Debt and the management of personal finances

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ABSTRACT

High personal debt levels, as well as low savings ratios, seems to be the norm rather than the exception in most developed countries and South Africa is definitely not excluded from this growing phenomenon. After the deregulation of financial institutions in the 1980s, personal debt levels have grown substantially and savings levels have diminished to a fraction of what is necessary for healthy personal finances, for the reason that these two variables are in inverse ratio to each other. Excessive debt and low savings do not only affect the individual, but also employers, as well as the country's overall economy.

Due to excessive debt individuals can experience destructive financial failure such as broken homes or divorce, stress, underperformance at work, deterioration of financial health and bankruptcy. All of these consequences of excessive debt and low savings have damaging effects on the quality of life of the individual. The personal aspects of an individual's life will also influence his work, and therefore his employer, negatively. Low productivity, absenteeism, organisational commitment and work-time used, all have a negative impact on the employer and therefore also the economy. Firstly, it affects the economy indirectly because of low productivity of employees. Secondly, it affects the economy directly by influencing economic variables such as investments, inflation, interest rates, the value of the rand and overall economic growth.

A lack of basic financial management knowledge is one of the main reasons why individuals tend to make bad financial choices. Gender, age, income and education level could all impact on financial literacy and the effect that this could have on the personal finances of the particular individual.

This study aimed to acquire information regarding the debt management practices of all enrolled students attending management programmes at the University of the Free State's School of Management during 2005. The secondary objectives also included were to evaluate the importance of financial literacy and effective personal financial management, to determine the different sources of debt used, to ascertain the extent of household debt accumulated and the percentage of disposable income spent on each form of debt, to determine the extent of savings by individuals and to assess the impact of excessive debt on stress and productivity in the workplace. In all of these objectives the four demographic variables, namely gender, age, income and qualifications, were taken into consideration. The target population consisted of 425 enrolled students for 2005. It was decided to make use of the whole population and that decision eliminated a representative sample. Two hundred and eighty six students completed the questionnaires.

The results showed that the total average percentage paid each month on debt equals 62,1%. In general terms that means that 62,1% of all available disposable

income goes to the repayment of debt, leaving only 37,9% of the disposable income for general monthly expenditures and savings. According to the 2006-figures the household debt to disposable income ratio is 73%, with 28% of the salary not spent on debt repayment.

High levels of dissatisfaction were detected among the respondents concerning their knowledge of personal finances, perceived control of personal finances, confidence in managing money and making investment decisions; they were concerned about their debts, savings and whether they had adequate retirement funds; they were also pessimistic about their financial future and experienced high levels of financial stress that interfered with their daily responsibilities. There were also high levels of poor financial management in not setting money aside for savings or retirement, not budgeting and not repaying credit cards in full to avoid financial charges.

The respondents will be able to live an average of 5-6 months on their savings only if they should not be able to work. The main reason these individuals are not saving is that they feel that they do not have enough money to save (74,3%), while a staggering 13,2% indicated that they have not thought about saving.

Individuals who do not feel in control of their personal finances were found to think that they would not have enough money on which to live throughout retirement; they feel pessimistic about the future and experience extreme financial stress; and they do not follow a weekly or monthly budget.

OPSOMMING

Hoë persoonlike skuldvlakke en lae spaarverhoudings blyk die norm te wees en nie die uitsondering nie in die meeste ontwikkelde lande en Suid-Afrika is beslis nie uitgesluit van hierdie groeiende verskynsel nie. Na die deregulering van finansiële instansies gedurende die 1980's, het persoonlike skuldvlakke wesenlik gegroei en spaarvlakke het aansienlik gedaal tot 'n breukdeel van wat nodig is vir gesonde persoonlike finansies, aangesien hierdie twee veranderlikes in 'n omgekeerde verhouding tot mekaar staan. Uitermatige skuld en lae besparings beïnvloed nie net die individu nie, maar ook die werkgewer en die ekonomie.

As gevolg van oormatige skuld kan individue die gevolge van afbrekende finansiële mislukkings ervaar, soos gebroke huise of egskeiding, stres, gebrek aan prestasie by die werk, agteruitgang van finansiële gesondheid en bankrotskap. Al hierdie uitkomste van uitermatige skuld en lae spaarvlakke, kan 'n individu se lewenskwaliteit benadeel. Die persoonlike aspekte van 'n individu se lewe sal ook sy werk negatief beïnvloed en daarom ook sy werkgewer. Lae produktiwiteit, afwesigheid, organisatoriese verbintenis en werktyd wat in beslag geneem word, het 'n negatiewe invloed op die werkgewer en ook die ekonomie. Eerstens beïnvloed dit die ekonomie indirek deur die verlaagde produktiwiteit van werknemers. Tweedens beïnvloed dit die ekonomie direk deur veranderlikes soos belegging, inflasie, rentekoerse, die waarde van die rand en die oorkoepelende ekonomie te beïnvloed.

'n Tekort aan basiese finansiële bestuurskennis is een van die belangrikste redes waarom individue verkeerde finansiële keuses maak. Geslag, ouderdom, inkomste en die vlak van opvoeding kan alles 'n uitwerking hê op finansiële geletterdheid en dit het ook 'n invloed op die persoonlike finansies van die spesifieke individu.

Hierdie studie se doel was om inligting in te samel aangaande die bestuur van skuldgebruike van alle geregistreerde studente aan die Universiteit van die Vrystaat Skool van Bestuur wat geregistreer was vir bestuursprogamme gedurende 2005. Die sekondêre doelwitte sluit ook in om die belangrikheid van finansiële geletterdheid en die effektiewe bestuur van persoonlike finansies te bepaal, verskillende bronne van skuld te identifiseer, asook om die persentasie van besteebare inkomste wat aan elke bron van skuld bestee word vas te stel, die omvang van skuld bymekaargemaak deur die respondente, die omvang van besparings deur die respondente, asook om die impak van uitermatige skuld op produktiwiteit in die werkplek te bepaal. Die teikenpopulasie was 425 geregistreerde studente gedurende 2005. Daar is besluit om van die hele populasie gebruik te maak en hierdie besluit het die gebruik van 'n verteenwoordigende proef uitgeskakel. Die vraelyste is deur 286 studente voltooi.

Die resultate het aan die lig gebring dat die totale gemiddelde persentasie wat elke maand aan skuld bestee word, gelykstaande is aan 62,1%. Dit beteken in algemene terme dat 62,1% van alle beskikbare besteebare inkomste vir die betaling van skuld gebruik word, wat slegs 37,9% van besteebare inkomste vir algemene maandelikse uitgawes en besparing laat oorbly. Volgens 2006-statistieke is die huidige Suid-Afrikaanse huishoudelike skuld 73% van die besteebare inkomste, met slegs 28% van die salaris wat nie aan skuld bestee word nie.

Hoë vlakke van ontevredenheid is by die respondente waargeneem aangaande hulle kennis en waarneembare beheer van hul persoonlike finansies; die mate van selfversekerheid om hul finansies te bestuur en beleggingsbesluite te neem; hulle was bekommerd oor skuld, besparings en of hulle oor genoegsame aftredingsfondse beskik; hulle was ook pessimisties oor hul finansiële toekoms en het hoë vlakke van finansiële stres ervaar wat inbreuk maak op daaglikse verantwoordelikhede. Daar was ook hoë vlakke van slegte finansiële bestuur deur nie fondse opsy te sit vir besparings of aftrede nie, nie ‘n begroting te volg nie en nie kredietkaarte ten volle te betaal om finansiële kostes te vermy nie.

Die respondente sal ‘n gemiddeld van 5-6 maande kan oorleef deur net van hul spaargeld gebruik te maak indien hulle nie kan werk nie. Die mees algemene rede wat die respondente aangevoer het waarom hul nie spaar nie, is dat hulle nie genoeg geld het om te spaar nie (74,3%), terwyl 13,2% aangedui het dat hulle nog nie aan spaar gedink het nie.

Individue wat nie in beheer van hul persoonlike finansies voel nie, dink dat hulle nie genoeg geld sal hê om te oorleef tydens hul aftrede nie; hulle voel negatief oor hul toekoms, ervaar ongelooflike finansiële stres en volg nie ‘n weeklikse of maandelikse begroting nie.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Excessively high personal debt, low savings ratios, growing bankruptcies and a lack of preparation for retirement, appear to be the norm in most First World countries. Developed countries have excessive debt levels and diminishing savings, even though there are abundant wealth and literacy, compared to developing countries (Anthes 2004:50).

This trend is also evident in South Africa where, after the mid 1980s deregulation of financial institutions, household debt amplified in excess of 30% (Aron & Muellbauer 1999:2). At the moment it is estimated that disposable income of South Africans consist of 73% debt, therefore leaving only 28% of the salary for living expenses (Fin24.co.za 8 December 2006:2 of 3).

Prinsloo (2002:66) also comments on this phenomenon and states that “rapid growth of borrowing has always been associated with deterioration in the savings ratio and this has manifested itself in South Africans’ personal finance history”. Personal financial management has been directly affected because of rising debt and statistics show that during the past ten years, South Africans have been paying between 6,3% and 12,6% as a percentage of disposable income on interest payments alone (Kane-Berman & Tempest 2006:74).

Lorgat (2003:6) estimates that the debt crisis in South Africa is costing the economy approximately R12 billion annually, both directly and through losses in productivity. Additionally, in the region of 33% of formal workers had debt related summonses and civil court judgements issued against them. Grawitzky (2002:67) makes it clear that the fact that workers are struggling with debt problems will have a direct affect on productivity in the workplace. Joo (1998:1) highlights the fact that financial problems are one of the four major problems affecting employees. Rated five times higher than health concerns, financial problems is the main stressor in individuals' lives as quoted by economist Mike Schussler (Sunday Sun 29 June 2003:33).

Decisions with regard to personal finances are necessary for day-to-day survival and can be a daunting task (Karlsson, Dellgran, Lingander & Gärling 2004:754). Kidwell & Turrisi (2004:601) suggest a strong link between the accumulation of personal debt and a distinct lack in money management. Old-fashioned values concerning financial management, such as budgeting and saving, are lost in the pursuit of 'instant gratification' and consumers tend to spend more than they earn.

Streeter (2003:4) adds that consumers tend to be confused and intimidated by the complexity of the finance industry and that individuals are embarrassed to admit that they struggle to understand certain terminology or practices. These individuals will not be able to select the most effective financial choices available to them, because the subject seems threatening. The solution could be to educate individuals on the subject of personal finances to establish good habits of saving and credit use.

South Africa currently ranks lowest of 49 countries in respect of economic literacy by a recent World Competitiveness Report survey (Sunday Sun 29 June 2003:33). Up to 3000 people are developing serious financial problems on a daily basis, stemming from excessive debt (Business Day 2 April 2003:1).

1.2 PROBLEM STATEMENT

The ratio of household debt to disposable income in South Africa has been fluctuating between 47,5% and 60,6% in the last ten years. Saving rates, on the other hand, has declined sharply from as high as 7,8% in the eighties to about 0,6% of personal disposable income in 2002 (Kane-Berman & Tempest 2006:74). Mounting personal debt has triggered South Africans' savings to become insufficient, at best. Long-term savings are therefore placed in jeopardy (Grawitzky 2003:57).

Lorgat (2003:8) argues that South Africans lack a generalized savings culture. This is caused by manifested financial illiteracy on the part of the consumer. Workers are spending almost all of their income on consumption, ensuing that little is left for savings or investments, if any. This is problematic in South Africa, both on an individual level and in relation to the prospects of economic growth in the country.

Alexander Forbes offers the following statistics:

Of 100 45-year olds today, by age 65:

- 34 will be forced to continue working,
- 32 will be dependent on the state,
- 17 will need family support,
- 8 will be dependent on welfare,
- five will be financially independent and
- four will be comfortably off

(Sunday Times Business Times 1 August 2004:1).

Garman, Leech & Grable (1996:159) list various negative consequences resulting from poor personal financial behaviour by employees, including absenteeism, job stress, reduced employee productivity, lowered employee morale, loss of customers who seek better service, loss of revenue from sales not made, thefts from employers, lack of employee focus on the strategic goal of the employer and substance abuse, to name a few.

There has been an increasing demand for information on personal finance. Extensive research (Kim 2000; Joo 1998) showed that adults lack the financial knowledge to make competent and effective personal financial choices. Excessively high debt levels, low saving rates, being targets of investment fraud, being delinquent on credit cards, and bankruptcy have been found to be related to financial illiteracy and a lack of financial knowledge of individuals (Kim 2000:1).

The debt management practices of individuals seem to give the impression that money is poorly managed in South African households. As a result South Africans have excessive debts and inadequate savings. To understand this problem it is necessary to gain an insight into their money management practices, with special attention given to debt and savings.

1.3 RESEARCH OBJECTIVES

The primary objective of this research was to obtain an indication of the debt management practices of enrolled students attending one of three adult business learning courses at the University of the Free State School of Management concerning their personal finances.

Secondary objectives according to the four demographic variables of employees, namely gender, age, income and qualifications, included the following:

- To evaluate the importance of financial literacy and effective personal financial management.
- To determine the different sources of debt used.
- To ascertain the extent of household debt accumulated and the percentage of disposable income spent on each form of debt.
- To determine the extent of savings by individuals.
- To assess the impact of excessive debt on stress and productivity in the workplace.

The following hypotheses were evaluated:

Hypothesis 1: Individuals who do not feel in control of their personal finances are of the opinion that they will not have enough money to live throughout retirement.

Hypothesis 2: Individuals who do not feel in control of their personal finances feel pessimistic about the future.

Hypothesis 3: Individuals who do not feel in control of their personal finances have concerns about finances that interfere with their responsibilities and cause stress.

Hypothesis 4: Individuals who do not feel in control of their personal finances experience extreme financial stress.

Hypothesis 5: Individuals who do not feel in control of their personal finances do not follow a weekly or monthly budget.

1.4 RESEARCH METHODOLOGY

In the literature study use was made of secondary data, such as those in published and unpublished reports, articles, academic journals and other publications and the Internet to provide a background for the problem, as well as previous related research done in the United States of America and the United Kingdom.

The empirical study consisted of quantitative questionnaires that supplied an indication of debt management behaviours that shape personal finances of individuals. Quantitative research differs from qualitative research in that it generalises results from a sample to the population of interest, while qualitative research provides insight into the setting of a problem. Qualitative data can be collected through surveys, observation or experiments (Cant, Gerber-Nel & Kotzé 2003:77).

The extent of personal financial management problems experienced by individuals was estimated, as well as the effect that excessive debt and low savings had on the effective management of personal finances. It was decided to include the whole population in the study and the decision eliminated the use of a representative sample. The respondents consisted of 286 University of the Free State School of Management students.

