, which in turn increases employment opportunities. (Rehman, 2011)

Individuals save and eventually invest their savings for various reasons, saving for holidays, saving for their education or that of their children, they could also be saving to buy assets; cars, land etc. Some of these objectives or goals are short term while others are long term, having an understanding of the various financial instruments will guide
individuals on the best vehicle to preserve their monies. (Redhead, 2008). Savings for a holiday or children’s education are less likely to be put in a risky investment as this may erode the value of the initial capital, it would be advisable to use banks savings accounts as the investment vehicle. The reverse is true for pension savings, one is unlikely to use low return investments vehicles like bank saving accounts because the saving horizon is longer, so the risk appetite is higher.

The earlier you start saving money, the power of compounding starts working for you this enables you to enjoy financial freedom. (Cheney & Zimmermann 2015). Research done by Modigliani, and Brumberg (1954) brought to the fore the life cycle theory which states that individuals will follow a hump shaped saving pattern over their lifetime. Periods of high earnings and lower responsibilities will lead to individuals saving more and this cushions them as their expenses increase with added responsibilities e.g. after marriage, children etc. During lower earning periods, e.g. before the next employment and after retirement individuals will tend to use up their savings to fund their lifestyle spending needs. The young individuals or Millennials in this case should be net savers as their responsibilities are less in their early lives and turn to net borrows as the edge towards retirement (Modigliani &Brumberg, 1954)

Discipline is the major contributing factor to a healthy saving pattern. It is the ability to delay gratification to ensure future security. Millennials tend to spend their money as soon as they get it on consumables leaving little to nothing on savings, they are therefore considered to be conscious about money but lack the knowledge how to manage it (Der Hovanesian, 1999).

2.4 Financial Planning Strategies that ensure future security
It is important to understand that managing a family’s or a person’s finances is not the same as managing a business’s finances. Businesses maximize profits; of which they have to, or they will not stay in business. Families, on the other hand, maximize the individual member’s utility. That is, families want their family members to be happy and they use money as a resource toward making their members happy. Most often this means that families do not even save or invest to the level that financial experts suggest. If the family was maximizing profits, they would live on as little as possible for health purposes and
then save and invest the rest. Money, for families, is a tool for living, not an end (Haynes, 2009).

Financial planning comprises of a six-step process which forces the person to really think about their life and its overall direction. This may be done subconsciously or may be calculated for someone by a financial planner. The process includes, establishing your goals in life – short, medium and long term from then you are able to prepare a road map to help you achieve those objectives as they will form a basis of the investments to take. Working out what assets and liabilities you have – write them down, this is to give you a picture of what exactly you own and also will demystify what is actually an asset as you will find persons referring to homes as their assets. Assets according to scholars refer to investments of which you generate economic value, a home in this case you do not generate any economic value.

A person going through the financial planning process should also evaluate their current financial position, how close are you to achieving your goals? It is from there that a road map is developed for achieving your different goals. Once the road map is created we need to action or implement your plan – make the changes and make it happen, if this will mean holding a meeting with your stockbroker or insurance agents this is the point where you engage them as you know what exactly you need from the market and they would offer their guidance in achieving it. Lastly and it is a step often overlooked, it is the monitoring and reviewing of your plan at least yearly and making adjustments when needed as nothing is cast in stone and the market will not always respond as you expect it to.

Once we have understood the process of financial planning it is important to establish what exactly financial goals are. Each person has a continuum of goals he or she would like to accomplish. For the head of the household it could be aiming to take the family out to dinner over the weekend this is a goal that may require cutting back on other expenditures during the week, however this type of short-term goal is generally not included in a financial plan although it may be discussed during the budgeting process. Financial planning goals are generally significant expenses, such as paying for college, retiring, and leaving a fund for the children.
The life-cycle hypothesis, originally introduced by Modigliani and Brumberg (1954), is a popular theory used to describe how individuals make financial decisions over time. According to the theory, if an individual wants to fund some level of consumption in the future but will be unable to do so with future earnings, then he or she must accumulate wealth (or take on future debt) to cover the consumption gap.

Within the life-cycle hypothesis, money is effectively a resource that should be used to purchase the set of goods from which an individual (or couple) derive the most satisfaction. Creating a goals-based financial plan is considerably complex when multiple goals are introduced, especially given resource constraints. Given the inability to fund everything a client wishes to accomplish, a financial planner must help determine which goals the client will be able to fund, as well as how to go about funding the selected goals. And while households may seek to accomplish similar goals, the magnitude and relative importance of the goals they wish to accomplish are likely to vary significantly. Therefore, each goals-based financial plan should be unique to that client.

One goals-based approach is to create a “portfolio of sub-portfolios,” where a specific portfolio is designed to meet each specific client goal. This approach has been discussed by Brunel, (2003), Nevins (2004), and Chhabra (2005). Das, Markowitz, Scheid, and Statman (2010) demonstrated that this approach can still be efficient through mental accounting, where the definition changes from the volatility of returns to the probability of failing to achieve a goal.

An alternative approach to creating a portfolio in a goals-based framework is to do so holistically. Fowler and de Vassal (2006) introduced a holistic optimization of goals approach, whereby a single investment portfolio strategy is determined that best meets the combination of client goals, and assets are then spread across different locations based on relative tax efficiency.

### 2.4.1 Personal Investing Plans

Kaplan (2001) defines investing as the allocation of funds to assets with the aim of achieving or gaining additional income and growth in value over a given time period. This involves committing resources which would have otherwise been used with the aim of accruing a benefit in the future. Investing is the purchase of assets in the hope of making a
profit. Investment vehicles include, bonds, stocks, property, commodities, mutual funds etc.

The main aim of investing is to improve an individual’s welfare (Jones 2010). Assets not only store wealth but also create income. Investments in real estate e.g. an apartment or house retains wealth as the value appreciates with time while also creating rental income. Stocks and bonds also retain wealth while creating dividend and interest income respectively.

Research by Mandell, (1997) has shown that students entering the workforce are not receiving education on the various financial instruments and this is the reason behind the slow uptake of investments. Investing knowledge is important for an individual to be able to make optimal decisions. Another factor that influences investment decisions is the attitude and the risk appetite of an individual. There is a positive relation between an individual’s attitude and making an investment decision, the better the attitude and this is brought on by understanding the product the higher the chances of that particular investment being purchased. (Schmidt, 2010)

There are several risks associated with investments e.g. policy risk, interest rate risk, operating risk, inflation risk, as a result investors respond differently to investment related risks based on their past experience, advice from parents or just monitoring the market. While a huge percentage of investors are mainly risk averse, there are some investors who have a higher risk appetite with expectations for a higher return (Funfgeld& Wang, 2009). An investors risk appetite is determined by their level of confidence, which is determined by their level of knowledge. (Shefrin, 2007). It is therefore beneficial if millennials can be exposed to the various investment options in the market either via virtual tools or seminars, to give them firsthand experience.

