Personal Finance Practices of TSU Faculty and Personnel

Review of Integrative Business & Economics Research

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ABSTRACT

The study described the personal finance practices of the faculty and personnel of Tarlac State University (TSU). The respondents are not aware of the importance of savings. Savings for them is not a priority. They do not have short or long term plans to save for the future. So they are not determined and cautious to save a definite amount or percentage of their earnings. The respondents did not have adequate savings set aside for rainy days. They rely too much on the financial assistance programs provided by the financial service providers. Their savings/investment vehicle is to save with formal financial institutions like commercial banks, micro-finance institutions and savings and loan associations. Time deposits, jewelries and real estate are the other forms of investment majority of the respondents' have. Other respondents placed their savings in unit investment trust fund, treasury bills/bonds, corporate stocks /bonds and mutual funds. The findings revealed that they failed to consider sound financial planning for expenses are being paid as they come. Majority of the respondents have tied/collateralized their future income with their outstanding loans. The spending practices of the respondents lead them into always being short of cash. The policy makers of the financial service providers may consider the findings of the study to further understand the life style, goals, needs, expectations and disasters of their clientele emanating from their savings/investing, spending and borrowing practices.

Keywords: Savings, investing, spending, borrowing practices.

1. INTRODUCTION

Personal finance is the financial management which an individual or a family unit performs to budget, save, and spend monetary resources over time, taking into account various financial risks and future life events.

When planning personal finances, the individual would consider the suitability to his or her needs of a range of banking products (checking, savings accounts, credit cards and consumer loans) or investment (stock market, bonds, mutual funds) and insurance (life insurance, health insurance, disability insurance) products or participation and monitoring of individual- or employer-sponsored retirement plans, social security benefits, and income tax management. (https://en.wikipedia.org/wiki/Personal_finance)

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Its objective is financial security and independence so that an individual or a family can meet expected expenses and withstand monetary emergencies. It involves making prudent financial decisions, budgeting, saving, investing, insurance, tax planning, retirement and estate planning. (http://www.investopedia.com/terms/p/personalfinance.asp)

The most important basis of all personal finance goals is a budget written on a paper. All monthly expenses and other expenditures should be listed down indicating the amount that each item will cost. Then stick to what have budgeted. (http://goldenkeyjewelry.com)

Saving is income not spent, or deferred consumption. Methods of saving include putting money aside in, for example, a deposit account, a pension account, an investment fund, or as cash. It also involves reducing expenditures, such as recurring costs. In terms of personal finance, saving generally specifies low-risk preservation of money, as in a deposit account, versus investment, wherein risk is higher; in economics more broadly, it refers to any income not used for immediate consumption. (https://en.wikipedia.org/wiki/Saving)

Promoting financial literacy and providing access to bank accounts have become popular approaches to help the poor save. Increased savings may help individuals meet day-to-day financial demands and invest in their futures.

The Foundation for International Community Assistance (FINCA) and the Church of Uganda together with other researchers (2011) conducted a study determining whether offering financial education or group savings accounts to church-based youth groups would increase savings. They found that total savings and income increased among youth offered financial education, group savings accounts, or both education and group savings accounts.

"Entrepreneurial Saving Practices and Business Investment" of Thorsten Beck, Haki Pamuk, Burak R. Uras of Tilburg University found out that the practice of saving in a deposit account of a formal financial institution is more likely to foster reinvestment compared to the practice of keeping savings within the household. The study also revealed that the negative impact of saving within household on investment is more pronounced for life-style entrepreneurs; and also for family members with inherently low intra-household bargaining power - such as females and non-head household members.

Investing is putting valuable resources into something that is expected to give a personal or financial gain. Choosing good investments is a necessary condition for successful investing. But it's also important to engage in good behavior once those investments have been selected.

A lot of people immediately invest without having enough funds to cover unexpected expenses such as medical emergencies. This often leads them to prematurely liquidating their investments, or worse, going into debt.