1.5 RESEARCH DESIGN AND OUTLINE OF CHAPTERS

The study is organized into six chapters. The chapters comprise of three sections: literature review, empirical analysis, and the conclusion section of the study. The chapters are structured as follow:

1) The first chapter indicates the importance of effective personal financial management and highlights the research problem and objectives of the study.
2) The second chapter represents the literature review in relation to past studies on personal debt, personal savings and personal financial management problems experienced by individuals.
3) Chapter three focuses on the importance of financial literacy, as well as attitudes and behaviours concerning personal financial management that could have influenced personal debt management.
4) Chapter four covers the research approach utilised in conducting the study. In this chapter the sequence of the tasks performed in conducting the research work, is introduced. Research design, research methodology, and the research sample are presented.
5) Chapter five presents a discussion of the research results.
6) Chapter six puts forward the conclusion of the entire study, with results from the literature review and the empirical study, including recommendations.

1.6 DEFINITIONS

The following definitions were employed in the study to clarify discrepancies:

1.6.1 Personal debt

Personal debt can be considered to be amounts owed on personal mortgages, credit cards, overdrafts, motor and retail finance deals and unsecured personal loan balances (Market Watch: Financial Services 2005:23). Personal debt is “debt that develops due to everyday expenditures. Unlike debt incurred for education or homeownership (such as mortgages), personal debt is considered detrimental; it usually takes the form of a credit card balance or payday loan, and both forms of debt carry high interest rates” (Wikipedia 2005:1 of 1). For the purpose of this study, the terms ‘personal debt’ and ‘household debt’ will be regarded as equal and will include mortgage loans.

1.6.2 Personal savings

It is that part of current income that is not consumed or transferred as part of the household current expenditure. Dissaving occurs when current expenditure exceeds current income. When dissaving occurs, the household will have to use past savings or credit to fund the imbalance (Prinsloo 2002:73).

1.6.3 Debt management

Porter (1990:22) refers to the management of credit as “identifying, analyzing and implementing credit use based on needs and wants so that a safe debt load is maintained”.

1.6.4 Personal financial management

Joo (1998:9) suggest that personal financial management is:

1) financial planning for long-term and short-term financial goals,
2) financial management of income and credit,

3) financial practices through the purchase of housing, insurance, automobile and other durable and non-durable consumer goods and various services including banking, insurance and investment, and
4) investment for the future.

1.6.5 Productivity

According to Kim (2000:11) productivity refers to the quantity and quality of performance by an individual through the overall effectiveness that the individual displays. The competence is demonstrated through the use of human labour that is utilized to produce goods and services and includes job performance, time efficiency and absenteeism (Joo 1998:10).

1.6.6 Financial knowledge

Financial knowledge includes knowledge regarding “general personal finances, retirement plans, employee benefits, credit and money management and consumer rights” (Kim 2000:10).

1.6.7 Financial literacy

Anthes (2004:49) concludes that “financial literacy is the ability to read, analyse, manage and communicate about personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy”. According to the U.S. Financial Literacy and Education Commission (Basu 2005:2 of 6), financial literacy is defined as “the ability to make informed judgements and to take effective actions regarding the current and future use and management of money. Financial literacy should include the ability to understand financial choices, plan for the future, spend wisely and manage and be ready for life events such as job loss or saving for retirement”.

1.6.8 Financial attitude

Financial attitude refers to the general attitude that individuals display towards financial management (Kim 2000:10).

1.6.9 Financial behaviours

Financial behaviours refer to the processes that individuals employ in managing their personal finances to achieve financial success in the areas of retirement plans, employee benefits, consumer rights and credit and money management (Kim 2000:10).

1.6.10 Poor financial behaviours

Poor financial behaviours have "consequential, detrimental and negative impacts on one's life at home and/or at work" because of personal and family money management practices (Garman *et al.* 1996:158).

1.6.11 Financial stress

Financial stress is stress caused by negative financial circumstances, including personal, family and other destructive financial situations (Joo 1998:9). Financial stress occurs whenever income is less than expenses. Worries over debt, savings and overall financial management can cause family tension, social pressure, headaches and high blood pressure (About: stress management 2006:1 of 1).

1.6.12 Disposable income

Disposable income can be defined as the amount of income left for an individual after taxes have been paid, available for spending and saving (Investorwords.com 2006:1 of 1).

1.7 CONTRIBUTION OF THE STUDY

Research into this area is crucial to broaden the understanding necessary to aid individuals in managing their debt and personal finances effectively. The results of the study may assist employers to support their employees in their debt practices, while enhancing their productivity through increased employee well-being. Study into this field is necessary because of the lack of available information regarding South Africans' personal debt and savings, as well as personal financial information relating to age, gender, education and income. The study can provide a base for future research and theory development.

CHAPTER 2

PERSONAL DEBT MANAGEMENT

2.1 INTRODUCTION

In Keynes's General Theory: A Retrospective View, Keynes shaped the notion that consumption is the more favourable action to be taken by society and by doing that, frugality and saving were undermined as positive personal financial behaviours (Pigou 1951:58). Governments' continuous deficits on their budgets signal to the general public that it is acceptable to spend rather than save and that excessive debt accumulation is not an issue to be overly concerned with (Redmond 2000:184). Watson (2003:724) points out that the economy suffers on a macroeconomic level because of consumer orientations towards personal debt, and that management of personal finances by individuals at a microeconomic level has a significant influence on the strength and growth of the economy as a whole.

Governments and central banks use interest rates as a means of reaching monetary policy goals. As a result, households are affected to the extent that disposable income reflects changes in interest rates (Sunday Times Business Times 2 October 2005:1). On an individual level, getting into debt or evading it altogether is not a function of economic variables alone, but depend on certain social and psychological factors as well (Lea, Webley & Walker 1995:682).

Spending and saving behaviours of individuals are a function of different variables, such as social status, material needs, culture, standard of living, current level of debt, net worth and disposable income, as well as the ability of individuals to acquire debt by spending future income in the present (Prinsloo 2002:63). Any individual that expects higher income will invariably spend more, and as a result incur debt, while at the same time, save less (Redmond 2000:182).

In South Africa, the inverse affiliation between savings and debt accumulation is clear to the extent that in the mid 1980s with the liberalization of the financial institutions, the savings ratio dropped significantly with the subsequent rise in personal debt (Prinsloo 2002:73).

The consequences of poor financial management can have an impact on the individual on a social, personal and professional level. The employer could be affected by negative behaviours such as absenteeism, productivity loss and increased job stress (Garman, Leech & Grable 1996:159).

This chapter starts off by defining personal debt and explaining the importance of personal debt management. Debt and savings have an inverse relationship; therefore their association will be discussed. Demographic factors that could predict indebtedness as well as savings are covered and South Africa is compared to two of the financial world leaders, namely the United States of America and the United Kingdom. The reasons and the consequences for excessive debt are discussed with specific reference to the lack of savings, financial illiteracy, stress and underperformance of employees.

2.2 DEFINING PERSONAL DEBT

According to the Fair Debt Collection Practices Act, debt is any obligation or liability arising out of actions where money, property, insurance or services were borrowed (Hodges 2004:1 of 2). Obligation and responsibility rest on the buyer or borrower to pay at a later stage (Prinsloo 2002:63).

Personal debt can consist of (but are not limited to):

- credit cards
- personal loans
- home loans, mortgages and home equity loans
- car, boat, motorcycle loans

- retail loans (furniture, appliances, etc.)
- alimony and child support
- contracts for services

(Debt Consolidation Index 2004:1 of 1).

According to Bagwell (2000:42), credit provides a means of paying for goods and services without the utilisation of income and thus serves as an alternative to cash where individuals accumulate both dispensable and indispensable goods and services.

Van der Walt and Prinsloo (1995:1) define consumer debt as: "The eagerness of consumers to sacrifice future consumption in order to obtain greater satisfaction from current consumption. Future consumption is surrendered because consumers will use income earned at a later stage to settle debts and meet interest commitments and will therefore have less spendable funds at their disposal at that stage if they do not increase their credit commitments further".

2.3 THE IMPORTANCE OF PERSONAL DEBT MANAGEMENT

Apart from detrimental macroeconomic consequences because of poor personal debt management (Debelle 2004:1), such as productivity loss (Grawitzky 2002:67) and underperformance of employees (Garman *et al.* 1996:157), there are more personal costs that individuals have to deal with. Poor debt management can lead to the accumulation of excessive debt, and this in turn has a negative effect on personal savings (Grawitzky 2003:57). Anthes (2004:50) refers to the problems associated with personal finances as a 'storm' that is brewing and turning into disaster. These disasters include spiralling debt, growing bankruptcies, a low savings ratio and lack of preparation for retirement.

Negative feelings relating to debt and personal finances such as stress and anxiety about meeting financial obligations, can lead to destructive behaviours (Kidwell & Turrisi 2004:611). Joo (1998:1) point out that personal financial problems have a damaging impact on individuals' personal and family life. Stress, substance abuse and harmful family relationships are recognised as a few aspects related to poor personal financial management.

Individual or personal well-being is a function of financial well-being because personal finances are such an important part of an individuals' daily life (Joo 1998:11). Kim (2000:32) makes it clear that if personal financial well-being is not on par, that the individual can show negative outcomes at work, such as stress, low productivity, absenteeism and using worktime to resolve personal financial problems.

Indebted individuals get trapped in a destructive cycle of debt problems that can increase poverty, slow down economic development and therefore the quality of life for South Africans are disparagingly affected (Bayat 2003:10 of 14).

According to Garman *et al.* (1996:164), stress, stress-related variables, poor financial management and reduced employee productivity are a 'spiralling sphere' that could provide the foundation for physical, financial and employment failure.

There is therefore a definite relationship between poor financial management, debt management, as well as detrimental economic outcomes, consequences for the employer and personal costs that the individual has to deal with.

2.4 PERSONAL DEBT AND SAVINGS

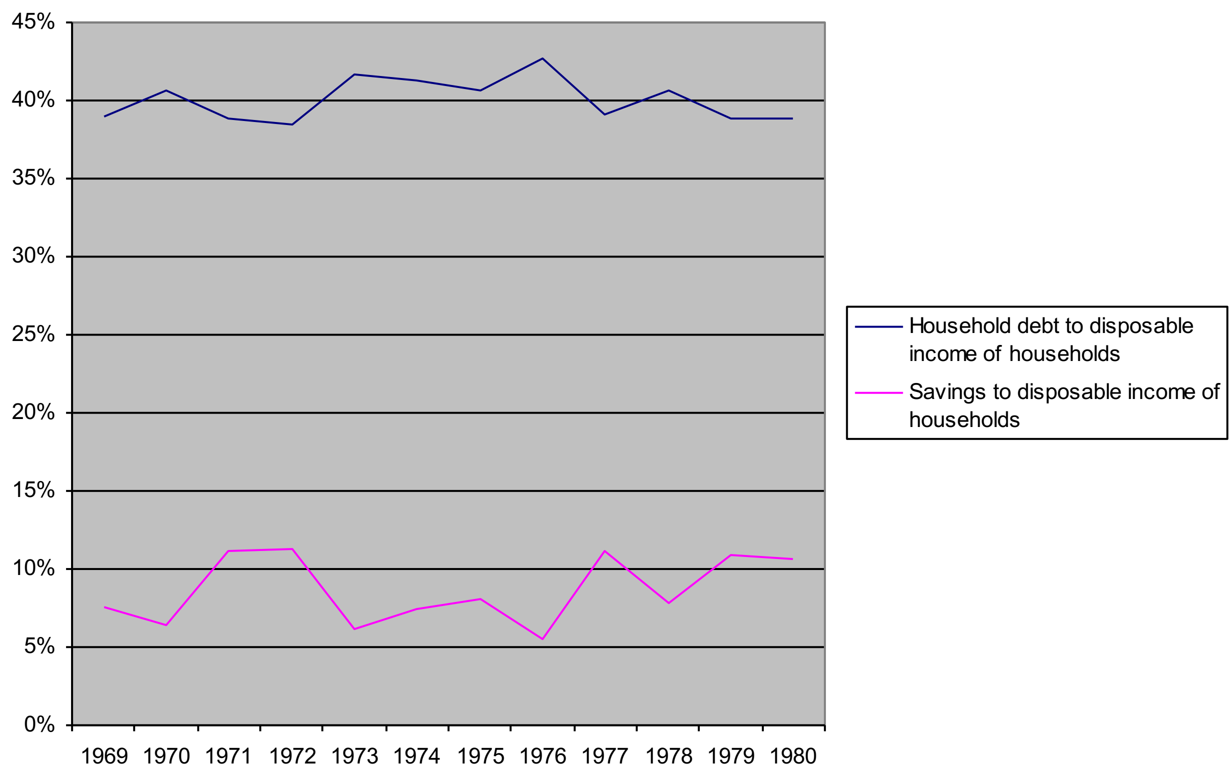
Personal debt and savings can be thought of as two sides of the same coin, because of their inverse relationship to each other (Prinsloo 2002:73).

2.4.1 History of personal debt and savings in South Africa

The De Kock Commission report of 1978 suggested financial liberalization and the South African government responded by instigating from 1980 onwards a more marketorientated monetary approach that removed interest and credit constraints, which in turn lead to sizeably reducing banks' liquidity ratios between 1983 and 1985 (Aron & Muellbauer 2000:17). In view of the fact that liquidity ratios were lowered, banks had more cash available to lend to the public, consequently making credit more freely available.

From Figure 2.1 it can be seen that even before the liberalisation of financial markets, the inverse relationship between personal debt and personal savings existed. The connection between these two variables are clear to the extent that when one variable alters, the other one would follow by changing in the opposite direction by roughly the same quantity.

Figure 2.1: *Household debt and savings as a percentage of disposable income before the deregulation (1969-1980)*



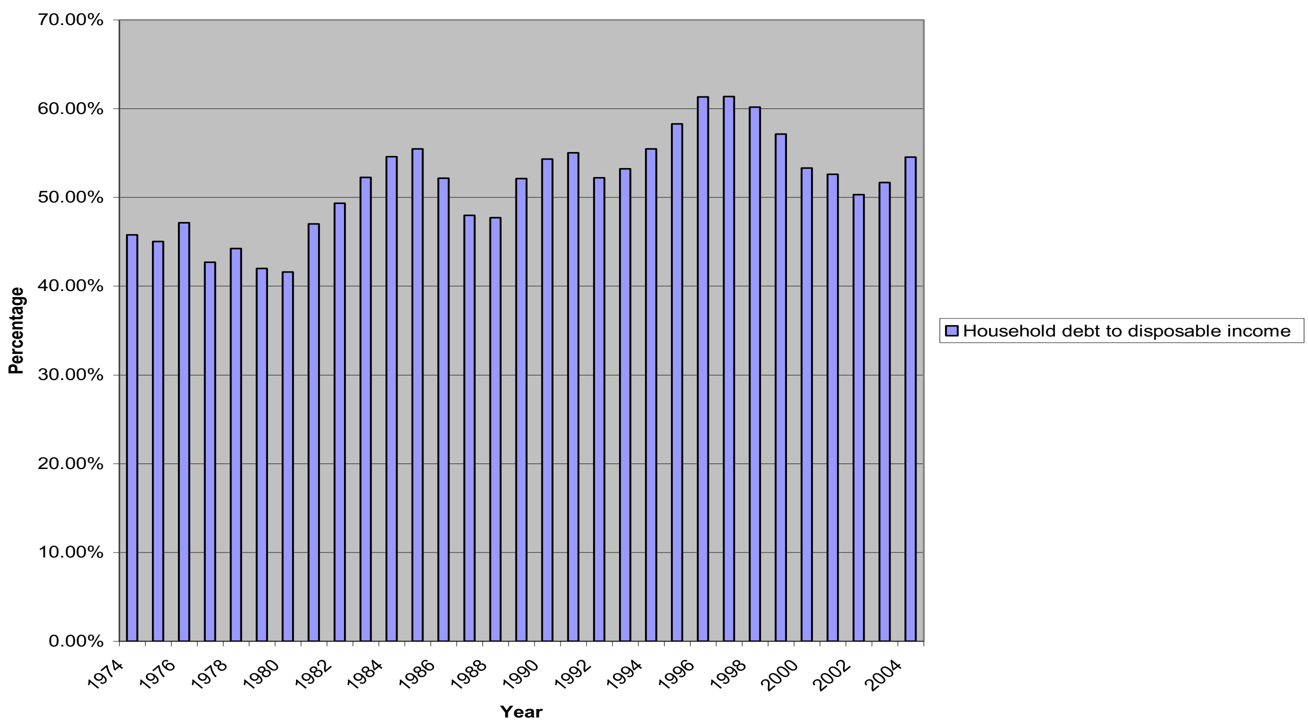
(Kane-Berman & Tempest 2006: 74).