2.4.2 Personal Debt Management
Consumer debt can be defined as, monies owed from one party to another in this case the main lender are banks or financial institutions like microfinance companies. Personal debt can also be defined as a loan acquired by individuals to meet their needs when they are
unable to meet them using disposal income. The factors considered to be responsible for the proliferation of debt include: low money management skills, and changing circumstances.

Consumer debt can be categorized into motor vehicle loans, education loans, credit card and mortgage.

Millennials are poised to be greatly impacted by the debt trap due to their need for a lavish lifestyle and peer pressure. Ubris et al (2008) found the credit mentality of own now pay later was spreading among the young people. In his study 80% of the respondents responded they would find a way to purchase items when faced with a situation where they wanted something they could not afford. Financial education regarding debt should be encouraged even in the workplace as studies have shown a correlation between excessive debt and a negative impact on an individual’s physical health and successive quality of life. Heart disease, diabetes, and common infections has been linked to stress of a cumulative nature.

Personal or consumer debt is considered to be a major cause of financial distress among many individuals worldwide. The level of debt is expected to increase, and this could have an overall impact on the economy and households. (Singh et al., 2005; Barro, 1979). The pitfalls of debt are that it encourages individuals to spend more than they earn, in most cases they fall short in repaying the debt. This does lead to a debt trap which can be difficult to recover from, the credit crisis of 2008 shows that understanding financial products in the market is very critical to avoid financial distress.

The increase in debt levels is currently an ongoing process due to the ease of access of credit facilities, however scholars and financial analysts have raised their concern with calls being made to control the debt level to protect the economy. Personal debt is considered to be a hurdle in the growth of individuals and the economy (Meadows 2006). Individuals are encouraged to spend more than they are in most instances unable to repay, ultimately leading to bad debts in the books of the lending companies.
Some scholars on the other hand believe that personal debt has a positive impact on a country’s economy as it increases the GDP of the country (Fraumeni and Okubo, 2005). Households tend to spend the amount borrowed to purchase goods which increases the demand for goods produced in a country thereby increasing the GDP (Gross Domestic Product).

2.4.3 Personal Insurance Policies

The origin of Insurance stems back to the second and third millennia where the Chinese and Babylonian traders would distribute their goods among many vessels to minimize the risk should the ship capsize in transit. (Vaughan, 1997)

Financial advisors recommend that insurance should play a critical role in management of risk while planning a financial portfolio. Life is very unpredictable and considered risky, risks cannot be eliminated but can be reduced. Individuals and companies employ insurance to control the financial risk. The concept being insurance is you are paying for a risk today in the form of a premium to ensure that when the need arises the insurance company will offer financial protection (Redhead, 2008)

Having an insurance policy reduces the financial risk and protects income if you take out a life, health or disability cover and it also protects assets when one takes a property, home, and liability insurance cover. (Gitman, Joehnk, and Bilingsley 2007). Illness or accidents can wipe out years of accumulated wealth, financial knowledge is important in the choice of insurance products.

Cohen and Young (2007) in his research noted that lack of understanding is the main reason of non-renewal of insurance policies. Closer home, Ugandans who understand health insurance and its benefits are more inclined to purchase insurance, however there are negative attitudes towards insurance which need to be eliminated, some individuals believe insurance is only for the wealthy or will bring bad luck and this could be a reason for the low uptake of insurance policies.

There is a strong relationship between insurance and its effects on the economic development of a country. This is particularly so for life insurance policies as it mobilizes resources for long term investment which is critical in sub Saharan Africa where capital for
long term investments is constrained. Insurance penetration stands at 3.44% as per the survey done by the Association of Kenya insurance in 2013, which is quiet low compared to South Africa at 14.16%, and Namibia 5.94% (Price Waterhouse Coopers, 2014).

In Kenya insurance uptake is affected by several factors which include product awareness, the cost of the product, the accessibility of the services or service providers as well as the buyer education, if the product tends to be complex in nature buyers will opt not to purchase it. Socialization is also a factor that influences buyer behavior, with the penetration of mobile penetration, insurance providers should use that avenue as a tool to reach the millennials who are constantly on their mobile devices.

2.4.4 Individual Retirement Planning

Research has shown that gender, race, background, behavior, and attitudes have an impact on retirement planning. Furthermore, studies show that education plays a part in all of the categories mentioned above. Many Americans fail to understand critical financial concepts, which are a major cause of low levels of financial literacy, ultimately leading to the issue of ineffective retirement planning (Mitchell 2007). With the shift from defined benefit (DB) to defined contribution (DC) pension plans, workers have to decide not only how much to save for retirement but also how to allocate their pension wealth.

Efficient retirement savings relies heavily on successful retirement planning. Research has shown that 30.9% of older women age 50 and up are simple planners (made at least one retirement savings calculation), 20.3% are serious planners (developed a plan), and 17.4% are committed planners (developed a plan and followed it) (Lusardi 2008). Given the gender specific requirements of retirement planning and the general unpreparedness of women, it has been suggested that retirement programs should be tailored to gender. Gender also affects retirement planning through financial literacy, as men typically possess more financial expertise than women. Despite having more financial expertise than women, it has been found that males tend to see retirement as a natural progression in life (Grace 2010). This perspective often causes males to overlook the need for retirement planning thus leaving them in the same state of retirement unpreparedness as their female counterparts. Women are very mindful that unplanned obstacles may occur during the course of their life, which could potentially impede their financial stability in retirement.
Being aware of these obstacles may cause women to save more for short-term rather than saving for retirement. These obstacles may also pose an issue in the amount of money

Retirement can be a rewarding phase of one’s life. However, a successful, happy retirement doesn’t just happen. It takes planning and continual evaluation. Thinking about retirement in advance can help in understanding the retirement process and in gaining a sense of control over the future (Kapoor, 1994). Magera (1999) defines retirement planning as a systematic way of setting aside resources (funds), business project and time for the purpose of providing income in the old age. The goal of social protection is not mere survival, but social inclusion and preservation of human dignity (Keizi, 2006). It is vital to engage in basic retirement planning activities throughout your working years and to update retirement plans periodically. While it is never too late to begin sound financial planning, you can avoid many unnecessary and serious difficulties by starting this planning early. Saving now for the future requires tackling the tradeoff between spending and saving (Kapoor, 1994)

Life expectancy has improved globally, and Kenya is no exception. People are now living longer in retirement. Further as retirement benefits continue to diminish medical costs continue to escalate with age. Higher inflation further erodes the little retirement savings. The other problem is that Kenyans retire with only 20% of their total income before retirement which is very little to support one in retirement especially now that we have a changing social culture where parents can no longer rely on their children to support them in old age. Old age saving should therefore be classified as a priority and prudent management of pension fund is also absolutely necessary to guarantee old age saving (Gichuki, 2008).

A saving for retirement culture is largely absent in African countries due to the traditional systems of old age support by children and lack of knowledge on savings options (Odundo, 2003), which is evident from the fact that only 15% of Kenyans were in any form of pension arrangement by 2009. According to Odundo (2003) less than 5% of the total Kenyan population contributes towards social security fund. This means that majority of the population must have individual arrangement to make saving for their retirement. This calls for sound management of personal finances, referred to as financial literacy in this
study. Financially literate consumers are those who have the ability to make informed judgments and to take effective actions regarding their current and future use and management of their money (Basu, 2005).