The most recent issue of AQR Capital Management's quarterly newsletter provided a great insight about the bad behaviors investors tend to engage in, as well as positive practices that can be used to address and correct bad habits and biases.

The behavioral biases are performance chasing, under diversification and seeking comfort.

Performance Chasing is one of the strongest behavioral biases where investors extrapolate from the recent past to anticipate future performance. So investors tend to

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buy the last three-to-five years' worth of winners and sell multi-year laggards -- whether it is asset classes, strategy styles, single stocks or funds.

The 2014 study "Asset Allocation and Bad Habits," by Andrew Ang, Amit Goyal and Antti Ilmanen found that a positive return in one asset class (domestic or international stocks or bonds) results in an increase in target policy weights of that asset class. And not just in the same and subsequent year, but for several years.

Despite the well-known and obvious benefits of diversification, many investors tend to concentrate their portfolios. This mistake is often caused by confusing the familiar with the safe. Confusing the familiar with the safe can entice investors to concentrate risk.

A second and related mistake is overweighting the stock of the company where the investor is employed. The investor is exposed to both investment and employment risks.

Investors often favor popular assets. Favoring popular assets can cause investors to concentrate their holdings in the more glamorous growth stocks, rather than the higher returning and unglamorous value stocks.

Seeking comfort also leads investors to overpay for products that provide downside protection, such as variable annuities with guaranteed minimum payments, against what are referred to as left-tail risks.

AQR also highlights three good practices that investors should adopt in their pursuit of financial success: invest strategically, diversify risks aggressively and accept discomfort if it is paid.

Investors should choose the strategy and asset allocation they believe in and stick to it, avoiding tactical asset allocation or market timing strategies. Strategic investing also requires rebalancing, which leads to the opposite of the destructive performance-chasing behavior in which most investors engage.

In a world where there are no clear crystal balls, broad global diversification is the prudent strategy. Diversification should be applied across asset classes, to equity factors beyond overall equity market risk -- factors such as size, value, momentum, and profitability -- and to strategies, such as the carry trade.

Where there's strong, persistent and pervasive evidence of a premium for a certain strategy, or factor, be willing to take risk. But do so only to the point where it does not exceed your ability, willingness or need. The ability to hold uncomfortable assets (such as value stocks) during difficult periods is often what distinguishes successful investors from the unsuccessful ones. (AQR Capital Management's quarterly newsletter)

Spending pertains to good and services bought by households in the satisfaction of their needs and wants. It includes non-durables such as food, semi-durables such as clothing, and durables such as refrigerators.

Spend data is vital in budgeting and planning. Access to timely, accurate, complete, and detailed spend data offers invaluable intelligence on spending patterns. Such insight is critical for identifying savings opportunities and developing sourcing, budgeting and planning.

Borrowing means receiving something of value in exchange for an obligation to pay back something of usually greater value at a particular time in the future.

The study entitled “Borrowing Practices of College Students and Parallel Debt Knowledge Management” of Chad Smith and Gustavo Barboza of Clarion University of Pennsylvania examines the effects of debt management practices that college students have while viewing their current borrowing practices. Empirical estimates

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indicate that academic status and age are both positively related to the amount of debt a student carries. In this regard females are more likely to hold debt compared to males. The students leverage themselves above their means, and more importantly even when they are not generating revenue. This high level of debt relative to their income implies that students live beyond their means and consequently developing unhealthy financial management practices.

Financial service providers and clients share the obligation of responsible provision and responsible use of financial products and services. Clients depend on providers to uphold their responsibility for client protection, and likewise, providers depend on clients to be informed users of financial services.(http://www.finra.org/investors/comparison-shop-financial-products#sthash. LC Sk7hKv.dpuf)

Providers have a responsibility to avoid over-indebting clients, offer transparent and responsibly priced products, use appropriate collections practices, behave ethically at every point of contact with clients, provide a way for clients to make complaints and have them resolved, and keep client data secure. Clients should know their product options, ask questions when they need clarification; provide the institution with accurate information about themselves and speak up about problems.