The deregulation of financial markets in South Africa brought forth an extreme escalation in the personal debt levels, while at the same time savings dropped significantly (Prinsloo 2002:73).

2.4.1.1 Personal debt

Substantial changes have transpired in household debt over the past 3 decades (Prinsloo 2002:77). The following figure shows household debt compared to disposable income from 1974 through to 2004.

Figure 2.2: <u>Ratio of household debt compared to disposable income (1974 – 2004)</u>



(Kane-Berman & Tempest 2006:74).

As can be seen from Figure 2.2, household debt rose from 38,9% in 1980 to a high of 52,4% in 1985. During 1984 – 1986 there was a distinct reduction in debt accumulation because of a recession during that time (Van der Walt & Prinsloo 1995:3).

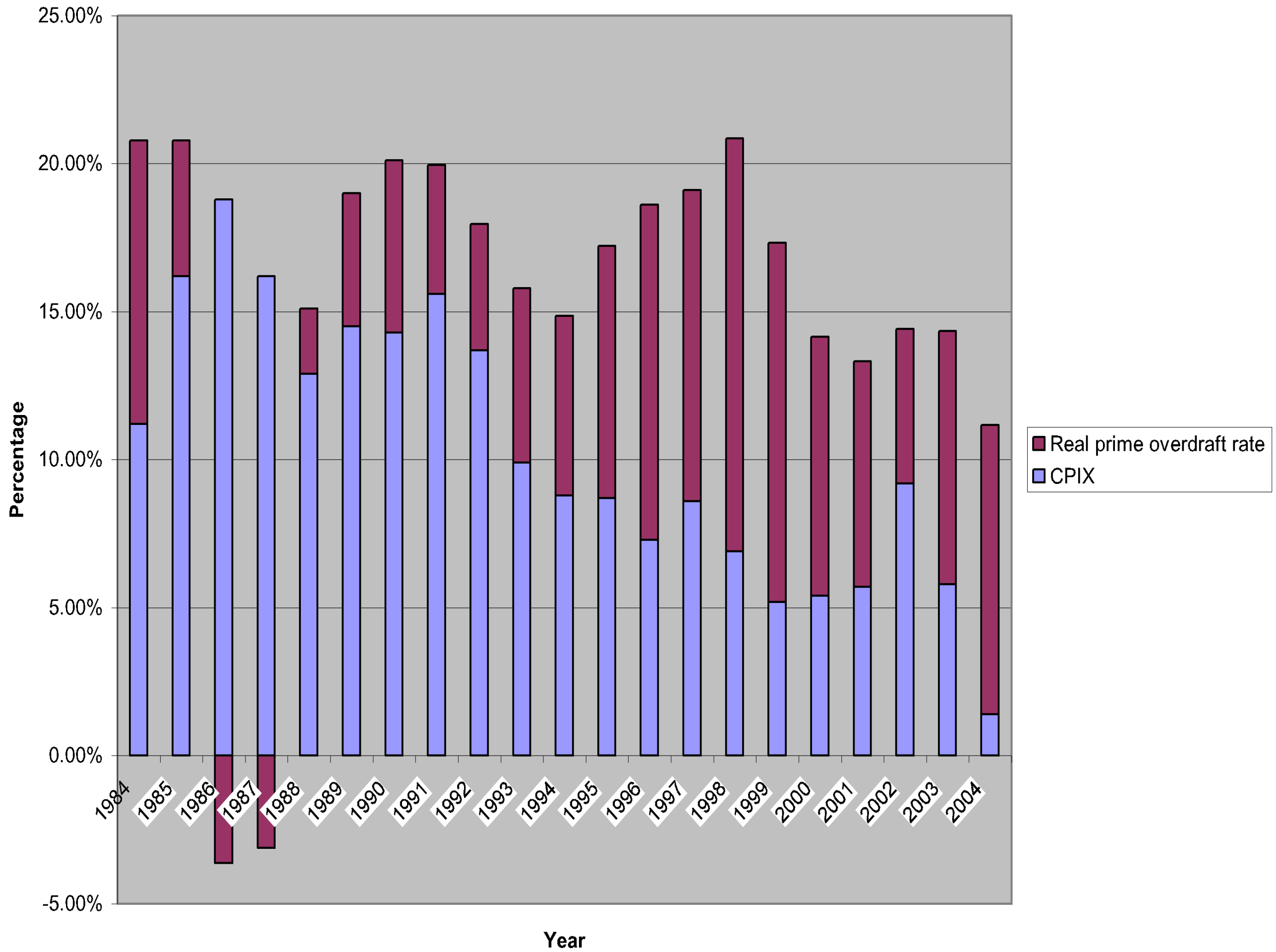
During the period 1969 to 1979 household debt grew at an average annual rate of 14%, while from 1980 to 1984 the average annual rate increased to 22%. The deregulation of financial institutions by the South African government was the primary reason for this sharp increase. A severe acceleration of 30% per year in the rate of consumer credit was experienced during that period (Van der Walt & Prinsloo 1995:5). Shifts in the financial policy and institutional transformation altered the financial sector, creating more lending opportunities because of reduced constraints on banks. This new financial environment encouraged households to increase their borrowing in relation to their income (Prinsloo 2002:74).

Figure 2.2 shows that household debt relative to disposable income fluctuated between the bounds of 47,5% and 61,5% for the period 1984 - 2004. The figures indicate that from 1995 through to 1997 the household debt in relation to disposable income weakened. From 1998 – 2003 there was a definite improvement, although the figures are still very high.

South Africa has a long history of double-digit inflation (from 1974 to 1992) and high and volatile interest rates that affect consumers (South African Reserve Bank 1996:1 of 1). The volatility of South Africa’s interest rates has a noticeable influence on household debt to disposable income ratios as well as interest payments. When there is a rise in interest rates, interest payment would inevitably go up, leaving the consumer immobilised. The consumer will have to increase payment on debt, therefore increasing expenditures, and thus leaving less disposable income.

Figure 2.3 shows the erratic movements of South African interest rates. The sum total of the real prime lending rate and inflation amounts to the nominal or market rate of interest (prime overdraft rate).

Figure 2.3: <u>Inflation and real interest rates (1984 – 2004)</u>



(Kane-Berman & Tempest 2006:71).

Irving Fisher expressed this relationship as follows:

$(1 + n) = (1 + r)[1 + E(I)]$

where *n* is the nominal interest rate, *r* is the real interest rate, and *E(I)* is the expected inflation rate over the period in question (Kolb 2003:292). Figure 2.3 illustrates the Fisher effect in South Africa over the past 20 years.

The real interest rates together with the inflation rates give the approximate nominal rate. When the actual equation is used, the nominal rate of interest can be determined. The real and nominal rates vary and therefore the nominal rate cannot be used as an indicator of the actual cost of debt.

Figure 2.3 illustrates the instability of the nominal interest rate. Nominal interest rates charged to consumers were very volatile and unstable, because the rate of inflation, as well as the real interest rate fluctuated a great deal. The rate ranged from over 20% from 1984 to just over 15% in 1989. The unpredictability continued throughout the 90s and started to decline to less than 14% in 2000.

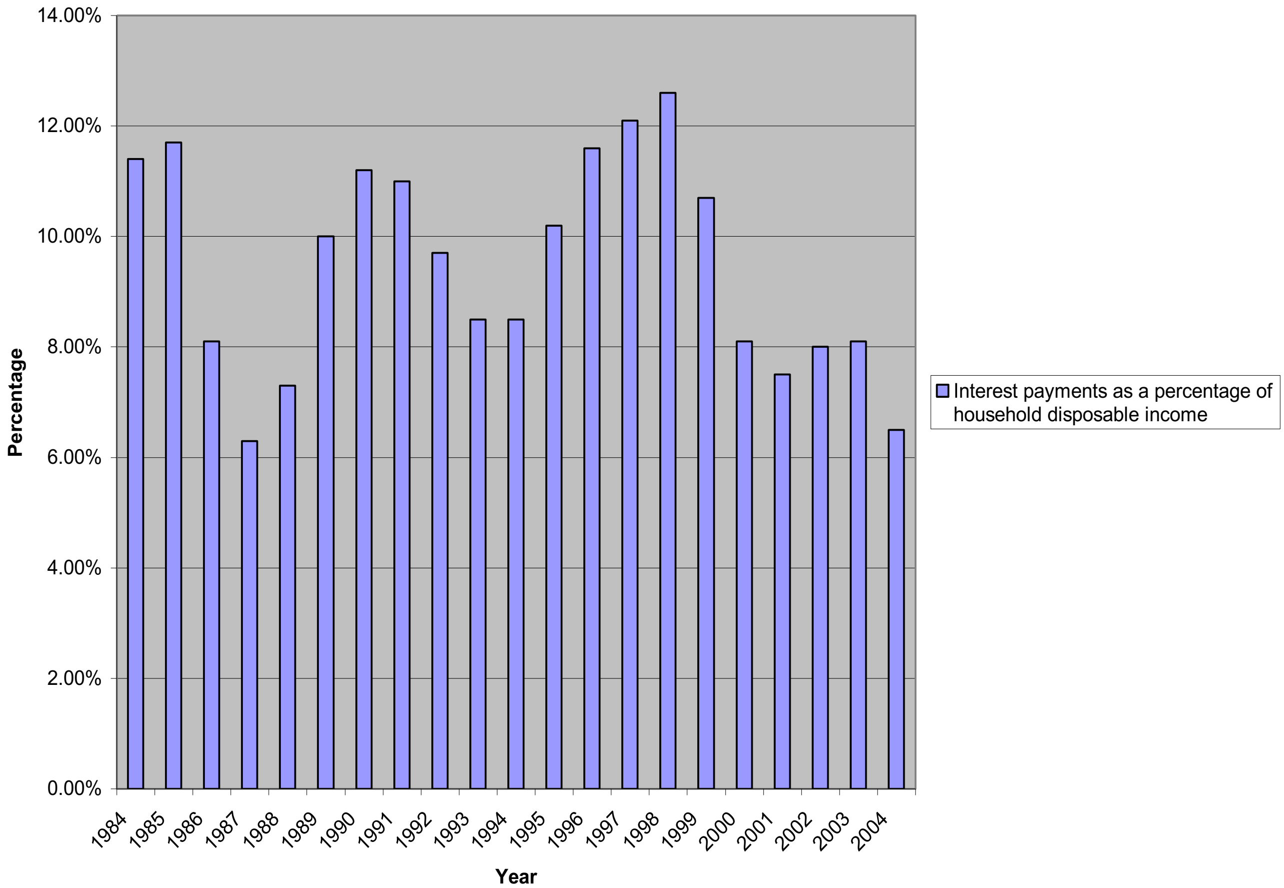
From 1986 – 1988 negative real interest rates prevailed. This meant that it was good business borrowing, because the amount borrowed was at that time bigger than the real amount that had to be paid back. The period of 1988 – 1995 showed inflation to remain higher than real interest rates.

From 1996 – 1999 South Africa experienced excessively high real interest rates, making debt more expensive. During that period nominal interest rates declined, giving the population a false sense of security, because they perceive credit to be cheaper. Beeld (27 November 2003:20) concluded that when interest rates are lowered, consumers are encouraged to spend more money. This overspending leads to inflation and that could lead to a new cycle of interest rate increases.

The South African Reserve Bank has increased interest rates in June 2006, August 2006, October 2006 and again in December 2006 with 50 basis points (0,5%) respectively. The prime overdraft rate is currently at 12,5% (South African Reserve Bank 2006:1 of 1). These interest rate hikes were necessary, because household spending intensified and that caused subsequent pressure on inflation. Consumers have been acquiring more and more debt, instead of using the low interest rates to clear debt (Business Report 24 September 2006:1 of 1).

The percentage of interest spent alone as part of household disposable income is displayed in Figure 2.4.

Figure 2.4: *Interest payments as a percentage of household disposable income (1984-2004)*



(Kane-Berman & Tempest 2006:74).

Interest paid annually is shown above as a percentage of disposable income. The figure demonstrates fluctuations, but mainly stays between 6,3% and 12,6% boundaries. The reduction in interest payments from 2000 to 2003 is not because of lower personal debt levels, but because of declining interest rates; as can be seen from Figure 2.2, showing real and nominal interest rates.

T.T. Mboweni, Governor of the South African Reserve Bank stated that according to 2005-figures interest payments (debt servicing cost) as a percentage of disposable income was at a comparatively low level of 6,5% (South African Reserve Bank 2005:3 of 4).

Interest rates were at a low level compared to previous years and that provided the consumer with more disposable income. Consumers therefore opted for higher debt levels, because interest payments were low. In times of high nominal interest rates, consumers are discouraged from taking on new debt, because of the higher interest payments. Interest payments; therefore remain high due to the increase in the interest rate. South Africa's inflation rate is kept between the 3% and 6% boundaries, set by the South African Reserve Bank (South African Reserve Bank 2006:1 of 1). Nominal interest rates were as a result low, but because of the lower inflation rate, real interest rates were still high. The interest rate increases in 2006 should have an effect on consumer spending as well as inflation. The higher interest rate will discourage consumers from taking on more debt and overspending and this will have a positive effect on inflation and keep it within bounds.