2.5 Chapter Summary
Financial literacy surveys in many developed nations show that consumers are poorly informed about financial products and practices. This is troubling, in that financial illiteracy may stunt peoples’ ability to save and invest for retirement, undermining their well-being in old age. It is also concerning that these deficiencies are concentrated among particular population subgroups - those with low income and low education, minorities, and women - where being financially illiterate may render them most vulnerable to economic hardship. No studies definitively provide an evaluation of the costs of financial education programs and, without that information, it is not possible to estimate a return on financial education programs.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter highlights the research methodology that was used as a framework of the study. The research methodology employed plays a vital role as it will determine the overall outcome of the research.

The research methodology is broken down into the following sections, the research design, the target population, sampling design, data collection methods and data analysis.

3.2 Research Design
This process outlines the plan of the study, connecting the research objectives or problems to the empirical evidence.

According to Kothari (2004), the research design is the conceptual structure within which the research is conducted; it gives the researcher, the structure needed for collection, measurement, and analysis of the data collected. The design therefore provides an outline of the steps a researcher will take from the hypothesis writing stage, the operational workings to the final analysis of data.

Cox & Hassard (2010) define research design as having clearly defined structures within which a research study is implemented.

A descriptive quantitative research approach was employed for this study. This design approach is preferred for this study as it seeks to answer the questions, who, how, what, with which, when and how much (Cooper and Schindler, 2003).

By using the descriptive design approach, the study will provide a picture of the situation as it naturally happens (Burns and Grove, 2003), it will be able to draw a relationship between financial literacy and management of personal finances.

3.3 Population and Sampling Design

3.3.1 Population
Mugenda & Mugenda (2003), defines a study population as one which includes all the elements of which a study wants to make inferences from. The population of this study constitutes the masters’ students of USIU- Africa. Fox and Bayat (2007), infer that the choice of sample size is regulated by four parameters, the level of certainty of the collected
data to be representative of the total population, the accuracy required as the basis for the estimates made for the sample, the type of analysis that will be used as many statistical techniques have a minimum threshold of data cases for every variable and the size of the total population from which the sample will be drawn. As proposed by Roscoe (1975), a sample size of 30 to 500 is appropriate for most researches.

The target population of this study was the USIU-Africa masters’ students that constitutes 1,333 students. The table below highlights the components of the population distribution.

### Table 3.1 Population Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Population (N)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chandaria School of Business</td>
<td>925</td>
</tr>
<tr>
<td>School of Humanities and Social Sciences</td>
<td>259</td>
</tr>
<tr>
<td>School of Science and Technology</td>
<td>149</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1333</strong></td>
</tr>
</tbody>
</table>

Source: Spring 2016 Factsheet USIU-A (2016)

#### 3.3.2 Sampling Design

A sample design is defined as a blueprint for conducting a study with maximum control over factors that may interfere with the validity of findings. (Burns and Grove 2001).

The research design also provides the guidelines and instructions to be followed when addressing the research problem (Mouton 1996; Polit & Hungler 1993)

#### 3.3.2.1 Sampling Frame

According to Cooper & Schindler, (2014), a sampling frame refers to a list of elements in a population from which the sample is drawn. Similar characteristics representative of the entire population is represented in a sample frame making its selection extremely fundamental.

Masters students of USIU- A from various specializations formed the sample frame for this research. All students both in the financial and non- financial specialization as the topic under investigation forms an integral part of the society.

#### 3.3.2.2 Sampling Technique

A Sampling Technique refers the selection of sample units that are guided by statistical and scientific methods of data collection. As there are several sampling techniques it is
important to choose the most relevant to obtain the most accurate representation (Saunders et al., 2013)

The technique chosen for this study was the Stratified simple technique and the random sampling technique within the Stratum, this choice is attributed to the fact that the population is heterogeneous.

3.3.2.3 Sampling Size

Sample size refers to the number of respondents used in a survey that would be representative of the population and bears proportional relationship to the size of population from which it is drawn (Cooper & Schindler, 2014). Mugenda & Mugenda, (2003) proposes a sample size of between 10-30% of the population is a representative sample.

The sample size was selected using the Confidence Interval and Confidence level as the determining factors. Confidence interval commonly referred to as the margin of error is the deviation you would allow on your survey results, it could be positive or negative. It is the deviation between the respondents’ opinion and that of the population. Confidence level on the other hand refers to the percentage of population that will lie within the boundaries of the confidence interval. The standard confidence level used for quantitative research analysis is 95% or 99%.

The confidence level for the population is 95% with a confidence interval or margin of error of 9.4%.

The sample size calculation was based on the Slovin formula (Altares et al., 2003)

\[ n = \frac{N}{1+(e)^2} \]

Where:

\( N \) = Population Size (1333)

\((e)^2\) = acceptable margin of error (9.4%)

\( n \) = The sample size

\( n = \frac{1333}{1+1333 (0.94)^2} \)

\( n = 100 \)

In this study 100 graduate respondents will be selected at random to take part in the survey.
Table 3.2 below displays the sample size distribution of the respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>Population (N)</th>
<th>Sample Size</th>
<th>Percentage</th>
</tr>
</thead>
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<td>School of Humanities and Social Sciences</td>
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</tbody>
</table>

Table 3.2 Sample size distribution

3.4 Data Collection Methods
Both the Primary and the Secondary data sources offer the most viable tools to data collection. Primary refers to the method of data collection that is done for the first time and is original while Secondary refers to data already collected by another researched and has gone through the statistical analysis process (Kothari, 2004)

An online survey questionnaire was the vehicle used to collect the primary data as provided the current data for analysis in the subject area and it will be a faster and non-intrusive method of getting the data, given the budget constraints as well. Questionnaires provide a stable, and uniform tool where respondents can give objective views on the issues being researched on. (Sarandakos, 2005)

The questionnaire contained open ended and closed ended questions which will then be further divided into two. Section one to collect data related to the profile of the respondents and the second section will contain data related to personal financial management

The questionnaire comprised of a Likert scale question. Stangor (2010) contends that a Likert scale consists of a series of items that indicate agreement or disagreement with the issue that is to be measured, each with a set of responses on which the respondents indicate their opinions.

Secondary data was the main tool used when gathering information for literature review. Journals, online articles, business articles and newspaper articles were the channels used to gather the information.
3.5 Research Procedures
The research procedure describes the process a researcher will use to gather their data, it includes the steps taken to enable another researcher to perform the same process in their research for further research advancement (Kothari, 2014). Pre-testing of the questionnaire was done among a few persons from the sample population, this is to ensure the questionnaire was proofread and the line of questioning was checked to ensure the final target sample understood the context of the questionnaires. This is an important step before the final questionnaire is sent out to respondents as it validated the tool will get valid responses that can be analyzed. The final questionnaire was sent via the online tool Survey Monkey to the respondents.