Financial freedom is a dream that everyone has; but it is a goal that many find hard and difficult to achieve. There are many reasons why it is a challenging journey for anyone; however, with proper financial education, self-discipline, and sound planning – one will be able to reach it within their lifetime.

The journey started by exploring the personal finance practices of Tarlac State University (TSU) faculty and personnel.

The findings of the study will serve as an eye opener to TSU faculty, personnel, students and administrators as well as to the financial service providers.

2. OBJECTIVES OF THE STUDY

The study aimed to describe the personal finance practices of TSU Faculty and Personnel.

It sought to answer the following questions:

1. What is the profile of the respondents in terms of:
    1.1 Length of Service;
    1.2 Employment Status;
    1.3 Age;
    1.4 Gender;
    1.5 Civil Status;
    1.6 Other Sources of Income;
    1.7 Monthly Income; and,
    1.8 Highest Educational Attainment?

2. How are the personal finance practices such as savings/investing, spending and borrowing of the respondents described?
3. What are the implications of the findings to the policy makers of the financial service providers?

3. SIGNIFICANCE OF THE STUDY

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The outcome of the study will serve as an enactment of TSU Faculty and Personnel's savings/investing, spending and borrowing practices that would make them realize that what is being done/practiced is opposite of what they think and know their finances should have managed.

Eventually they can identify their weaknesses and be determined to combat those bad habits and practices. Finally they would be leading their lives attaining financial freedom.

The members of their family, friends and relatives modeling their lives would also benefit from the findings of the study. Their outlook in life and lifestyle would change for understanding the importance of planning, budgeting and savings for the future.

Their students would also be inspired looking up to their success of attaining financial freedom.

4. METHODOLOGY

The descriptive survey method of research was utilized in the analysis and interpretations of the data gathered.

The questionnaire served as the main source of data. It was distributed and retrieved personally by the researchers. Interviews, observation and documentary analysis were conducted to supplement the data gathered.

There were 340 permanent TSU faculty members and personnel. Simple random sampling was employed in the selection of seventy five (75) faculty and personnel – respondents from each of the units and academic departments of the University.

The statistical techniques deemed appropriate for the study were percentage, weighted mean and ranking.

5. RESULTS AND DISCUSSION

The profile of the respondents was described in terms of length of service; employment status; age; gender; civil status; other sources of income; monthly income; and, highest educational attainment.

The findings indicate that the respondents of the study are well represented by newly hired to old timer faculty and personnel who are entitled to benefits and privileges given to a permanent employee of the University.

They belong to a female dominated middle aged group. People at this age group are expected to be more serious in creating personal financial plans and, consulting their partners and members of the family in making the plans operational.

The respondents of the study are all compensation income earners. Nowadays, employees are looking for other sources of income because of the increasing cost of living allowances. With a family of 5, income from compensation will not be enough to sustain the needs of the family members. That is why, the respondents of the study look for other venues to earn like accountants, engineers and architects who can earn income from practice of their profession.

On the other hand, a handful of them do not have income from other sources. It is an indication that they rely solely on the income they earn from the University as their bread and butter.

Majority of them were either taken masters / doctoral units or had started their post-graduate education.

In line with the faculty and personnel development program of the University, the respondents are required to finish their post-graduate education for promotion purposes.

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The personal finance practices of the respondents pertain to their savings/investing, spending and borrowing practices that are described as follows:

The statement “I save money when I can, but this does not happen” ranked first among the savings practices of the respondents; followed by the statements “I try to save a set amount on a regular basis.” and “I save when there is something specific that I want to buy later” ranked second and third, respectively. The statements reveal that the respondents are not aware of the importance of savings. Savings for them is not a priority. They do not have short or long term plans to save for the future. So they are not determined and cautious to save a definite amount or percentage of their earnings.