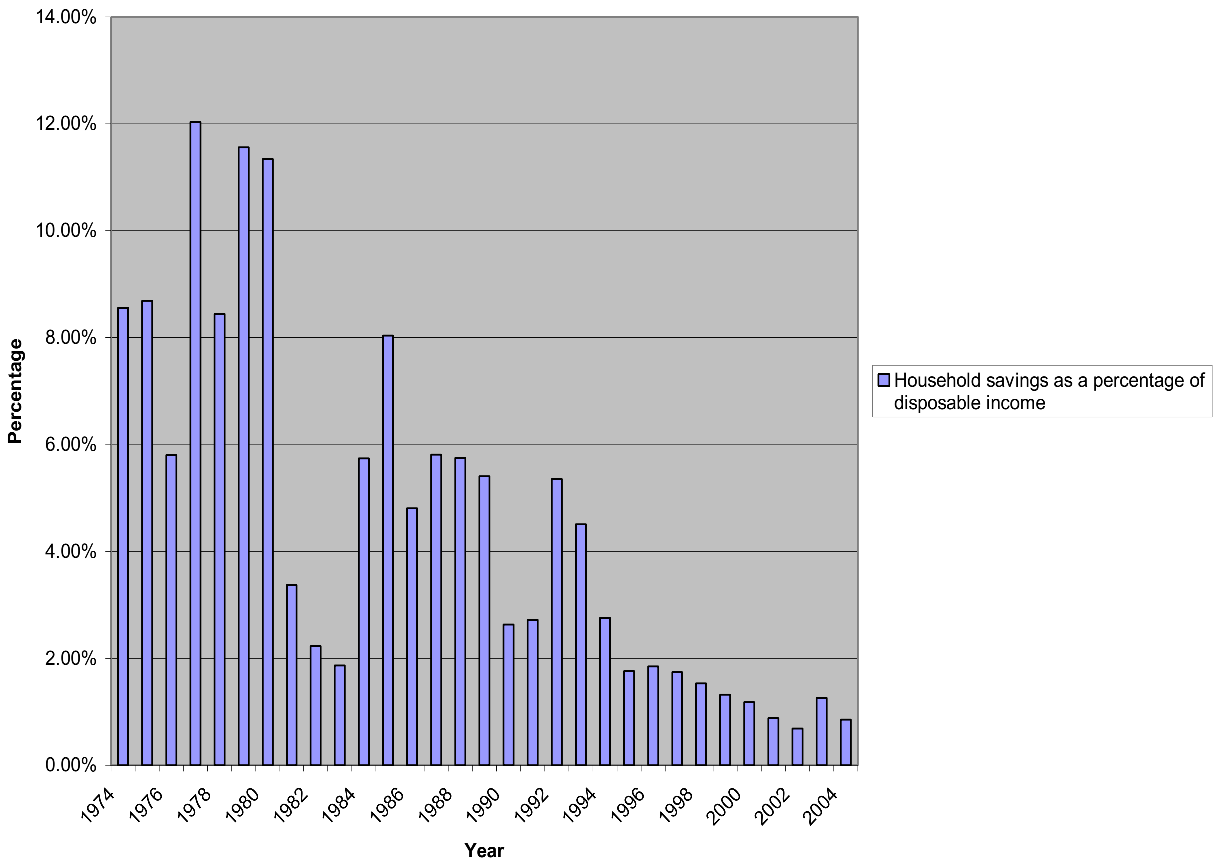
2.4.1.2 Personal savings

Prinsloo (2002:74) claims that the direct affect the general deregulation of the financial sector has had on savings cannot be evaluated, but that it has without doubt added to enlarged household debt and a rapid reduction in personal savings (see Figure 2.5).

Figure 2.5 shows that from 1974 – 1984 there were high savings ratios compared to the savings ratios of the household sector from 1997 onwards. The deregulation of financial institutions played an unquestionable part in diminishing household savings after 1984. As can be seen from the figure, South Africans have an alarmingly low savings ratio. Provision for retirement is included in these figures.

Currently the savings rate is at a record low level of 0,2% of disposable income (RSA MoF 2006:2 of 6). Savings went from R3,9 billion in 2004 to R1,5 billion in 2005 (Sake Rapport 26 March 2006:1).

Figure 2.5: Ratio of household savings related to disposable income (1974-2004)



(Kane-Berman & Tempest 2006:74).

Deregulation in South Africa caused almost instant higher levels of debt by consumers with the subsequent decrease in savings. South Africa's saving figures by consumers are a confirmation of this fact, as the debt levels are higher than ever with the ensuing low savings statistics.

The decline in household savings over the past 20 years is a global occurrence and not just a domestic incident. Several major industrial countries were part of this phenomenon (Prinsloo 2000:13).

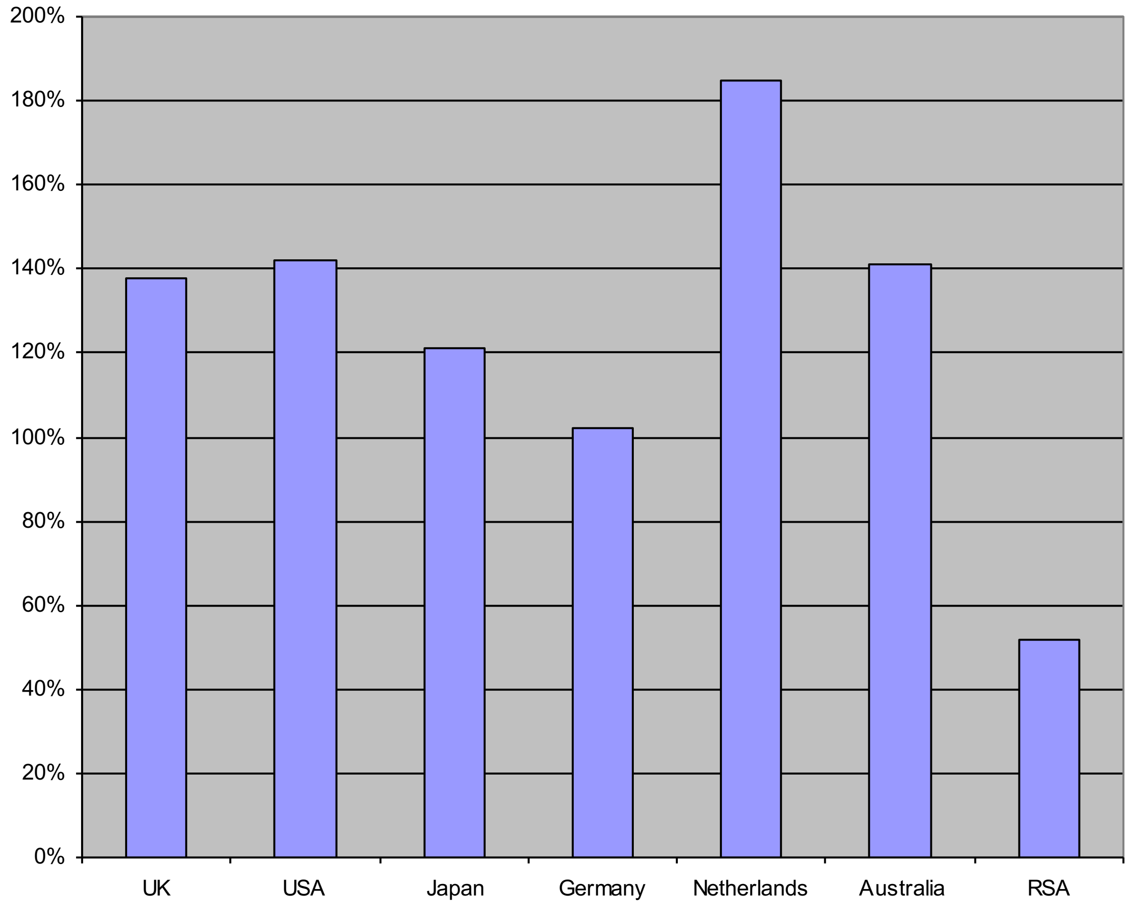
2.5 INTERNATIONAL COMPARISONS

The household debt to disposable income ratio of some of the strongest financial countries in the world, compared to South Africa, is demonstrated in Figure 2.6.

The United States of America has a ratio of over 140%. The Netherlands has the highest ratio of over 180%, suggesting that they average person in the Netherlands spend 80% more than they are earning. South Africa, compared to these countries, is not as bad off. That does not mean that the situation is satisfactory. South African household debt to disposable income ratio is approximately 50%. One of the reasons for this relatively low ratio of household debt to disposable income could be because of most South African’s inability to obtain debt, compared to First World countries.

South Africa is seen as a Third World and developing country and citizens do not earn as much as individuals from First World countries. A 50% ratio might look low compared to developed countries’, but because of lower income levels this could have a serious impact on an economic and social level. The ratio of household debt to disposable income between the United Kingdom, the United States, Japan, Germany, the Netherlands, Australia and South Africa compare as follows for the year 2003:

Figure 2.6: Ratio of household debt to disposable income (2003)



(Grant Thornton 2004:6 of 19).

2.5.1 The United Kingdom

Grant Thornton (2004: 3 of 19) reported the following statistics:

- The United Kingdom's consumer borrowing is now more than the whole external debt of Africa and South America combined.
- United Kingdom consumers possess 66,8 million credit cards, 5 times the European average.
- Even though 80% of the borrowings is related to mortgage payments on homes, £168 billion is unsecured debt.

- It is estimated that about 3,3 million consumers are responsible for almost half of the £168 billion unsecured debt, with average debts of about £24,000 each.
- In England and Wales the amount of bankruptcies increased from 97 per day in 2003 to 126 per day in 2004.
- In January 2004, 6,9 million families were having difficulty with their borrowing commitments, an increase of 13% from 2003.

Britain's personal debt is growing by £1 million every four minutes. On average, every man, woman and child owes £18,017 (Credit Action 2005:1 of 5).

2.5.2 The United States of America

Young (2005:1 of 1) revealed the following statistics concerning U.S. consumers:

- In 2003, almost one and a third percent of American households (about 1,650,000) filed for bankruptcy.
- The U.S.A., with a population of about 294 million, managed to have over a billion credit cards in issue. Therefore every man, woman and child owns more than 4 credit cards each. About 20,000 different cards are on offer from suppliers.
- Those credit cards, together with debit cards, account for a quarter of all personal expenditure in the United States of America.
- Over 40% or U.S. families routinely spend more each year than they earn.
- 90% of Americans 'are not concerned' by their credit card debts, although about 50% of them would refuse to tell a friend how much they owe.
- The typical U.S. student has 7 credit cards, and a significant percentage of them (over 10%) owe $15,000 or more on them.
- The average middle-aged U.S. citizen is only worth about $40,000, and that includes any equity in their homes. The rest belongs to banks and lending institutions. This reflects the drop in personal savings, down from 8% of income to less than 1% in 2004, thanks mainly to the poor returns on savings accounts, and the easy availability of credit.

South African consumers do show very high levels of debt, compared to world leaders such as the United Kingdom and the United States of America. These two world powers have prominent debt problems. Despite the fact that South Africa's personal debt statistics look better compared to other countries, the problem is still significant, as most of South Africa's consumers earn very low incomes in contrast to First World countries.

2.6 THE INVERSE RELATIONSHIP BETWEEN PERSONAL DEBT AND SAVINGS

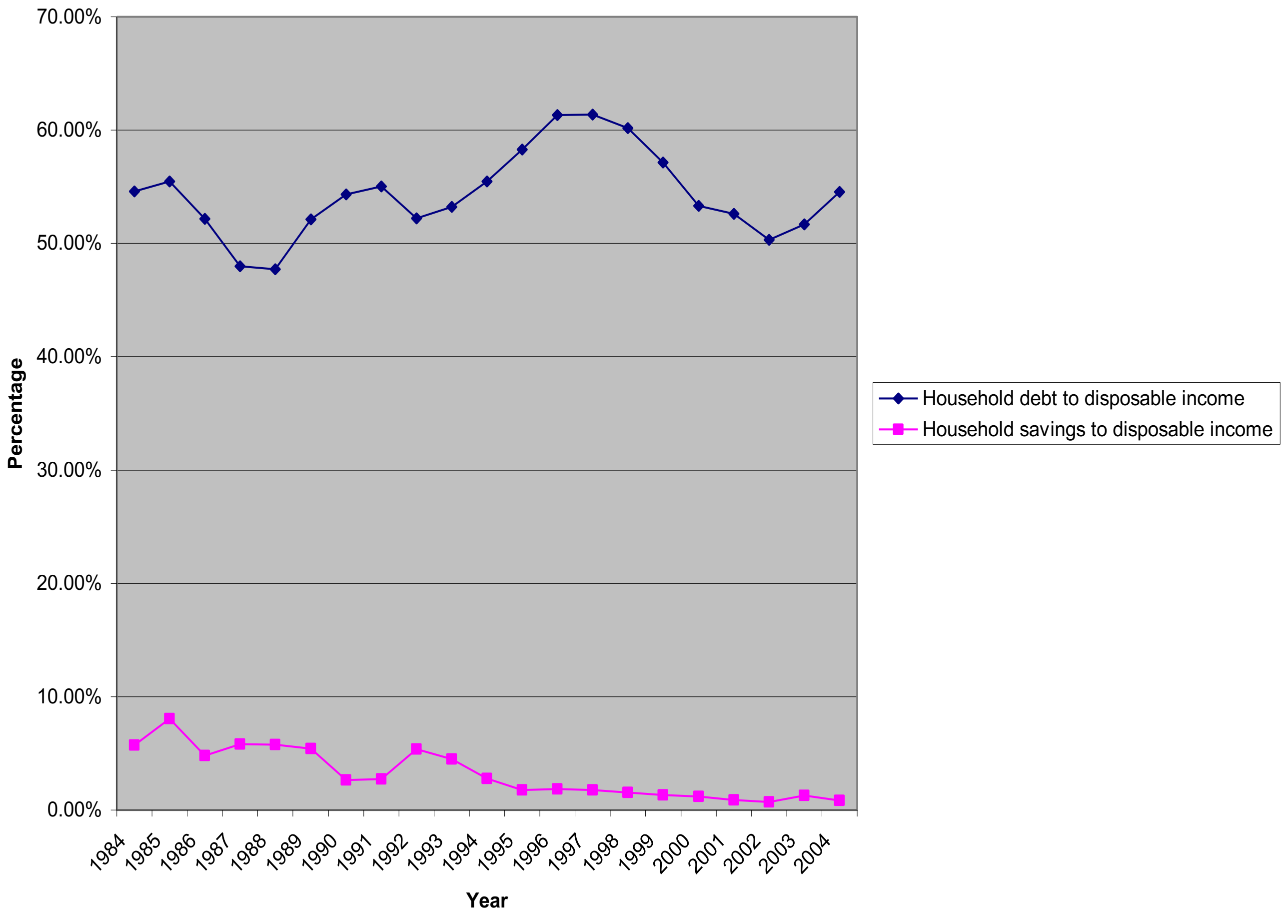
Van der Walt and Prinsloo (1995:7) accurately affirm that when expenditures surpass current income, dissaving naturally occurs. They therefore come to the conclusion that, unless counteracted by a stronger increase in the assets of the particular household, an increase in household debt will give rise to a decline in the savings of the household.

Low levels of savings can reflect consumers' preference towards higher consumption in the present. Individuals that expect to earn more in the future, tend to have less objection to spending money not earned up till then. These individuals will be inclined to have a high discount rate on the future (Redmond 2000:182). Future income will thus be less, because it is already spent through the use of debt.

Figure 2.7 shows a distinct slackening of the savings ratio in South Africa after 1985 and at the same time an unusual increase in the household debt to disposable income ratio.

South Africans had debt in excess of R488,8 billion in 2004 and this figure increased by 23,8% to R604,9 billion in 2005 (Sake Rapport 26 March 2006:1). The level of household debt as a percentage of disposable income is presently at 68% and growing despite warnings by the Reserve Bank (RSA MoF 2006:2 of 6).