3.6 Data Analysis Methods
After the data was collected, the data was analyzed to give meaning to the responses. Data preparation is the process of converting raw data into classified forms that makes analysis easier Cooper and Schindler (2014). The data collected was analyzed using quantitative analysis using both the descriptive and inferential statistics that was presented in the form of graphs and pie charts, for ease in data presentation. The statistical computer software (SPSS) and Microsoft Excel was used during the analysis.

3.7 Chapter summary
This chapter highlights the different techniques used to address the research objective. Descriptive research approach was used as the preferred research design. The population of 1333 USIU graduate students with a sample size of 100 formed the basis of the study. The data for analysis was collected using the primary collecting tools which involved a questionnaire. SPSS and Microsoft Excel were the tools used to analyze the raw data form and the findings were presented in the form of graphs and pie charts. The analysis of the same will be found in the next chapter.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter summarizes the findings from the data collected and the subsequent analysis done based on the outlined research objectives.

The data is further broken down into sections for better analysis of the data. The first section covers the response rate, the demographic, and the general analysis of the sample respondents. The second part presents results on the financial awareness or literacy questions. The third and fourth part presents findings on the management of personal finances and financial planning strategies of respondents respectively. The research was done on a sample size of 100 masters students participants who were randomly selected from the four schools within the university.

4.1.1 Response Rate
The response rate refers to the ratio of participants who took part in the survey compared to the total number survey questionnaires sent out. It also determines the statistical power of the study; a higher response rate is preferred however the response rate is a determinant of selected survey mode.

In this study 100 questionnaires were issued out via the online survey tool, Survey Monkey. Out of a total 100 questionnaires sent out, 86 respondents provided feedback to the questions which represented a response rate of 86% this fairly represented the target population.

4.2 Demography Information

4.2.1 Gender Profile
This section highlights the gender distribution of the respondents, from the findings as presented in the Figure 4.2.1 shows a majority (59.3%) were women while (40.7%) were men based on a frequency of 51 and 35 individuals respectively.
4.2.2 Marital Status

This section highlights the marital status of the respondents, from the findings as presented in the Figure 4.2.2 shows a majority (67%) were single while (27%) were married, and (6%) choose not to divulge their marital status. The above findings are based on a frequency of 58, 23 and 5 individuals respectively.

4.2.3 Age Distribution

This section highlights the age bracket of the respondents, from the findings as presented in the Figure 4.3 shows a majority of the respondents (52%) were between 23-27 Years,
followed closely by the age group of 28-32 years at (21%), the age group 32-35 years and 35-40 years closed off the sample size with (9%) and (17%) respectively.

**Table 4.1 Age Distribution of respondents**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-22 Years</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>23-27 Years</td>
<td>45</td>
<td>52%</td>
</tr>
<tr>
<td>28-32 Years</td>
<td>18</td>
<td>21%</td>
</tr>
<tr>
<td>32-35 Years</td>
<td>8</td>
<td>9%</td>
</tr>
<tr>
<td>35-40 Years</td>
<td>15</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>86</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Figure 4.3 Age Distribution of respondents**

**4.2.4 Field of Specialization**

This section highlights the area of specialization of the population, from the findings as presented in the Figure 4.4 shows a majority of the sample (70%) are in a non-financial industry while (30%) are in the financial field.
Further analysis was done to determine which sector of the non-financial market the population represents, the data is presented in Table 4.3 and Figure 4.5. Based on further analysis Sales and Marketing profession made up (25%) of the respondents, Information system (23%), (15%) of the respondents consisted to various professions namely engineers, transport and logistics personnel, mentors, students, and Project managers, Entrepreneurship (10%), Media and communication composed (8%), Legal and Human Resource formed (7%) respectively and lastly Psychology (5%).

**Table 4.2 Field of Specialization**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal</td>
<td>4</td>
<td>7%</td>
</tr>
<tr>
<td>Sales and Marketing</td>
<td>15</td>
<td>25%</td>
</tr>
<tr>
<td>Media and Communications</td>
<td>5</td>
<td>8%</td>
</tr>
<tr>
<td>Psychology</td>
<td>3</td>
<td>5%</td>
</tr>
<tr>
<td>Human Resource</td>
<td>4</td>
<td>7%</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>6</td>
<td>10%</td>
</tr>
<tr>
<td>Information Systems</td>
<td>14</td>
<td>23%</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
**Figure 4.5 Detailed Field of specialization**

**4.2.5 Work Experience**

This section highlights the years of experience of the population, from the findings as presented in the Figure 4.6 shows a majority of the sample (52%) are within the 1-5 years of experience, (28%) between 6-10 Years, (7%) between 11-15 years and below 1 year respectively and lastly (6%) above 15 Years.

**Figure 4.6 Work Experience**
4.2.6 Source of Income

This section highlights the source of Income of the sample population, from the findings as presented in the Figure 4.7 shows a majority of the sample (69.77%) are currently employed, (17.44%) are self-employed, with (12.79%) opting not to divulge their source of income.

Figure 4.7 Source of Income

4.2.7 Income Range

Figure 4.8 shows the salary scale of the respondents. From the results, majority (50%) of the respondents reported a monthly salary of above KES 70,000, (14%) reported between KES 60,001 - 70,000, (9%) reported a salary of KES 50,001 - 60,000, (2%) reported between KES 40,001 - 50,000, (9%) reported between KES 30,001 - 40,000, (5%) reported between KES 20,001 - 30,000, while (10%) reported below KES 20,000.
4.3 Financial Literacy
The first objective of the study is to understand the financial literacy level of the respondents. According to research done by Moore (2003) and Huston (2010) an individual is considered financially literate if they apply the knowledge which is acquired through practical experience.

4.3.1 Financial Literacy levels among respondents
Figure 4.9 below shows that (54%) of the respondents would categorize their financial knowledge as average, (29%) have high financial knowledge, (8%) have little financial knowledge and (7%) and (2%) have very high and no financial knowledge respectively. This analysis shows that as much as millennials have access to financial information, they still lack the confidence and knowledge to make informed financial decisions.

4.3.2 Financial Goal setting
Figure 4.10 below shows that (59%) of the respondents do set financial goals, (34%) of the respondents sometimes set financial goals and (7%) do not set any financial goals.
4.4 Perceived and Demonstrated Financial Literacy

The respondents were asked various finance related questions based upon a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree. The questions were structured around record keeping, insurance, savings, time value of money or inflation, investing and debt management.

4.4.1 Descriptive variables of Financial Literacy

The findings established that the sample understood the important of maintaining adequate financial records (4.45). There was uncertainty on whether borrowing money to invest at a return higher than the interest charged is a justified debt (3.55), if diversification is an important investing strategy (3.78), KES 100 today is more valuable than KES 100 tomorrow (3.76). Many of the respondents do disagree with the fact that they live for today and let tomorrow take care of itself (1.65) and money is there to spent (2.84).