The statement “I have some savings set aside for rainy days – only for emergencies.” ranked first among the statements determining the amount of their accumulated savings. The statements that ranked second and third were “I have some savings set aside but not sure what I will do with it.” and “I have no savings at the moment.” respectively. The statements confirmed that the respondents did not have adequate savings set aside for rainy days. This is so because they rely too much on the financial assistance programs provided by the financial service providers. The respondents are all Government Service Insurance System (GSIS) policy holders. As well as majority of them are members of Tarlac State University Multi – Purpose Cooperative Inc. (TSUMPCI), PAG-IBIG, Social Security System (SSS), and the Investment Scholarship and Student Fund (ISSF). The respondents of the study are too confident that they can readily apply and avail the loan programs of the cited credit service providers especially in times of emergencies.

The savings/investment vehicle of the respondents is to save with formal financial institutions like commercial banks, micro-finance institution and savings and loan associations.

Since employees of the University received their salaries and other compensation through ATM, all respondents have savings account deposits. That is why ATM cards ranked first among the financial products/services being used by the respondents.

It is followed by the investment in the shares of TSUMPCI, termed as capital build up. Majority of the respondents are active members of the Cooperative. The initial membership contribution is P5,000, then every loan application/renewal 6% of the principal amount is deducted from the proceeds as capital build up. It is considered as force savings on the part of the member of the Cooperative. The member of the cooperative also receives share and patronage dividends at the end of the year.

Time deposits, jewelries and real estate are the other forms of investment majority of the respondents’ have. They earn a fixed interest rate in time deposits while value appreciation is their motive in investing in jewelries and real estate, though the liquidity is low.

Other respondents placed their savings in unit investment trust fund, treasury bills/bonds, corporate stocks / bonds and mutual funds.

All respondents have life insurance and pension plans provided by GSIS to member government employees. In addition, majority of them also secured additional health card being used for additional health benefits and annual physical checkup.

However, 36 of the respondents disclosed that they are also fond of keeping their savings in a safe place at home.

Although it is very convenient to place the money at home it is not safe from possible theft and other catastrophe. At the same time it will not earn any or at least a passive income.

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Regarding the respondents' spending practices, the statement "I closely watch my expenses but no written records." ranked first; followed by statement that ranked second "I watch my spending, but not too closely."; then the statements "I use written record to closely monitor my spending." and "I do not keep an eye on my spending, no idea how much / what I spent." ranked three point five.

The findings revealed that the respondents failed to consider sound financial planning for expenses are being paid as they come. They are too busy with their work and they did not find time to create their monthly budget. They are just plain happy that all their expenses are being paid on time, sometimes a little bit late or sometimes they even make use of vale, cash advances or express loans to pay the obligation.

Since the respondents are permanent employees enjoying a lucrative compensation, they are easily convince by a smart marketer to buy the product or service he is offering even if the said product/service is not listed among their priorities or the budget is not enough to pay the product/service.

However, the respondents are very keen in scrutinizing the product/service they are paying for. They are checking the quality, convenience, reasonably priced, terms of payment and possible discount that can be availed related to the purchase.

Meanwhile, the data revealed that a large number of respondents are credit cardholders. The credit cardholders are tempted to take advantage of the special promo during the sale period in the department store and at the same time beat the minimum purchase of Php5,000 to avail the deferred payment option.

This practice often leads to overspending. The credit cardholders feel happy buying an item half the original retail price payable in next three monthly installments after three months of purchase. However, the budget of the credit cardholders is just enough to pay the minimum amount/balance of the credit card on the due date.

The habit of paying just the minimum balance of the credit card creates a financial disaster on the part of the credit cardholders. Sometimes, credit cardholders consider the balance transfer and or call for cash facilities of the bank.

The practice of borrowing to meet regular expenses is another form of overspending. This is tantamount to credit based spending decisions.

Based on the data gathered, majority of the respondents made withdrawals from their savings account with ATM card for their daily expenditures. At the same time, the ATM card served as a debit card in some business enterprises, and also being used for credit card, utilities, and hospital bills.

Moreover, with regards to the respondents borrowing practices, the data revealed that respondents admitted that they were concerned about the amount of money/debt they had accumulated out of borrowings from the different sources. However, they are still confident that they will be able to pay all those obligations.