Figure 2.7: Household debt and household savings as a percentage of personal disposable income (1984-2004)



(Kane-Berman & Tempest 2006:74).

The inverse relationship between these two variables, show very high debt levels of individuals in South Africa, and at the same time decreasing savings. There is a deliberate reduction in savings after the deregulation of financial institutions in South Africa as can be seen from Figure 2.5.

As individual debt, savings and household financial management are a very personal issue that individuals have to deal with on a daily basis, there must be various demographic factors that differ from individual to individual that influence how an individual manage his personal finances.

2.7 DEMOGRAPHIC FACTORS RELATED TO PERSONAL DEBT AND PERSONAL SAVINGS MANAGEMENT

Various factors can be related to consumption, debt and saving tendencies of individuals, such as the standard of living, material and social needs, tradition, existing indebtedness, net worth and disposable income. Therefore, the ability of an individual to spend future income now by making use of credit and the expected future income of the individual are paramount in determining current expenditure by individuals (Prinsloo 2002:63). Redmond (2000:189) commented on the degradation of saving and the substitution of saving for values that favour consumption and debt. The saving that does occur comes from certain personal values that the individual consider more important that spending.

Several researchers (Chen & Volpe 2003:121; Kim 2000:36; Redmond 2000:188; Viaud & Roland-Levy 2000:430; Watson 2003:736; Teichman, Cecconi, Bernheim, Novarro, Monga, DaRosa & Resnick 2005:138) have mentioned certain demographic factors, such as age, gender, values, personality, income, status, and financial illiteracy to influence personal debt and saving behaviour of individuals.

2.7.1 Age

An important demographic determinant of debt and saving include age to determine tendencies towards overspending (Watson 2003:736). Redmond (2000:179) points to the lifecycle and the permanent-income hypotheses for guidance to determine saving and spending behaviour. The basis of the lifecycle hypotheses is that individuals generally live longer than the period of time they earn an income. Individuals have to accumulate assets during the period that they are earning an income, so that they can keep on spending after they no longer receive income. The idea behind the permanent-income hypotheses is that consumption depends on what an individual expects to earn over a certain period of time. If an individual expects to earn less over a certain period, he/she will spend or consume less.

Although individuals understand that retirement means that work-related income is terminated, they often fail to comprehend that the retirement years coincide with the gradual loss of the ability to make up for the shortfalls in retirement funds with advancing age. It is this knowledge that can truly spur the decision to save (Basu 2005:2 of 6).

According to research done (Teichman *et al*. 2005:138) the average baby boom household (born from 1946 – 1964) are rapidly approaching retirement age and are saving only one-third of the rate that they should be saving to enjoy the kind of lifestyle that they had before retirement.

Princeton Survey Research Associates (1999:32) conducted a study that revealed that younger people were more willing to admit that they were 'in over their heads'. Savings become more prevalent with age, because individuals start to realise that they are close to retirement. Even though age could be a determinant of savings, the survey found that one in four of the older consumers (50 and over) had no savings whatsoever.

McKay & Kempson (2003:2) makes it clear that retirement savings are the least for individuals below the age of 30. It increases from 30 through to 35, but from age 45 there is a decisive boost where savings for old age is concerned.

In a research study concerning the money management practices of young people (Atkinson & Kempson 2004:1), the Personal Finance Research Centre found that of the young adults living in Britain between the ages of 18 and 24, 50% of them had overdraft facilities and they were four times more likely than other adults to consider themselves over-borrowed. Financial problems are widespread among these young adults and they are considered at a high risk of over-borrowing. It was found that a number of young people think of their overdraft facility as having 'available money' and does not consider it to be debt or borrowing at all. It has been found that older individuals that had substantial debt had started borrowing early in life (Atkinson & Kempson 2003:11).

According to Gist & Figueiredo (2002:1 of 1) in a study done by AARP Public Policy Institute, the debt burden continuously decrease with age. At every income level, the debt burden is four to five times larger for the youngest age group than the oldest age group.

2.7.2 Gender

Chen & Volpe (2003:121) found various researchers proving that females have consistently less financial knowledge than males and is continually making incorrect financial decisions that lead to destructive financial behaviour. Kim (2000:36) also gave an account of 123 interviews that found women and less educated money managers were less knowledgeable about insurance issues than males and highly educated money managers.

In a study conducted at Kansas State University in the US, female students were found to report considerably more late payments than males, and this can decidedly point to flawed management of personal finances. The findings show that female students in the social sciences were the worst when it came to debt management and they were more likely to continue the trend after graduation (Cunningham 2002:1 of 1).

The Princeton Research Associates (1999:32) found that when it comes to excessive debt usage, more women (31%) that men (22%) reported to have $2,000 or more in personal debt, excluding mortgage payments. All these findings lead to the assumption that females tend to manage debt and personal finances less effectively than males.

2.7.3 Values

Moral norms are key issues to consider where savings and overspending are concerned. Redmond (2000:188) indicates three moral norms that affect the amount that individuals save:

- The extent the individual believes it to be immoral to be in debt.
- That it is important to save because it is 'the right thing to do' and not to be dependant on the government or one's children.
- To help one's children have a good 'start-off' in life.

Even though the majority of consumers in America are seriously indebted, being in debt is viewed as a moral weakness while at the same time saving; thrift and avoidance of luxury are deemed as virtues (O'Curry 2003:361).

Lea *et al.* (1995:682) discovered that individuals in debt found themselves in communities where debt were tolerated and not uncommon, unlike individuals living without debt who were surrounded by people that didn't support excessive debt usage. The study found that debt status could be predicted by how other people would perceive the respondent if they knew that he/she was in debt, as well as the respondents' opinion of people that are in debt.

2.7.4 Personality

Individuals that tend to feel inadequate would spend more to compensate for their low self-esteem. Watson (2003:724) mentions overspending to be a method individuals use to feel better about themselves and to make up for what is lacking on a personal level.

Research by Nyhus & Webley (2001:S87) suggests that there is a definite link between personality dimensions versus saving and borrowing behaviour. Individuals that are considered to be conscientious, have self-discipline, plan and possess the ability to delay gratification. Higher discretionary savings are expected of these individuals and because they keep track of their personal finances, they will be less likely to borrow. Emotional stability and introversion are also predictors of saving and borrowing behaviour, as both reduce borrowing and increase savings.

Gorniak (1999:639) suggests that an individual that has an inner personality trait that supports saving and a positive attitude towards it, will definitely save more than someone without this internalisation of the norms supporting the behaviour.

2.7.5 Income and status

Debt usage can be dependant on how people see themselves and where they place themselves on the income/status ladder. Lea *et al.* (1995:697) made the statement that individuals having high debt usage tended to be people whose parents were relatively well off and became independent earlier. These individuals possessed higher expectations and struggled to manage on a lower income. Princeton Research Survey Associates (1999:32) found that the more affluent individuals had more debt as a percentage of their annual income, compared with lower income individuals. The reason for this is the more liberal availability of credit to individuals earning a higher income. College graduates or individuals that have higher education were more likely to have higher debt ratios that those that did not.

A study was done concerning the personal finances of 50 surgical and family practice residents (Teichman *et al*. 2005:138). These residents experienced higher levels of debt and lower savings than the general public. Even though these highly educated individuals have higher than average income potential, their savings and debt levels were a cause of concern.

In his research findings, Gorniak (1999:635) found the part of population that is actively managing their money, are in higher professional positions, have a better education and earn a higher income. These individuals are open to taking credit and have adequate savings to fall back on. The odds of saving and borrowing reasonably are therefore possible. On the other hand, according to This Day (21 October 2003:14), the high-income section of the population has the highest level of debt compared to their lower-income counterparts, mainly because of the availability of credit in huge amounts. The literature suggests that the assumption that higher-income earners are more financially literate seems to be inconsistent, because they do not seem to realise the implications of high debt levels.

South Africans are subsequently heading in the same direction as their First World counterparts, because of the desire to get hold of expensive consumer goods and services, passing it off as bare necessities. Consumer goods, such as branded clothes, cell-phones, etc. could have been considered as unnecessary, but are now perceived to be ‘important to participate in society’ (Lorgat 2003:6). Lea *et al.* (1995:682) found that in contrast with lower income households, higher income households had higher instalment debt because of their less limited access to credit facilities. Lower income households were mainly in debt because their monthly incomes were exceeded by their monthly expenses and not because of overspending due to unnecessary consumption.

Grant Thornton (2004:8 of 19) found that 18% of adults earning more that £17,500 pounds per year had unsecured debt of more than £5,000. These include credit cards and overdrafts, but not mortgages. They also found that 10% of people earning less that £9,500 per annum had a personal loan. The average debt was about £1,959.

Redmond (2000:189) notes that status and prestige and the overall desire for social recognition are important aspects that can cause overspending and excessive personal debt. He makes it clear that possession of socially meaningful goods is the logical channel through which individuals pursue social acknowledgement and respect. Materialism or a materialistic lifestyle could be a means of confirming social significance in a world where money and possessions symbolize power and prestige (Watson 2003:724).

Viaud & Roland-Levy (2000:430) identified a phenomenon where recently promoted employees overspend on credit because they struggle to align their lifestyle with their new highly positioned colleagues. The only means of obtaining the new lifestyle and gaining the status of 'those who made it,' is to make excessively use of debt. In circumstances such as these individuals could start to believe that they can achieve a certain social identity through the use of debt to obtain what they need to feel secure in their new perceived lifestyle.

2.7.6 Financial Illiteracy

Financial literacy as a subject has received a great deal of attention the past few years. Anthes (2004:51) identify rapidly decreasing savings in the United States of America as one of the consequences of financial illiteracy. Financial illiteracy was discovered to be correlated with low savings ratios, negligent credit card usage and bankruptcies (Kim 2000:1). In South Africa, the same evidence of low savings and excessively high debt, support this notion (Lorgat 2003:8).

South Africa has a lower household debt to disposable income ratio than developed countries. There is, however, a significant personal debt problem among South Africans and demographic factors such as age, gender, values, personality, income and status and financial illiteracy have an unquestionable impact on debt levels in South Africa.

2.8 THE REASONS BEHIND INDIVIDUAL DEBT PROBLEMS

To explain why individuals tend to overspend on credit can be because of a variety of 'failures' on the individuals' part. The reasons that individuals struggle with their personal financial management might be explained by the following:

2.8.1 Consumers living beyond their means

Credit - being too easily available - is indicted to be the reason for personal bankruptcies, bad credit references, attachment of earnings and in some cases broken marriages in South Africa. It created a generation that is addicted to having what it wants now and encouraging many to live beyond their means (City Press 4 June 2000:10).

Finance and Development (2004:35) referred to the low savings ratio in the United States, as well as showed concern regarding the increase in personal debt and the possible consequences of this precarious situation in the case of interest rate increases because of the fact that individuals just keep spending.

2.8.2 Compulsive buying disorder

Finansies en Tegniek (7 March 1997:60) mentions that compulsive buying disorder is most commonly found in people that suffer from anxiety. According to research done at the University of Columbia in the United States, these individuals experience a “high” from buying and it is followed by a depressed state that can only be remedied with buying some more. The availability of credit makes this even easier and accelerates the personal financial problems of these unstable individuals.

Compulsive shopping, also known as oniomania provides consumers with an exciting adrenaline rush, trailed by intense emotional lows that last until the next purchase. When compared to other addictions such as alcoholism, gambling and drug addiction, compulsive shopping is perceived as an ‘acceptable’ compulsion (The Way: Addictions 2004:1 of 1)

Credit Action (2005:1 of 5) found that, of the 59 million individuals residing in Britain, there were 67 million credit cards in circulation, confirming ‘the country to be officially addicted to plastic'. Compulsive shoppers, which represent between 2% and 8% of American adults, experience post-purchase guilt and tend to have 'out-of-control debt'.

2.5.2 Buying fever due to monetary policy

Low inflation can persuade some consumers to take on mortgage debt that they will not be able to afford should even a small increase in interest rates occur. The consequence of lower inflation is that it takes longer to repay debts. Households are more susceptible to variations in income. Expansive borrowing can also lead to interest rate increases (Grant Thornton 2004:16 of 19).

Beeld (27 November 2003:20) commented on the preceding decreasing interest rate in South Africa and governments' encouragement to consumers to spend. Interest rate decreases would lead to more disposable income made available to households and therefore spending would increase. When spending increase, inflation rise and to counteract the escalating inflation, interest rates will have to be increased. Fourie (2001:238) explains this occurrence and says that increases in the repo rate of a country will lead to commercial banks borrowing less from the Reserve Bank, as well as holding larger excess reserves. These actions lead to an interest rate increase and consumers will invariably spend less because of increased interest payments on existing debt. Should interest rates rise, many consumers will discover that they are in a financial predicament, because they are operating well beyond their means (Business Day 2 December 1999:22).

Of late it was necessary for the Reserve Bank to increase the interest rate fourfold with 0,5% each time. These actions were essential because of increased pressure on inflation due to the escalation in consumer spending and personal debt (Sake Rapport 3 September 2006:1). Strong consumer spending, rising oil prices and a weaker rand fuelled a rise in inflation and made interest rate increases crucial (Business Report 24 September 2006:1).

2.8.4 Lack of savings

Individuals all over the world save less than they did 10 years ago. When something unexpected happens there is no money to fall back on. The use of credit will subsequently increase. When savings decrease, debt will increase and vice versa. South Africa needs to save 10 times more to be considered equal to the best savers in the world (Sunday Times 1 August 2004:1).

Credit Action (2005:5 of 5) made the following statement: “We see more evidence of a ‘savings gap’ – with consumers’ expectations for retirement and their saving and borrowing behaviour being out of line. Good consumer understanding is needed for consumers to be able to make appropriate plans for the longer term, and meet the increasing requirements placed upon them”.

Hodges (2004:1 of 1) gives evidence of the savings rate in the U.S ‘plunging’ down 91% from the 1970s and expose excessive debt and low productivity, together with receding saving as elements that will haunt future generations. The lack of saving will inevitably lead to increases in debt that could be harmful to the social and economic environments in a country.

South Africans ability to save is low because of absolute poverty. Individuals are not earning enough to survive and save. The South African government and the corporate sector has addressed and improved its saving issues, but the household sector has kept deteriorating to record low levels (RSA MoF 2006:2 of 6).

2.8.5 Borrowing to fulfil daily needs because of a low income

The three principal reasons for excessive debt according to a household survey in Britain, done by Credit Action (2005:2 of 5) are:

- Unexpected changes in personal circumstances – resulting typically from job losses, relationship breakdown or illness.

- Low income – and living for an extended period on a low income.
- Mismanagement of personal finances.

Lorgat (2003:1 of 1) states that one of the reasons that individuals turn to debt is to supplement an already low income. These individuals turn to micro-lenders that charge exorbitant interest rates, because "they can't do anything with their low pay". Dangerous financial consequences can follow if an individual start borrowing to pay for bills and existing debts. Usually micro-lenders are used, because the individual consists of a poor credit profile with very limited access to formal debt and as a result falls into the debt trap (Financial Mail 11 September 1998:16).