The findings from the survey are presented in table 4.4 below.
Table 4. 3 Descriptive variables of financial literacy.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining adequate financial records is an important practice</td>
<td>86</td>
<td>4.45</td>
<td>0.16</td>
</tr>
<tr>
<td>I tend to live for today and let tomorrow take care of itself</td>
<td>86</td>
<td>1.65</td>
<td>0.11</td>
</tr>
<tr>
<td>Money is there to be spent</td>
<td>86</td>
<td>2.84</td>
<td>0.17</td>
</tr>
<tr>
<td>Borrowing money to invest with higher returns than the interest charged is a justified debt.</td>
<td>86</td>
<td>3.55</td>
<td>0.21</td>
</tr>
<tr>
<td>KES 100 today is more valuable than KES 100 tomorrow.</td>
<td>86</td>
<td>3.76</td>
<td>0.19</td>
</tr>
<tr>
<td>Investing in several businesses or stock is an important investing strategy</td>
<td>86</td>
<td>3.78</td>
<td>0.19</td>
</tr>
<tr>
<td>Credit card debt should always be paid down in full.</td>
<td>86</td>
<td>3.82</td>
<td>0.19</td>
</tr>
</tbody>
</table>

4.5 Management of Personal Finances

4.5.1 Personal Budgeting as a good financial management habit

This section analysis budgeting as a tool for managing personal finances, the respondents were asked if they currently maintain a budget and from the figure in Figure 4.11 below (69%) have a budget, (9%) do not maintain a budget, (22%) sometimes budget.

![Budgeting Figure](image-url)
4.5.1.1 Recurrent costs monitoring without budget

There is also the school of thought that if someone can be able to estimate their recurrent costs that can also be taken as having a budget. Based on that assumption, (71%) know precisely their recurrent expenditure while (29%) do not know their actual spent. This is however not the best method to track expenses as future costs like vehicle maintenance, insurance costs are not factored in as they are non-recurrent yet they do impact the overall budget.

![Graph showing percentage of respondents who do not maintain a budget but know the recurrent costs](image)

**Figure 4. 12 Respondents who do not maintain a budget but know the recurrent costs**

4.5.2 Time spent reviewing and managing personal budgets per month

This section analyses the time spent to review and manage an individual’s budget, based on the analysis the respondents who spend between 1-2 hours form (62%) of the respondents, 3-4 hours (26%), 5-10 hours (10%), and (3%) spend more than 10 hours.
4.5.3 Personal Debt Management

This section sought to understand if the sample of respondents have debt, in the Figure 4.14 below (58%) have debt while (42%) are debt free.

Figure 4. 14 Personal Debt levels

The question went further to analysis which type of debt the respondents have, figure 4.15 highlights the majority (54%) have personal loans, while (17%) have a mortgage, (10%) have credit card debt, (6%) have a Sacco Loan, (4%) have a “chama” loan and Asset finance loan, (2%) have Business Loan, and salary advance respectively.
4.6 Financial Planning Strategies

4.6.1 Personal Emergency Savings Fund

Figure 4.16 highlights the saving pattern, respondents who have savings that can meet their recurrent lifestyle in the event of unexpected loss of income account for (66%) of those surveyed while (34%) will not be able to make ends meet.
4.6.2 Proportion of income saved

This section highlights the proportion of income saved, from the findings as presented in the Figure 4.17 shows a majority (34%) save between 0-10% per month, (32%) save between 10-20% per month, (13%) save between 20-30% per month and 30-40% respectively and (8%) save above 40% of their income per month.

![Figure 4.17 Proportion of income saved](image)

4.6.3 Life Span of Savings

The researcher went further to investigate how long the savings will be able to sustain the current lifestyle in the event of unexpected loss of income. Figure 4.18 highlights that (37%) have savings that can sustain them for 0-3 months, (29%) have 4-6 months’ worth of savings, (15%) have 6-12 months’ worth and (19%) have over 12 months’ worth of savings.
Figure 4. 18 Life Span of Savings

4.6.4 Retirement Planning

Figure 4.19 highlights that (55%) contribute towards a pension scheme while (45%) do not have or have not started contributing to a pension plan that will be able to sustain them during old age.

Figure 4. 19 Retirement planning
4.6.5 Investing as a financial planning strategy

Figure 4.20 highlights that most of the respondents (37%) are fairly satisfied with their investments, (36%) are satisfied while (23%) and (4%) are not satisfied and very satisfied respectively.

**Figure 4. 20 Satisfaction rating of personal investment**

4.6.6 Personal Insurance

Figure 4.21 highlights that most of the respondents (84%) have insurance while (16%) do not have any insurance.

**Figure 4. 21 Percentage of Insured Respondents**
The analysis further sought to understand the specific type of insurance held by the respondents, based on those findings (55%) have medical insurance, (31%) have life insurance, (5%) have an education policy for their children and (7%) have home insurance, (3%) have a Personal Accident Cover and (1%) have a funeral expense cover.

![Insurance Policy Types](image)

**Figure 4. 22 Types of Insurance policies**

### 4.7 Inferential Statistics

#### 4.7.1 Pearson Correlation

This is a statistical tool which measures the strength and linear relationships between pairs of continuous variables. Pearson correlation analysis was undertaken to determine the correlation between financial literacy and management of personal finances. The variables used were Goal setting, budgeting saving as good practices of personal financial management.

#### 4.7.1.1 Financial Literacy and Goal setting

From the data analyzed it was noted that there is a correlation between having financial knowledge and financial goal setting (p value>0.643)
Table 4.4 Correlation analysis between Financial Literacy and Goal setting

<table>
<thead>
<tr>
<th></th>
<th>Financial Knowledge</th>
<th>Goal Setting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Knowledge</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>86</td>
</tr>
<tr>
<td>Goal Setting</td>
<td>Pearson Correlation</td>
<td>.643**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>86</td>
</tr>
</tbody>
</table>

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

4.7.1.2 Financial Literacy and Budgeting and Savings

There is a positive correlation between good management practices like budgeting and saving.

Table 4.5 Correlation analysis between Financial literacy and Budgeting and savings

<table>
<thead>
<tr>
<th></th>
<th>Financial Knowledge</th>
<th>Budgeting</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Knowledge</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.723**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>86</td>
<td>86</td>
</tr>
<tr>
<td>Budgeting</td>
<td>Pearson Correlation</td>
<td>.723**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>86</td>
<td>86</td>
</tr>
<tr>
<td>Savings</td>
<td>Pearson Correlation</td>
<td>.648**</td>
<td>.894**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>86</td>
<td>86</td>
</tr>
</tbody>
</table>

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

4.7.2 Multiple Regression

This is a statistical tool used to predict the value of a variable based on the value of two or more other variables.

Multiple regression analysis was conducted to test the effect of financial literacy on Investments, pension saving and Insurance with the main aim to show the relationship between the study variables.

As indicated in table 4.7 below a regression analysis was done between financial literacy and investing, pension and insurance planning as tools for planning future security of
millennials. R square of 0.507 indicates that 50.7% of the variations in investing, pension and insurance planning are as a result of variations in Financial literacy.