Thus, the respondents ranked GSIS, TSUMPCI, PAG-IBIG, and Investment Scholarship and Students Fund (ISSF) as their top four credit service providers, respectively.

Data revealed that a large number of respondents obtained loans from GSIS. This is so because of the loanable amount of as high as fourteen (14) month salary at an affordable nominal annual interest rate of six percent (6%). The said loan can be renewed after 6 months.

Furthermore, the respondents also considered the multi-purpose loan program of TSUMPCI where regular member can avail as high as twelve (12) month salary payable

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within the maximum term/period of ten (10) years at annual interest rate of sixteen percent (16%) based on diminishing balance.

Simultaneously availed by the respondents for short-term/immediate needs were: express loan of three thousand pesos (Php3,000) deductible from their next month salary; enrollment and emergency loan programs with maximum loanable amount of fifty thousand pesos (Php50,000) both deductible from the salary by a minimum amount of one thousand pesos (Php1,000) per month plus interest of one percent (1%) based on diminishing balance.

Other respondents obtained loan from banks, pawnshop, paluwagan, Social Security System (SSS), lending companies and personal loan from officemates, friends and relatives.

Eighty-seven percent (87%) of the respondents had outstanding loans while only thirteen percent (13%) of them did not have outstanding loans. This implies that majority of the respondents have tied/collateralized their future income with their outstanding loans.

Overconfidence, lack of planning and budgeting, and easy access to credit embedded the respondents in high debt accumulation.

The implications of the findings of the study can be seized from the meditations of financial service providers on the following questions:

Are the financial service providers happy with the described savings/investment, spending and borrowing practices of the respondents?

Have they done their roles, duties and responsibilities as responsible financial service providers?

Majority of the respondents of the study are members of the Tarlac State University Multi-Purpose Cooperative Inc. (TSUMPCI). Its vision states that TSUMPCI is a model cooperative in the excellent delivery of services to uplift the socio-economic conditions of the members in particular and the community in general.

The TSU President congratulated TSUMPCI for being vibrant, viable and strong in providing services to members, students and the University as well. She also reiterated that the Cooperative remains to be dependable and amiable ally in facilitating and catering to the utilitarian needs of its members. (TSUMPCI 28th General Assembly Program/Handbook March 2016)

Moreover, the Chairman of the Board of TSUMPCI reported that the Cooperative hit the P8M target Net Income for 2015 where 62% generated from lending activities. P6M was distributed to members as dividends on share capital and patronage refund.

6. CONCLUSION

With the preceding findings noted by the researchers the following conclusions were drawn:

Majority of the respondents are permanent; on middle-aged group; female and married. Aside from their compensation income, they get professional fees, interests from investment, selling of merchandise and farming, and mostly have Php40,000 and below monthly income from all sources. Majority have taken masteral / doctoral units. Some of the respondents have savings, majority closely watch their spending and expenses. Majority used their ATM's, credit cards and loans as financial products, seldom on electronic transfer and internet banking. Aside from high liquidity savings and time deposit, they invest their money on jewelry and real estate-with relatively low liquidity, some are still placing their money at home. Aside from life insurance and

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pension plan some of the respondents get a partial memorial, burial and children educational plan. Majority have outstanding loans from GSIS, TSUMPCI, Provident – ISSF seldom on Officemates and friends/relatives.

7. RECOMMENDATIONS

Based from the conclusions set forth, it is recommended that spending and expenses of the respondents should be closely watched by maintaining a record and may try to set aside an amount for a weekly budget so as not to overspend.

Involve the members of the family in making a budget for the regular income and expenses. Discuss with them the amount to be budgeted and the expenditures needed to be given priority.

Treat themselves with something modest and commensurate to their regular income. Never buy an item requiring regular installments that is beyond the budget. Have meetings on improving spending with the members of the family. Improve spending habits, increase savings and use credit more wisely.

Separate shopping trips from spending trips. Avoid carrying credit cards, much cash or a checkbook on the shopping trips. Discontinue the use of all credit cards.

Stop the practice of borrowing to meet regular expenses.

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