2.8.6 Study debt

Study debt leads to negative economic consequences, because individuals will only later in life be able to acquire assets, such as homes and start up new companies (Die Burger 7 January 2000:9).

Teichman *et al*. (2005:138) found that because surgical residents had more than average study debt, their debt levels were higher and savings lower than the general public. Their high educational debts preludes savings, because they see paying off their debts as more important. According to a report done on the rising rates on student loan debt in the United States, it was found that 39% of student borrowers now graduate with unmanageable levels of debt, meaning that their monthly repayments are comprised out of more than 8% of their monthly incomes (King & Bannon 2002:3 of 10).

2.8.7 Financial illiteracy

Financial illiteracy proves to lead to the mismanagement of debt, because individuals struggle to handle the challenges and decisions they are faced with every day in managing their personal finances. Credit Action (2005:5 of 5) verified that according to a survey done in the United Kingdom:

- 80% (4 out of 5 people) do not know that APR refers to the interest and other costs of a loan.
- 40% (4 out of 10 people) admit that they do not understand mortgages or individual savings accounts (ISA's).
- A third of the respondents admit to having a lack of confidence in their financial affairs.

A survey done by Nestlé Family Monitor (2001:9 of 13) in Britain concerning money and family matters found that on average:

- One in 5 people did not understand the concept of inflation.
- One third of individuals did not know that insurance is a way of protecting people from unforeseen events.
- Only 30% of the respondents could calculate the 4% interest on a £2,000 loan over two years.

City Press (4 June 2000:10) commented that the South African education system is presented as inadequate because people are leaving school without the basic knowledge of how to manage their personal finances. BANKSETA (2003:1 of 1) made the statement that research conducted by them proved that 'borrowers want to manage their debt but lack the skills to do so effectively'.

2.8.8 Financial Phobia

In a study done for Egg, the world's largest pure online bank, Burchell (2003:1 of 6) found financial phobia to be 'a psycho-social syndrome which causes individuals to avoid cognitive engagement with the management of their personal finances. Sufferers experience negative emotions of anxiety, guilt, boredom, or feelings of a lack of control when dealing with money matters, resulting in a lack of vigilance – and in the worst cases complete avoidance – in this area.'

This phobia is prevalent among a fifth of the United Kingdom population and half of the population shows signs of financial avoidance that significantly influences the effective management of personal finances. Symptoms include the following:

- Not opening bank statements – or delaying doing so.
- Never checking bank balances.
- Handing the responsibility of dealing with financial matters to a partner.
- Lack of knowledge of account balances.
- Admitting to throwing away bank statements as a means of creating distance between themselves and their personal finances (Burchell 2003:4 of 6).

There are certain causes that instigate individuals to fall into the debt trap and prevent them from becoming debt-free. Individuals living beyond their means, compulsive buying disorder, buying fever due to monetary policy, lack of savings,
borrowing to fulfil daily needs, study debt, financial illiteracy and financial phobia can induce individuals to take on excessive debt.

2.9 CONSEQUENCES OF DEBT PROBLEMS

Excessive debt can have harmful consequences on an individuals' personal life. Stress about financial issues could affect family life, work outcomes and have detrimental effects on the overall economy of a country.

2.9.1 Broken homes or divorce

The number one issue that couples fight about in America is money. Dr. Markman, professor of psychology at the Centre for Marital and Family Studies at the University of

Denver, found that because decisions concerning money are a daily occurrence, it is a constant source of disagreement among couples (Hudson 2003:1 of 1).

Garman *et al.* (1996:161) provides evidence that the most common problems presented in a marriage counsellors' office is money and sex. Both of these problems are the result of 'a combination of ignorance and lack of information; differing attitudes, values and expectations; sensitive feelings; difficulties in interpersonal communication; and factors external to the individuals or relationships that result in a feeling of helplessness or lack of control'.

2.9.2 Stress

A quarter of the people in debt in Britain are being treated for stress, depression and anxiety by their G.P. The Post Office in the United Kingdom did a survey, where it was found that the majority of students were more anxious about their personal finances that their actual studies (Credit Action 2005:3 of 5).

Garman *et al.* (1996:160) cites the 5 risk stressors in an individual's life as:

- Relationships
- Work
- Health
- Crime/violence
- Personal finance

Of these listed, personal finance was rated the number one source of stress, five times more than that of health concerns.

Joo (1998:24) defines an unfavourable financial situation as a financial situation that 'causes a high level of stress, such as pre-existing excessive consumer debt, overdue notice from creditors, mortgage loan foreclosure, eviction, wage garnishment, and/or vehicle repossession'. Not enough knowledge and skills to handle personal finances could be a cause of these mentioned stressors. Kidwell & Turrisi (2004:611) also mentions the negative feelings surrounding debt as feeling stress and anxiety about financial obligations as well as bad credit developments.

2.9.3 Underperformance of employees

According to Beeld (12 March 2003:3) workers that are struggling with debt related problems are more likely to be unproductive, because they tend to stay away from work or because they can not think properly. Garman *et al.* (1996:159) gave a list of poor financial behaviours exerted by employees that have destructive consequences for employers, including the following:

- Absenteeism
- Tardiness
- Job stress
- Reduced employee productivity
- Lowered employee morale
- Employer time to deal with poor financial behaviours of employees
- Increased use of available health care resources by the employee and relatives

2.9.4 Loss of productivity

According to the Grandfather Economic Report series by Hodges (2004:1 of 1), productivity in the United States has had diminishing returns because of the debt situation. It is widely acknowledged that the provision of credit to consumers cause the creation of money in the economy. This brings about economic growth. In 1957, every $1 in debt resulted in 52 cents of national income. Today, however, there is only 23 cents growth for every $1 of debt. This is because America’s total debt has been growing faster than the country’s national income.

Garman *et al.* (1996:164) found evidence that productivity for a single employer could drop as much as 40% to 50% when employees displayed poor personal financial behaviours and decisions. It was discovered that roughly 15% of workers in the United States are facing financial stress because of personal financial mistakes and poor and careless financial behaviours.

2.9.5 Decline of individuals' financial health

Excessive personal debt levels cause a substantial burden on the economy of South Africa and lead to the ailing financial health of its citizens. The unstable financial situation that a majority of South Africans find themselves in, restrict the choices available to them and because of this the economy can't grow to its full potential (Business Day 2 December 1999:22).

Garman *et al.* (1996:164) points out that the "spiralling sphere" that starts because of negative financial behaviours and ultimately progress into bad debt situations, have an escalating effect that will eventually lead to physical, employment and financial failure.

2.9.6 Bankruptcy

Britain shows statistics that revealed that there was a significant increase in individuals going bankrupt that are not self-employed. According to the research done, the majority (75%) of these individuals went bankrupt because of over-indebtedness (Grant Thornton 2004:11 of 19).

2.9.7 Debt judgments (defaults) of loans

When failing to meet financial obligations such as loans, individuals will be charged and required to appear in court. Business Day (19 June 2002:3) accounted that according to Statistics South Africa figures during 2001, a million civil judgments for debt were issued, because of R9.2 billion in unpaid accounts. The judgment will be noted on the individuals' credit history and they will have trouble obtaining future credit.

General Union (2003:1 of 1) reported the following South African statistics:

- Individual debt judgments have increased in excess of 43% from 1999 through to 2003.
- Over 100 000 people had debt judgments issued against them in the larger magistrates courts during June 2003.
- People receiving summonses for debt during June 2003 was 153 000.
- In 1994 little less than 2,1% of South African adults were issued with debt judgments against a projected 4,1% in 2003.
- As the population has grown, the actual number of debt judgments will have increased by at least 125% between 1994 and 2003.

It was also reported that 33% of formal workers in South Africa have had debt related summonses and civil court judgments issued against them (Lorgat 2003:1 of 1).

2.9.8 Negative economic consequences

According to Watson (2003:724), 80% of the average quarterly growth of the G.N.P. in the United States can be explained by the growth of consumption and indirectly, credit. The point is made that a mere 1% change in savings or consumption individuals impart, can lead to either a recession, or on the other hand, a strong economy. Lorgat (2003:1 of 1) makes the statement that personal debt problems are affecting the economy in the sense that the loss in productivity is costing South Africa R12 billion on an annual basis.

Over-indebtedness can lead to negative economic and social outcomes such as broken homes or divorce, stress, underperformance of employees, loss of productivity, decline of individuals' financial health, bankruptcy, defaults on loans and negative economic consequences.

2.9 THE EFFECT OF EXCESSIVE PERSONAL DEBT AND REDUCED SAVINGS

Disproportionate high levels of debt and feeble savings has an effect on the individual that acquires the debt, the employer and the economy as a whole.

2.10.1 The individual

As previously discussed, individuals can experience destructive financial failure results due to excessive debt; namely broken homes or divorce, stress, underperformance at work, deterioration of financial health and bankruptcy.

Anthes (2004:52) mentions family conflicts over money matters, stress and depression, loss of productivity and fear of not being capable of affording basic healthcare in the case of elderly individuals. There will also be no secure retirement to look forward to.

The outcomes resulting from financial malfunction that is directly related to high debt levels will clearly impact negatively on the individual. There will be damaging effects on the individual self, his/her family, his/her work and on the overall quality of life of the individual.

Extremely high debt will also negatively impact on savings, because of the inverse relationship between the two variables. There is a fundamental need to provide adequately for retirement. Without the necessary savings, the individual will be unable to finance expected large expenditures such as a house or children's education, as well as unexpected losses of income. When these funds are not readily available when the need arises, additional debt will have to be accumulated (RSA MoF 2006:4 of 6).

The individual experience severe negative consequences in his personal life due to the mismanagement of debt and inevitably this will impact on all the other areas on the individuals' life, including work. Predictably the employer will be influenced.

2.10.2 The employer

Excessive debt, low savings, divorce, decline of financial health and bankruptcy due to the mismanagement of finances can cause undue stress, depression and anxiety. These factors will result in harmful workplace conditions such as underperformance and low productivity.

An individuals' financial well-being depends on subjective perceptions of personal finances and economic status, as well as financial stressors, such as life cycle events, job-related events, unexpected changes and unfavourable financial situations. If an individual is not financially well, this will impact on the workplace and the employer (Joo 1998:47).

Kim (2000:71) determined that financial well-being affects productivity, absenteeism, worktime used, turnover, organisational commitment, job satisfaction, loyalty, and intention to leave.

It is therefore vital to have a personal financial healthy workforce to ensure a productive and loyal business.

Variables such as productivity, a low turnover and low absenteeism are influential in determining a good-quality workforce and a thriving business. These factors will therefore also impact on the economy of a country.

2.10.3 The economy

The economy is affected twofold by excessive debt and low savings of individuals. Firstly, it affects the economy indirectly because of low productivity by employees. Secondly, it affects the economy directly by influencing economic variables such as investments, inflation, interest rates, the value of the Rand and overall economic growth.

Lorgat (2003:6) estimated that the debt problem in South Africa is costing the economy R12 billion annually, directly and through losses in productivity.

Even though debt is used to stimulate an economy, overexposure to consumer debt is a threat to the overall stability of an economy (Sake Rapport 19 March 2006:1). Excessive debt becomes a macro-economic problem because less household funds are available for investing. Investments are one of the thrusts behind economic growth. To help the economy grow, the government will have to borrow money outside South Africa. This will cause the value of the Rand to weaken, inflation and an increase in interest rates. This, again will negatively impact on the individual (Sake Rapport 3 September 2006:1).

The lack of sufficient household savings will have to result in increased investments from abroad to ensure sustainable economic growth in South Africa (Sanlam Limited 2005:1 of 1).

Excessive personal debt is consequently a problem that progress from the individual and consequences relating to the ineffective management of debt and personal finances, to destructive behaviours by the individuals that negatively impact on the employer and the workplace. In turn, damaging actions and conduct in the workplace with negatively influence the economy as a whole and have an impact on the specific country.

2.11 CONCLUSION

Chapter 2 defines personal debt and attempts to disclose the importance of personal debt management as a prerequisite for good financial behaviours where an individual can manage his/her personal finances effectively. Personal debt and personal savings are considered inverse of each other with an increase in debt inevitably leading to a decrease in savings. Certain demographic factors that could determine debt, such as age, gender, values, personality, income, status and financial illiteracy were discussed. South Africa and its First World counterparts were compared and it was discovered that South Africa are in better shape compared to countries like the United Kingdom and the United States of America with reference to their household debt to disposable income ratios. That does not, however, mean that South Africans are not in a precarious financial situation.

The reasons individuals are over-indebted can range from psychological issues, such as compulsive buying disorder to financial illiteracy that leads to destructive personal debt behaviours. There are a number of consequences of excessive debt that can lead to outcomes such as divorce, stress, a loss of productivity, economic consequences, etc.

The individual, the employer, as well as the whole economy are influenced by excessive personal debt and reduced savings. The individual are affected by personal consequences, the employer by destructive behaviours of the employee and reduced productivity in the total economy.

This chapter comes to the deduction that South Africans, as well as a major part of the globe are struggling with personal financial debt management problems. The easy availability of debt products by financial institutions makes it easy to fall into the 'debt-trap'. Overspending on credit can lead to high interest payments that devour available income. Sometimes the individual are left with no other alternative, but to fund further unnecessary expenditures with debt. This continuous use of credit and mounting interest payments could lead to a cycle of inferior debt management behaviours that could wreak havoc on personal finances.

Without the necessary skills to understand the basics of financial management, it is impractical to expect individuals to manage their personal finances effectively. There are various other socio-economic matters that have to be considered when the subject of personal finances is discussed. Certain personal financial attitudes and behaviours, together with the ever-present financial literacy are needed for individuals to effectively manage their personal finances.

CHAPTER 3

FINANCIAL LITERACY, ATTITUDES AND BEHAVIOURS THAT AFFECT PERSONAL FINANCIAL MANAGEMENT

3.1 INTRODUCTION

Inferior financial decisions affect individuals' financial security. A lack of basic financial management knowledge are one of the main reasons individuals tend to make bad financial choices. It is necessary for individuals to acquire knowledge concerning personal financial issues so that they will be able to evaluate the financial options available to them and manage their finances effectively (Anthes 2004:52).

Chen & Volpe (1998:121) found that participants with more financial knowledge had more efficient options and that their decision-making concerning personal financial issues, made them react more effectively to personal financial issues. The level of financial knowledge tends to influence attitudes that in turn affect individuals' personal financial behaviours.

The availability of credit have seduced individuals into a change in attitudes towards borrowing and make individuals susceptible to excessive indebtedness because they have the means to 'satiate their consumptive desires'. Individuals' attitudes have changed in the sense that they find it now acceptable to finance anything from a home to a vacation (Watson 2003:726). There is a clear correlation between debt attitudes and behaviours in respect to personal debt (Lea, Webley & Walker 1995:684).

Financial knowledge and personal financial management are correlated in the sense that knowledge could disclose effective household decisions concerning their personal finances and this in turn can affect the overall wellbeing of the individuals in the household (Karlsson, Dellgran, Klingander & Gärling 2004:754).