**Table 4. 6 Goodness of Fit**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.724</td>
<td>0.524</td>
<td>0.507</td>
<td>0.9883</td>
</tr>
</tbody>
</table>

b Predictors: (Constant), Investing, Pension, Insurance

**Table 4. 7 Anova Analysis**

A multiple regression was run to predict Financial literacy from investing, insurance and pension planning. These variables statistically significantly predicted financial planning, F(3, 82) = 30.115, p < .0005, R² = .524. All three variables added statistically significantly to the prediction, p < .05.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>88.245</td>
<td>3</td>
<td>29.415</td>
<td>30.115</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>80.093</td>
<td>82</td>
<td>0.977</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>168.337</td>
<td>85</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Dependent Variable: Financial Knowledge
b Predictors: (Constant), Investing, Pension, Insurance

**Table 4. 8 Coefficients Analysis**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Lower Bound</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>3.935</td>
<td>0.112</td>
<td></td>
<td></td>
<td>34.987</td>
</tr>
<tr>
<td>Investing</td>
<td>0.033</td>
<td>0.01</td>
<td>0.789</td>
<td>3.298</td>
<td>0.001</td>
</tr>
<tr>
<td>Pension Planning</td>
<td>0.003</td>
<td>0.011</td>
<td>0.068</td>
<td>0.297</td>
<td>0.767</td>
</tr>
<tr>
<td>Insurance</td>
<td>-0.006</td>
<td>0.014</td>
<td>-0.133</td>
<td>-0.413</td>
<td>0.681</td>
</tr>
</tbody>
</table>

a Dependent Variable: Financial Knowledge

As indicated in table 4.9 above, the research intended to establish the relationship between financial literacy, investing, Pension Planning and Insurance Planning where the equation
The regression analysis above shows that with all other variables held at zero, a unit change in investing, pension contribution or insurance contribution is as a result of financial literacy.

### 4.8 Chapter Summary

The chapter presented the findings from the data analysis done and presented in four sections, with the first section outlining the demography of the respondents and the objectives of the study being broken down in the remaining three sections of this chapter. Chapter five will summaries the study by highlighting the discussions that support or oppose the study findings, recommendations of the study will be addressed and finally a conclusion will be offered for the study.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction
This chapter summaries the study highlighting the major elements that guided the study; purpose of the study, the research objectives, the methodology used and the findings. The discussion section highlights the interpretation of the research findings done in comparison with the findings achieved in previous studies related to this study as outlined in the literature review in chapter two.
Conclusions and recommendations and further research suggestions.

5.2 Summary of the Study
This general objective of this study was to investigate the relationship between financial literacy and the management of personal finances among the millennials. The research objectives were further broken down; to establish the level of literacy among the millennials and to determine its importance in managing personal resources, and finally to explore the strategies employed by millennials to ensure future security.

A descriptive quantitative research design was adopted for this study. This design approach was preferred for this study as it sought to answer the questions, who, how, what, with which, when and how much (Cooper and Schindler, 2003).
By using the descriptive design approach, the study provided a picture of the situation as it naturally happened (Burns and Grove, 2003), it will be able to draw a relationship between variables in this case between financial literacy and management of personal finances.

The dependent variables financial literacy while the independent variables being good money management practices i.e. Budgeting, saving, debt management while Investing, Retirement planning, insurance and the strategies analyzed to determine the millennials for financial security. To obtain the most appropriate sample size, this study used two approaches: the stratified simple and within the strata, random sampling was employed. The population of the study was 1333, with target sample size of 100 respondents within the graduate population being computed using the Slovin formula.
The response rate was 86% with primary data being the base in which data was collected. The data collection instrument was a structured questionnaire with open and closed ended questions.

SPSS and Microsoft Excel were the instruments used in analysis and presentation of the data.

Pearson correlation analysis was used to investigate the relationship between the independent and dependent variables. The study also had a higher female response rate of 59% versus 41% for the male population.

An analysis of the first objective revealed, the level of financial literacy among the sample population can be considered as average, despite the information available. This is evidenced by the direct financial knowledge question in which 54% rated their knowledge as average. The study also established that financial literacy questions in relation to investment diversification, inflation, type of good debt all scored an average score confirming the hypothesis that the level of financial literacy is lower than it should be given the level of information at our disposal.

An analysis of the second objective revealed, there is a correlation between financial literacy and good management practices. Using the Pearson correlation to analyze the relationship between financial literacy and good money management practices i.e. Budgeting, Saving, Investing, Retirement planning and Income protection via insurance policies, it was discovered that there is a positive correlation between financial literacy and good money management.

The third analysis revealed that this group of sample group of millennials have investments, however a majority 73% scoring just around the satisfied range, the exact numbers being 37% being satisfied with their investments and 36% being fairly satisfied with their investments. It is believed with more financial literacy courses being offered to this segment better understanding of investments will give millennials more confidence to purchase more investments. 55% of the respondents have a pension plan which is encouraging given that saving for retirement is an important undertaking.
5.3 Discussion
This section will analyze the findings in relation to the research objectives.

5.3.1 Level of Financial Literacy among Millennials
The findings of the study revealed that the respondents had an average level of understanding of financial literacy despite their education background, this affirms (Mottola, 2014) which supports that millennials need more financial literacy education to be able to navigate this ever-changing financial world.

The findings also support the study done by Greenspan (2002) in which he advocates for financial literacy as an important tool that is necessary for individuals to make sound financial decisions.

According to research done by Moore (2003) and Huston (2010) an individual is considered financially literate if they apply the knowledge which is acquired through practical experience. Based on the findings, the respondents were uncertain on whether borrowing money to invest at a return higher than the interest charged is a justified debt, if investment diversification is an important investing strategy and in regards time value of money whether KES 100 today is more valuable than KES 100 tomorrow. This supports the study done by Mottola, 2014. The study also sought to understand the financial knowledge levels among millennials, the respondents were asked questions that covered fundamental concepts of economics and finance encountered in everyday life, these questions involved the calculations of interest rates and inflation, principles surrounding risk diversification. Based on the results only 24% managed to answer four or five questions in those areas which supports the theory that millennials need more financial literacy courses.

The findings of the study revealed that 59% of the respondents do set financial goals, which support the theories put across by Brunel, (2003), Nevins (2004), and Chhabra (2005). Das, Markowitz, Scheid, and Statman (2010), the respondents recognize the importance of financial goal setting which is a key feature of financial literacy. However, given their responses on their financial literacy levels and the level of satisfaction of their investments which was average and not satisfied respectively this brings to question
whether they do set a comprehensive plan with timelines to achieve those goals and what kind of goals do they set for themselves.

Being financially literate empowers individuals with adequate knowledge and skills to make decisive financial decisions therefore individuals have more control of their finances. On the other hand, lack of exposure to financial literacy tools has a contributing effect to poor personal financial choices that could eventually have a negative effect on an individual financial status (Brau, Holmes, & Israelsen, 2015).