This chapter will be dealing with financial literacy and the relevance with personal financial attitudes and behaviours that lead to the effective management of personal finances. Financial literacy will be discussed in detail, including the factors that perpetuate financial illiteracy, the consequences of having inadequate financial knowledge, the demographic factors that could influence financial literacy and finally; financial education. Financial attitudes and financial behaviours are examined and the relation to personal debt and savings, personality, materialism and budgeting and to personal financial management. Personal financial management is also considered with specific reverence to personal well-being and work outcomes.

3.2 FINANCIAL LITERACY

There are so many choices to be made, with so many variables to consider and hidden biases, conflicts and subjective preferences that consumers can become overwhelmed when it comes to personal financial decisions (Streeter 2003:4). It is therefore necessary to examine financial literacy and all its components.

3.2.1 Factors that perpetuate financial illiteracy

There are factors in the immediate external environment that could influence the level of personal financial knowledge of individuals. The following factors can lead to decreasing financial literacy of individuals:

3.2.1.1 Increased complexity of the economy

The finance industry tends to be confusing, intimidating and complex. Individuals not educated or knowledgeable enough will not be able to make effective choices and are sometimes too proud to admit that they do not understand. There exists a great need for financial literacy training (Streeter 2003:4)

Individuals are not being responsible when it comes to their personal finances and Anthes (2004:51) reports that according to a 2004 Retirement Confidence Survey, only 58% of workers are currently saving for retirement. Fifty-eight percent (58%) of workers do not work out how much money will be needed to save to live comfortably by the time they retire. A shocking finding was that half of the workers that is not saving for retirement feels confident that they will have enough retirement money by the time they need it.

3.2.1.2 Less time accumulating wealth and more time spending

Countless individuals all over the world are not saving enough for retirement and are unprepared to deal with the complexities of managing and acquiring assets throughout their working lives (Sunday Times Business Times 11 September 2005:15).

In the year 2000, Americans only started accumulating wealth after the age of 25 and stopped long before turning 65. While in the 1930s, individuals started at the age of 20 and continued to accumulate wealth until they reached their late 60's. Individuals also spend an average of 35 years in retirement, compared with 20 years in the 1930s. Therefore retirement time has increased, but with a distinctive decrease in wealth accumulation (Anthes 2004:51).

3.2.1.3 Longer lives

South Africans, as well as Western countries are experiencing major financial burdens because of increased life expectancy of individuals. People live much longer than a few decades ago and consequently their retirement savings should be significantly more. The opposite is the case, however. A large proportion of individuals do not plan for retirement or take their life expectancy into account. The average life expectancy in the United States is expected to increase from 68 in the 1950s to 81 by 2025 (Sunday Times Business Times 11 September 2005:15).

Anthes (2004:51) report the following statistics concerning U.S. life expectancy:

- In 1900, 7% of 60-year old Americans had at least one living parent.
- In 2000, 44% of 60-year old Americans had at least one living parent.

3.2.1.4 An absence of financial education

Little doubt exist that school syllabuses should include basic financial skills training. South Africans lack the necessary financial skills to plan for retirement and education in this area would be of great benefit to society (Sunday Times Business Times 11 September 2005:15). In addition, many schools in the United States do not teach financial education as a subject because the teachers themselves do not understand what they are teaching, despite the availability of financial education programmes developed for youths (Anthes 2004:51).

According to the deputy minister of Finance, Mr. J. Moleketi, individuals should take responsibility in planning their future and empowering themselves with financial knowledge and to demand explanations from service and product providers when they are unsure or do not understand terminology. Effective consumer education will not occur overnight and it is a multi-generational project. It is therefore clear that the government of South Africa recognises the lack of and need for financial education (RSA MoF 2006:5 of 6).

3.2.1.5 Pension and personal savings

Individuals need to save for the following reasons:

- to smooth consumption patterns over their lifetime
- to provide for their retirement and old age
- to finance expected, large expenditures, like the purchase of a house, or the financing of their children's education
- and to finance unexpected losses of income

The importance of saving, however, is only realised when the need for it arises and then it is often too late (RSA MoF 2006:4 of 6).

Investment and pension returns have decreased since the 1980s because of lower inflation and reduced interest rates. When individuals are expected to live to the age of 80, these investment returns becomes even more mediocre. This combination of lower interest and inflation rates means that an individual that is currently retired will need double the capital to buy the same standard of living as in the 1980s (Sunday Times Business Times 25 September 2005:13).

Pension savings are getting more unsteady on a yearly basis in the United States and with personal savings dangerously declining, there is a clear indication that people do not realise the implications of their actions (Anthes 2004:51).

Factors responsible for the deterioration of financial literacy such as the complexity of the economy, less time accumulating wealth, longer lives of consumers, and absence of financial education, as well as a deteriorating of pension and personal savings have the following consequences on consumers.

3.2.2 Consequences of having inadequate financial knowledge

Insufficient financial knowledge can lead to individuals spending more money than they earn, keep inadequate financial records of their financial affairs, not investing available funds effectively and individuals more often than not making unsound financial decisions.

3.2.2.1 Spending more that their income

Atkinson & Kempson (2004:2) found that young people in Britain (aged 18 to 24) are increasingly over-borrowed and getting into financial difficulties because of financial illiteracy. Workers find themselves in financial crises because of a need to spend their income on costly goods such as branded clothes, cell phones, etc. for the purpose of 'fitting into' a society where these goods have become a necessity rather than a luxury. To live up to the standards set by society, these goods are acquired on credit (Lorgat 2003:6). Anthes (2004:52) supported this and referred to the 'instant gratification' mentality that individuals have that lure them into spending more on what they want and not necessarily need.

3.2.2.2 Not keeping financial records

A study done by Kidwell & Turrisi (2004:606) deduced that budgeting can change spending patterns of individuals, because of the successful regulation of finances. Unnecessary spending is curbed and budget maintenance is met with a favourable attitude. It was found that 45,6% of students with more financial knowledge keep detailed financial records compared to only 29% of the students with not as much financial knowledge. The research conducted by Chen & Volpe (1998:121) suggests that the more knowledgeable group regulate their spending patterns and decisions by keeping detailed financial records.

3.2.2.3 Not planning and implementing a regular investment programme

According to research done by Chen & Volpe (1998:122), 89,4% of financial knowledgeable students, view the planning and implementing of a regular investment programme as important. When they were offered an investment situation, 80% of the knowledgeable group made the correct investment decision, while only 51% of the less knowledgeable group made the correct decision. Most consumers are not educated enough to make informed investment decisions. 45% of the recipients in a survey done by Princeton Research Survey Associates (1999:38) had some knowledge and 18% of the respondents did not have any knowledge concerning investment planning and implementing.

3.2.2.4 Making incorrect financial decisions

The more knowledgeable an individual is concerning personal financial issues, the less likely that individual would be in making inaccurate financial choices that could lead to financial problems, such as inadequate insurance, spending exceeding income and incorrect investment choices (Chen & Volpe 1998:122). Garman, Leech & Grable (1996:165) suggests that negative financial decisions could be rectified and avoided by providing employees with the necessary financial counselling and intelligence to manage their finances in a more effective manner.

Consumers that are spending more than their income, not keeping financial records and not planning and implementing regular investment programmes, give rise to individuals making flawed financial decisions. Age, gender, qualifications and income are examined below to give an overview of the demographic factors that have an impact on financial literacy.

3.2.3 Demographic factors influencing financial literacy

Gender, age, income and education level could all impact on financial literacy and the effect that this could have on personal finances of the particular individual.

3.2.3.1 Gender

Women tend to suffer more from over-usage of debt than men (31% versus 22%) in the United States (Princeton Research Survey Associates 1999:32). Lea (1995:691) also reported that debtors are more likely to be women. In research done by Chen & Volpe (1998:108) it was discovered that female knowledge (50,8%) are consistently lower than their male counterparts (57,4%) and persist over all age groups, income and work experience subgroups. In addition, Cunningham (2002:1 of 1) also discovered that because women tend to earn less than their male counterparts, their excessive debt expenditure would probably continue this financial behaviour throughout their working lives.

3.2.3.2 Age

Stages in the life cycle impact strongly on personal finances. Younger generations are better educated and open to economic and social innovations. Their money would rather be spent on improving their standard of living than on savings, but because they have greater earning potential, it will be easier to pay back loans. Older generations are more risk-averse because of imminent retirement and will not be as open as the younger generations to take on loans (Gorniak 1999:634). Only a third of young adults (21 – 24) in Britain are financial literate, compared to half of adults in general (Atkinson & Kempson 2004:1).

It was found that older consumers (65+) were overall the least knowledgeable when they were asked basic investment questions. It was, however, discovered that across all age groups (18 – 49, 50 – 64 and 65+), there was an extreme lack of financial information (Princeton Research Survey Associates 1999:38). Evidence suggests that there seems to be a distinct lack of financial literacy across all age groups, their debt and savings decisions depending on their specific stage in the life cycle.

3.2.3.3 Income

Teichman, Cecconi, Bernheim, Novarro, Monga, DaRosa & Resnick (2005:138) established that surgical residents have been found with a great lack in financial knowledge, even though they are earning high salaries. Even though individuals with higher incomes tend to have better general financial knowledge (Chen & Volpe 1999:121), they either use this knowledge to their advantage and manage their finances effectively (Gorniak 1999:635), or they accrue excessive debts because it is so easily available to them (Lea *et al.* 1995:682).

According to Atkinson & Kempson (2004:8), poor children are much less exposed to matters such as banks and banking services and therefore know less about it. However, because of the lack of money, poor children are more aware of budgeting techniques that are used by their parents. According to Nyhus and Webley (2001:S101) households with little income have a greater willingness to save, because of their difficult economic situation.

3.2.3.4 Education

Individuals with higher or better education will be more inclined to be successful money managers, because they are actively saving, but are open to taking credit to add leverage to their personal finances (Gorniak 1999:635). Teichman *et al.* (2005:138) did a study on the personal finance practises of surgical residents and found that these highly educated individuals have higher debt and fewer saving than the general public. That could be because of extremely high study debt that the residents have to deal with. The research paper recommended that the residents were in need of personal financial education. Princeton Research Survey Associates (1999:32) also found that individuals that went to college are more likely to amass excessive personal debt.

Kidwell & Turrisi (2004:606) indicated that the more individuals perceive themselves as knowledgeable, the less they learn. Their perceptions interfere with the new information presented to them. Individuals that perceive themselves with less knowledge, on the other hand, are more open to learning.

Demographic factors such as gender, age, income and education, can therefore to a large extent, determine the financial literacy of individuals. This great lack of financial knowledge of individuals can only be addressed by undertaking financial educational efforts. Personal financial education may possibly be the only answer to this phenomenon.

3.2.4 Personal financial education

The aim of any financial literacy programme for adults should ‘be to enable them, individually and collectively, to understand and question the way in which financial institutions, the government and personal and household decision-making connect to shape numerous aspects of their daily lives’. Consumer education helps to develop the basic financial skills required to raise public awareness and understanding (Bond 2000:72).

Various authors (Kidwell 2004:611; Teichman *et al.* 2005:139; Lorgat 2003:8; Joo 1998:284) suggest that adults and children alike should be educated in financial issues, such as retirement planning, credit, savings, debt consolidation and investment to equip them with the essential financial skills to manage their personal finances effectively. Streeter (2003:4) considers financial education as very positive and provides improvements in both personal savings, as well as more effective credit use.

All the research studied give the impression that financial illiteracy can only be overcome by implementing financial education programmes for all gender, age, income and educational groups.

Lorgat (2003:8) suggests that South African individuals need financial education in the workplace to increase their financial wellbeing. Joo (1998:284) have done extensive research in workplace financial education combined with financial counselling sessions and found that it improves attitudes and behaviours related to personal finances, which leads to positive personal financial outcomes and an improvement in overall financial well-being.

3.3 FINANCIAL ATTITUDES AND FINANCIAL BEHAVIOURS

Financial attitudes and behaviours have been found to directly influence individuals' personal finances and specifically when confronted with issues such as personal debt and savings, personality, materialism, budgeting and overall financial management.

3.3.1 Definitions

Financial attitudes and behaviours can be defined as:

3.3.1.1 Financial attitudes

Gorniak (1999:633) defines financial attitudes as 'latent dispositions to react to or behave in a particular way with regard to their objects. They are linked to people's values and norms and are typically measured via responses to the survey questions'.

3.3.1.2 Financial behaviours

According to Kidwell & Turrisi's model (2004:603), social behaviour of individuals incorporate affect, past behaviour, social pressure and perceived control in predicting behaviour. Behaviour is determined by past behaviour (habit), and intention. Each of these variables is indirectly influenced by the individuals' perceived perception of control.

Financial attitudes lead to financial behaviours that could be influenced by personality, materialism, budgeting and financial management variables.

Financial attitudes and behaviours of individuals with regards to accumulation of debt and savings are examined below:

3.3.2 Financial attitudes and behaviours towards personal debt and savings

Individuals' attitudes towards money differ towards either avoidance of debt, or openness to taking on debt. The issue, however, is more complicated than just attitudes towards debt and savings (Gorniak 1999:634). Watson (2003:726) considers the availability of credit as the reason for attitudes changing towards borrowing.

Viaud & Roland-Lévy (2000:427) points out that people associate different meanings to credit and the association is either positive or negative, depending on the type of loan. If the loan is for something necessary and durable, it is perceived as 'credit'. If the loan is used for consumption, it is perceived as 'debt' and more negative than 'credit'.

From a sociological viewpoint, it is easier for an individual to acquire debt by means of a credit card that a bank loan, because no other person is involved as 'gatekeeper or approver' of the loan. The individual, therefore do not feel that they have to justify themselves with purchases on a credit card. Consequently, unsecured credit can increase significantly (Redmond 2000:192).

The majority of individuals view thrift and avoidance of debt as virtues, while debt is viewed as a sign of weakness. The following attitudes and behaviours emerged in research done by O'Curry (2003:361):

- 'Life is for living': according to the interviewees, credit enables an individual to live life to the fullest, to make life more enjoyable and add meaning to an individuals' existence.
- Blurred meaning of credit: both negative and positive meanings were presented. One is an indicator that one is doing well, the other a temptation.
- Budgeting is interpreted as an end and not a means: the majority finds budgeting too difficult. Reasons for not budgeting is given as both having too little money as well as having more money than one needs.
- Fiscal responsibility: bankruptcy has to be avoided at all cost and responsibility pertains to paying bills on time, even if only the minimum is paid.

- Idiosyncratic bill paying practices: The best strategy from a financial perspective in paying bills would be to pay off the highest interest rate bills first, but the majority of respondents pay the smallest first and this gives them a sense of accomplishment.

Individuals tend to perceive debt either positive or negative according to the types of credit used. Debt with higher interest rates such as credit cards will be seen as more negative than a home loan with a much lower interest rate.

Personality also plays an important role in individuals' perceptions and actions regarding debt and savings.

3.3.3 Financial attitudes and behaviours and personality

Nyhus and Webley (2001:S100) studied the connection between debt and savings attitude and behaviour with personality and found that emotional stability and introversion increase savings and decrease the use of credit. The third variable, autonomy, is likely to lead to lower savings and increase the likelihood of households having debt. Another personality trait that can be linked with savings and debt attitudes and behaviours is agreeableness. More agreeable individuals would be more willing to acquire debt and consequently save less in the process. Individuals wanting to prove themselves and displays signs of stubbornness, will have more savings, relating to the notion that individuals with more self-control are more likely to save more.