There is a correlation between an individual’s risk tolerance levels and participation in the stock market (Van Rooij, Lusadi, & Alessie, 2011). This could explain the low satisfaction rating of the respondents on the current investments they hold. Research has found that knowledge on financial products has an effect on the risk aversion levels and this therefore has an effect on their financial decision-making capabilities.

Finance topics should be widely discussed, currently it is considered to be a taboo topic, an open discussion will ensure the populace is adequately equipped with knowledge that can grow an individual and subsequently the economy as a whole.

5.3.2 Relationship between financial literacy and good money management practices.

The study brought to the fore key features or skills associated with financial literacy, they include formulation of personal financial goals, creation of budgets, saving as a tool to ensure future financial stability.

The results revealed a significant relationship between financial literacy and household budgeting, saving and debt management. In the findings, a large percentage of the respondents do have a budget plan and set aside time albeit little hours to review their budgets and make the necessary adjustments. Budgeting assists individuals to plan their finances which reduces bad financial decisions and controls the individuals spending habits. However, it is one thing to have a budget and another to stick to it, budgeting ensures individuals live within their means. It is a balanced approach to financial planning, as you are able to apportion your savings, create an emergency fund buffer, save for retirement and investing all while meeting your regular monthly costs. (Ortalda, 1990)
Discipline is a major factor that determines the savings levels of an individual, based on the findings the respondents do have savings that can cushion them in the event of an emergency for about 3 months this is very encouraging. These findings dispel the notion that millennials tend to spend their money as soon as they get it on consumables leaving little to nothing on savings, as proposed by Der Hovanesian, (1999).

Based on the study by Wachira and Kihui (2012) states that exposure of individuals to financial literacy tools creates a better understanding of the options available and they are therefore able to save more. The finding also further revealed that the respondents who have saving skills are more likely to save frequently and a higher percentage of their income.

Debt levels are very high at 58%, this supports the research done by Ubris et al (2008), he found the credit mentality of own now pay later was spreading among the young people. As part of creating financial literacy, individuals should be encouraged to pay more than the minimum amount to ensure they pay off the loan as fast as possible so as to focus on savings and investing.

Personal or consumer debt is considered to be a major cause of financial distress among many individuals worldwide. The level of debt is expected to increase due to the ease in accessing debt, this could have an overall impact on the economy and households. (Singh et al., 2005; Barro, 1979).

Research by Mandell, (1997) is supported by the low satisfaction levels of the respondents, students entering the workforce are not receiving education on the various financial instruments and this is the reason behind the slow uptake of investments. Investing knowledge is important for an individual to be able to make optimal decisions. Another factor that influences investment decisions is the attitude and the risk appetite of an individual. There is a positive relation between an individual’s attitude and making an investment decision, the better the attitude and this is brought on by understanding the product the higher the chances of that particular investment being purchased. (Schmidt, 2010)
Understanding the power of compounding, will increase the investment allocation by investors. Assets not only store wealth but also create income. Investments in real estate e.g. an apartment or house retains wealth as the value appreciates with time while also creating rental income. Stocks and bonds also retain wealth while creating dividend and interest income respectively. The satisfaction rating of investments held will improve by exposing individuals to financial literacy courses, this therefore supports the research on financial literacy which states that it is important as it brings to the fore the main aim of investing, which is to improve an individual’s welfare (Jones 2010).

5.3.3 Financial planning strategies employed by millennials to ensure future security

Given the findings of the study, 55% the respondents have a pension plan which will support them during retirement, this is rather encouraging as it dispels the notion by (Odundo, 2003), that saving for retirement culture is largely absent in African countries due to the traditional systems of old age support by children. The millennials are taking control of their financial future and putting in place measures to ensure financial security.

Life expectancy has improved globally and Kenya is no exception, this could also be the reason there is a higher tendency to save for retirement especially among the Millennials. People are now living longer in retirement. Further as retirement benefits continue to diminish medical costs continue to escalate with age. Higher inflation further erodes the little retirement savings. The other problem is that Kenyans retire with only 20% of their total income before retirement which is very little to support one in retirement especially now that we have a changing social culture where parents can no longer rely on their children to support them in old age. Old age saving is classified as a priority as evidenced by the findings, which supports the research done by Gichuki (2008) The service providers on the other hand should employ prudent management of pension fund to guarantee old age saving of the contributors.

Millennials are also participants in investments groups, which also offer an avenue for financial planning as the investments purchased e.g. Land, stocks have a long-term horizon. Increasing the financial knowledge of the millennials on the other hand would
increase their confidence in investing and thereby increase their overall investment portfolio which would sustain them during retirement.

The study also revealed a majority of the respondents had some sort of insurance with medical insurance being the most common insurance taken by this group. Greater understanding of the importance of medical insurance as proposed by Cohen and Young (2007) maybe the driving force for more millennials to purchase medical insurance. The respondents may also have come to appreciate that having an insurance policy reduces the financial risk and protects income if you take out a life, health or disability cover and it also protects assets when one takes a property, home, and liability insurance cover. (Gitman, Joehnk, and Bilingsley 2007).

There is a strong relationship between insurance and its effects on the economic development of a country. This is particularly so for life insurance policies as it mobilizes resources for long term investment which is critical in sub Saharan Africa where capital for long term investments is constrained. Life insurance policy uptake among the respondents is low at 30% of the respondents which supports the research done by Price Waterhouse Coopers (2014) which states the life Insurance penetration is currently the lowest in Kenya in comparison to South Africa and Namibia.

5.4Conclusions

5.4.1Level of Financial Literacy among Millennials

The financial world has become so complex today when compared to the generation before where a simple knowledge of how to maintain a current and savings account at local banks and financial institutions was more than enough. But now, consumers need to differentiate between a wide range of financial products and services available in the modern financial market (Greenspan, 2005)

Governments on the other hand are pushing for more financial inclusion, it is therefore important for the millennials to equip themselves with the necessary financial skills to
avoid debt levels that could render them bankrupt and look for avenues to invest their monies and save more for retirement and emergencies.

5.4.2 Relationship between financial literacy and good money management practices.
Financial literacy is an important tool to have for millennials as the financial challenges they face are far more complex than the previous generations. Financial ignorance or illiteracy carries with it a high cost implication. e.g. Failing to understand the concept of compound interest will lead to payments of debts for longer at a higher cost in terms of interest payments.
Inflation is another concept that needs to be understood, with incomes not rising as fast at the inflation rate, it is important for the millennials to be able to generate more income by investing to maintain their standard of living. Risk is also another concept that needs to be understood as it is believed individuals with knowledge on investments and understanding their risk appetite are at a better position to diversify the risk.

5.4.3 Financial planning strategies employed by millennials to ensure future security.
Millennials should engage financial advisors or planners to act as guides in this financial journey. The main role of the planners would be to structure their financial plan and offer investing advice, retirement planning advice, wealth preservation advice based on what options are available in the market.
A financially literate world especially in a developing world like Kenya enhances the individual’s welfare and that of the economy. Financial literacy will enhance sound financial behavior like having self-control which will prevent impulse spending and unnecessary borrowing. The saving culture will be enhanced thereby giving rise to more developmental projects that has an overall uplifting effect to the communities and less strain on governments to constantly borrow to develop countries.
5.5 Recommendations

5.5.1 Recommendations for improvements

5.5.1.1 Level of Financial Literacy among Millennials

Policy makers in the education industry should design and implement programs to provide financial literacy as a course within the curriculum to ensure the youth are engaged with the right tools when they are eventually released in the work environment. These programs should be in formats like simulations and games so the learners have firsthand experience. Based on this knowledge and exposure they will be better equipped to navigate the financial world with a lot more confidence.

Millennials should also strive to read more on financial related topics to broaden their understanding on matters money.

5.5.1.2 Relationship between financial literacy and good money management practices.

Millennials should strive to save up for emergencies using the recommended 6 months period as the benchmark to ensure they are able to handle any unexpected expense. With the current economy and the increased use of technology corporates are fighting to maintain their market share and remaining profitable is one of their goals, it is due to that that cost cutting measures have been taken and unfortunately the labor market is hard hit with downsizing being one of the avenues to control costs.

It is therefore very important for millennials to live within their means and save as much as they can to avoid future shocks like retrenchment. They should also be actively involved in what is happening in the financial market in order to make the necessary adjustments in their plans to ensure overall financial goal attainment.

5.5.1.3 Financial planning strategies employed by millennials to ensure future security.

Corporates in the investment, insurance and Pension related industries should engage business to offer training programs that millennials can attend to increase their financial knowledge to avoid falling into the financial distress trap.
Financial practitioners should tailor make products the supports the inclusion of millennials given their lower disposable income e.g. savings accounts that can be paired with an insurance policy etc.

Financially secure employees tend to make the best employees in any workplace as they tend to focus on their tasks and not think about their personal financial issues.

5.5.2 Recommendations for further research

The study focused on the importance of financial literacy on the management of personal finances among the millennials. There is a need to carry out research on the importance of financial literacy and the current level of financial literacy on individuals in the informal employment to examine given the same variables what would be the major issues they face and the impact financial literacy can have on their management of personal finances and their future financial security.
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APPENDIX

Appendix I: INTRODUCTION LETTER

Elizabeth Karina
c/o United States International University
Nairobi,
Kenya.

Dear Respondent,

RE: MASTERS PROJECT INFORMATIONREQUEST

I am a graduate student carrying out research on the importance of financial literacy on the management of personal finances among Millennials: Case of USIU-Africa.

This is in partial fulfillment of the requirement for the Degree of Masters in Business Administration (MBA)

This is purely an academic research and the result will not be used for any other purpose. Confidentiality is strictly emphasized hence my appeal for you to kindly spare a short moment to complete the below questionnaire.

Thank you in advance,

Yours sincerely,

Elizabeth Karina.
620534
Masters Student

Supervisor Name
Mr. KephaOyaro

Supervisor Signature
________________________
Appendix 2: QUESTIONNAIRE

Kindly fill in the questionnaire as precisely as possible by either ticking in the boxes where appropriate or filling in, in writing in the spaces provided. Your input is highly appreciated.

Disclaimer: Information provided will be handled with discretion and confidentiality

Part A: General Information

1. What is your Gender?
   □ Male
   □ Female
   □ Other

2. What is your marital Status?
   □ Single
   □ Married
   □ Other

3. What age bracket do you fall in?
   □ 18-22 years
   □ 23-27 years
   □ 28-32 years
   □ 32-35 years
   □ 35-40 years

4. What is your Monthly income in (KES)?
   □ Below 20,000
   □ 20,000-30,000
   □ 30,001-40,000
   □ 40,001-50,000
   □ 50,001-60,000
   □ 60,001-70,000
   □ Above 70,000

5. What is your source of income?
   □ Self-Employment
   □ Employment
   □ Other
6. What is your field of specialization?
   □ Financial
   □ Non- Financial

   If Non-Financial, kindly indicate your field of specialization

__________________________________________________________________________

__________________________________________________________________________

7. How many years of work experience do you have?
   □ Below 1 Year.
   □ 1-5 Years.
   □ 6-10 Years.
   □ 11-15 Years.
   □ Above 15 Years.

Part B: Financial Literacy

1. Rate the extent to which you consider your financial knowledge:
   □ No financial knowledge
   □ Little financial knowledge
   □ Average financial knowledge
   □ High financial knowledge
   □ Very high financial knowledge

2. Do you set financial goals?
   □ Yes
   □ No
   □ Sometimes

   If Yes, what steps did you take to achieve your goals

__________________________________________________________________________

__________________________________________________________________________

__________________________________________________________________________
3. How would you rate the following statements on a scale of 1- 5 with 1 being Strongly Disagree and 5 being Strongly Agree, kindly tick in the appropriate box.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Not Sure</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining adequate financial records is an important practice</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I tend to live for today and let tomorrow take care of itself</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money is there to be spent</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Borrowing money to invest with higher returns than the interest charged is a justified debt</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kshs 100 today is more valuable than Kshs100 tomorrow.</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investing in several businesses or stock is an important investing strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit card debt should always be paid down in full.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Part C: Management of Personal Finances

1. Do you maintain a household budget?
   - [ ] Yes
   - [ ] No
   - [ ] Sometimes

2. How many hours per month do you spend reviewing your budget against past performance and planning your finances
   - [ ] 1-2 Hours per month
   - [ ] 3-4 Hours per month
   - [ ] 5-10 Hours per month
   - [ ] More than 10 Hours per month

If No,
Do you know precisely your monthly spend on recurrent expenditure?
   - [ ] Yes
   - [ ] No
3. Do you have any debt?
   □ Yes
   □ No
If yes,
   Kindly indicate the type of debt
   □ Credit Card
   □ Mortgage
   □ Personal Bank Loan
   □ Other

Part C: Financial Planning Strategies

1. Do you have savings that could sustain your recurrent expenditures in the event of unexpected loss of employment income?
   □ Yes
   □ No
If yes,
   For how long can your savings sustain your current lifestyle in the event of unexpected income loss?
   □ 0-3 months
   □ 4-6 months
   □ 7-12 months
   □ Over 1 year
If No,
   How do you plan to handle this eventuality?
   …………………………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………

2. What proportion of your income do you save?
   □ 0 –10%
   □ 10–20%
   □ 20-30%
   □ 30-40%
☐ Above 40%

3. Do you have a Pension Plan?
   ☐ Yes
   ☐ No

4. Do you have any Investments?
   ☐ Yes
   ☐ No

5. How satisfied are you with your Current Investments?
   ☐ Very satisfied
   ☐ Satisfied
   ☐ Fairly satisfied
   ☐ Not satisfied

6. Do you have Insurance?
   ☐ Yes
   ☐ No

   If Yes kindly indicate the types of insurance you currently have
   ☐ Medical Insurance
   ☐ Home Insurance
   ☐ Life Insurance
   ☐ Other

THANK YOU FOR TAKING YOUR TIME TO ANSWER THESE QUESTIONS