Three personal features are important in the measurement of attitudes and behaviours towards personal finance, namely:

- Economic optimism: when an individual is positive about economic prospects, debt is likely to increase because the individual have positive expectations concerning their own income and the situation in the country.

- A sense of threat: if an individual feels threatened for whatever social or economic reason, the probability of savings would increase, because the individual feels uncertain about the future.
- Achievement orientation: an individual that is expecting to attain certain goals and 'climb the career ladder', with the accompanying benefits, would have the potential of attaining more credit (Gorniak 1999:636).

An individual with more self-control are likely to be less indebted than a person with a smaller amount of self-control. A high degree of materialism would have a distinct bearing on how individuals perceive and act on the subject of personal finances.

3.3.4 Financial attitudes and behaviours and materialism

Materialism can be explained as the belief that money and possessions is the most important thing in life (Cambridge Dictionary Online 2005:1 of 1). In a society preoccupied with material things, the need to acquire possessions intensifies.

Watson (2003:735) suggests that materialistic individuals are likely to borrow more money because they have favourable attitudes towards debt, especially for reasons that can be perceived as not necessarily vital. Financial management can be seriously impaired because of these positive attitudes towards debt.

High current consumption and low savings reflects individuals' low preference for deferred consumption. It could be related to materialism in the sense that individuals are more concerned with having their needs (essential and non-essential) met in the present than in the future (Redmond 2000:182).

A need for material possessions would lead to higher debt ratios because materialistic individuals will be more likely to acquire debt to meet their worldly wants. Budgeting could be a way of controlling the acquisition of new debt, because the individual can manage their financial affairs.

3.3.5 Financial attitudes and behaviours and budgeting

The following components contribute significantly towards attitudes to budgeting:

- Consumption prominence: budgeting attitude will be favourable, if the individual perceives budgeting as important.
- Undesired effort: when an individual perceives budgeting to increase effort, the more undesirable budgeting would become.
- Purchasing barriers: a budget may be perceived as a 'psychological barrier' and impair the acquisition of desirable income and that would undeniably lead to a less favourable attitude towards budgeting.
- Perceived knowledge: if an individual perceive his knowledge of budgeting as low, the attitude towards budgeting would be positive.
- Structured spending: when an individual perceives budgeting to curb unnecessary spending, their attitude towards it will be less negative (Kidwell & Turrisi 2004:606).

Budgeting is essential to effectively control financial management and to limit expenses. Teichman *at al.* (2005:138) discovered that the main reason for the surgical residents in his study not contributing to a retirement scheme each month was because they had no money left after expenses. This was due to a lack of budgeting.

Budgeting is viewed by most as too difficult, even though individuals would like to do it. The majority of individuals see budgeting as unnecessary, because they either have more money that they actually need or not enough money to cover all their expenses (O'Curry 2003:361).

Budgeting, therefore, is a necessity in managing financial matters and gaining control over personal finances and debt. Subsequently, personal financial management can be either negatively or positively affected by various financial attitudes and behaviours with regards to personal finances.

3.3.6 Financial attitudes and behaviours and financial management

Attitudes are seen as an intermediate step when it comes to the debt behaviour of individuals. Factors such as economic socialisation, money management and credit use are seen as more effective forms of determining the psychological analysis behind debt behaviour. Attitudes towards debt still remain as an important factor related to personal financial management (Lea *et al.* 1995:699). Personal financial management is therefore related to financial well-being and that affects outcomes at work.

3.3.6.1 Personal financial management and financial well-being

Financial well-being can be defined as 'insight into the material and non-material aspects of an individuals' financial situation, in addition to satisfaction with income and savings, awareness of opportunities, the ability to make ends meet, a sense of material security and a sense of fairness of the reward distribution system' (Joo 1998:11). Porter (1990:22) describes financial well-being as a sense of one's financial state of affairs based on objective and perceived attributes, judged against certain standards of comparison.

Kim (2000:71) developed the following conceptual model that shows the relationship that personal characteristics share with personal financial management styles. This lead the way to the degree of financial well-being obtained and this affects work-related outcomes such as productivity and absenteeism.

Individual character

Personal financial management
Attitudes
Knowledge
Behaviour

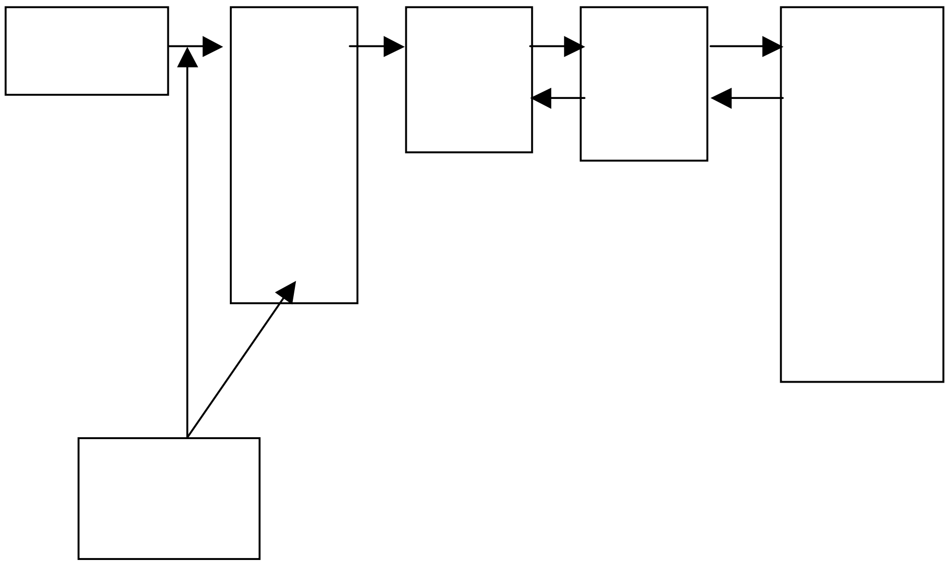
Financial well-being
Subjective
Objective

Personal finance – work conflict

Work outcomes
Productivity
Absenteeism
Work time used
Turnover
Organisational commitment
Job satisfaction
Loyalty
Intention to leave

Figure 3.1: Conceptual Model of Financial well-being and work outcomes and the effect of workplace financial education

Workplace Financial Education



Kim's model (2000:70) suggests that individual characteristics or traits affect personal management style. According to the model, workplace financial education can change attitudes, increase personal financial knowledge and by doing that, change personal financial behaviours. This would lead to improving the overall financial well-being of the individual. This can be measured on a subjective and objective approach.

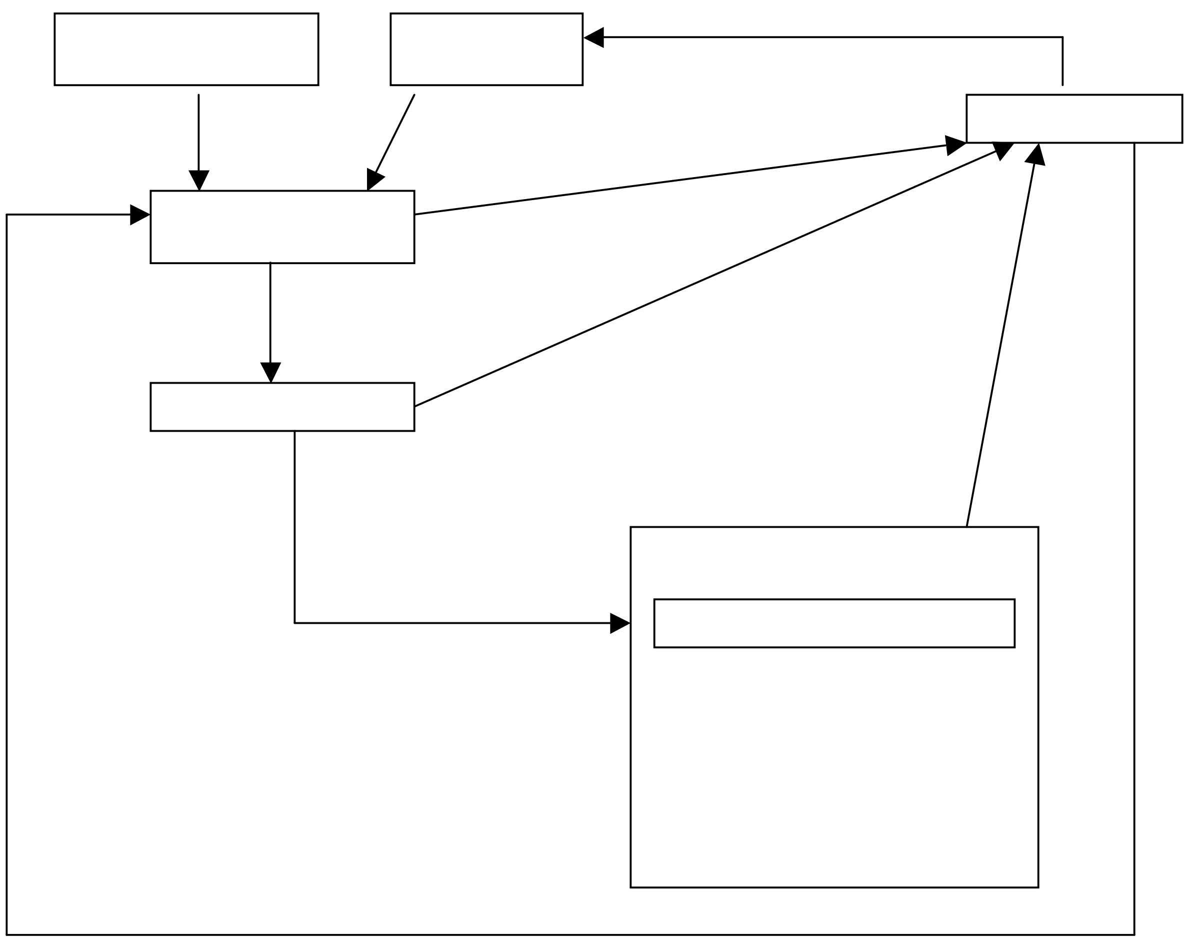
The degree of financial well-being spills through to the workplace and can affect an employee's productivity, absenteeism, worktime used, turnover, organisational commitment, job satisfaction, loyalty and intention to leave.

3.3.6.2 Personal financial well-being and work outcomes

It has been established that poor financial behaviours directly influence the financial well-being of an individual (Kim 2000:71). Employers are negatively affected when employees display poor personal financial behaviours and decisions. These behaviours act as stressors that reduce productivity in the workplace and lead to outcomes such as tardiness, lowered morale, fighting with co-workers and job stress to name a few (Garman *et al.* 1996:159).

Joo (1998:56) identified the following empirical model to explain financial well-being and worker job productivity.

Figure 3.2: <u>The effects that workplace financial education has on personal financial well-being and worker job productivity</u>



According to this model demographic characteristics as well as financial stressors influence personal financial well-being. Financial stressors can be defined as recent financial stress events, such as job-related events, unexpected changes, an unfavourable financial situation and life cycle events. The personal financial well-being level produces financial stress through satisfaction or dissatisfaction with the personal financial well-being status.

The model assumes two different paths that can be taken. Some individuals will use the buffering system available to them, while others will not. The buffering system provided, consists out of financial support and financial education from various sources. Support can come from the individual self, family, friends, co-workers, the financial education provided by the employers, as well as factors in the macro and micro environment.

When an individual do not make use of the buffering system and experience a high level of financial stress, the job-related outcomes will be negative. These negative outcomes could lead to further destructive outcomes, such as bankruptcy, job loss, etc. These outcomes will cause financial well-being to deteriorate even further. On the other hand, if an individual do make use of the buffering system, the outcomes would be positive and financial well-being would be reinforced (Joo, 1998:49).

Effective financial management have an unquestionable positive impact on individuals' financial well-being and this would become apparent in social and work-related circumstances. The individual would be less stressed because financial affairs would be in order and under control. More favourable work outcomes would be experienced by the employee.

The deduction can therefore be made that attitudes and behaviours can have an affect on the debt and savings levels of individuals and that there are direct associations between financial attitudes and behaviours and the factors such as personality, materialism, budgeting and financial management.

3.3 CONCLUSION

Financial literacy, attitudes and behaviours towards personal finances affect personal financial management. When an individual is financial literate, attitudes towards financial issues tend to be positive and consequently the behaviour displayed will be of a positive nature that could lead to the effective management of personal finances. Certain factors lead to increased financial illiteracy, such as the complexity of the economy, less accumulation of wealth and more spending of it, individuals living longer and an absence of financial education. This leads to certain consequences, for instance individuals spending more than their income, not keeping financial records, not planning and implementing an investment programme and making unsound financial decisions.

A number of demographic characteristics were found to influence financial literacy. Age, gender, education and income could foretell financial literacy in certain cases. Personal financial education were found to be linked to financial attitudes and behaviours that in turn are concurrent towards personal debt and savings, personality, materialism, budgeting and financial management. In conclusion the relationship between personal financial management, personal financial well-being and work outcomes were discussed. As a result it is determined that personal financial well-being affects the employer through work outcomes that can either be positive or negative. This in turn will affect the economy.

The research methodology that was used to collect and analyse financial attitudes, behaviours and overall personal debt management will be discussed in the next chapter.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 INTRODUCTION

The research methodology discussed in this chapter will focus on the methods applied to analyse the data obtained during the course of this study. The process employed to test the debt management practices of respondents concerning their personal finances will be discussed in detail and examined.

Hussey & Hussey (1997:54) defines methodology as 'the overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data'. The methodology intends to provide the rationale behind using a particular approach and the methods employed to obtain analysed data (Jankowicz 2000:212). The method instigated in evaluating the problem and the results of the debt management practises of respondents, will be considered in detail.

Chapter four will therefore concentrate on differentiating between the research design, methodology employed, population targeted and the collection and analysing of the data through specific statistical tests.

4.2 RESEARCH DESIGN

Research design can be defined as a 'detailed plan' that should act as a guide of planning course of action, so that the most valid research findings become evident (Hussey & Hussey 1997:114). It is a 'deliberately planned' route to follow in the collection and analysing of data so that the aim of the research will become clear through the specific procedure employed (Jankowicz 2000:190).

The research design necessitates planning and execution of the different variables that is necessary to accomplish the research aims and objectives. It is essential to provide answers to questions about the kind of study to be done; the collection and investigation techniques that would best employ the available resources and answer the research questions or problems.

Personal financial management and debt practices can be classified as exploratory research. This approach is utilised when a new interest is examined or when it is a relatively new subject matter (Babbie & Mouton 2005:79). The issue concerning individual financial management, as well as debt management has been under discussion in more developed countries, but the South African perception and context has not been examined in great detail. Studies of an exploratory disposition are done to 'better comprehend the nature of the problem since very few studies might have been conducted regarding the phenomena needed to be understood'. To gain familiarity with the problem, preliminary research needs to be done before a model or design can be developed to investigate and understand the occurrence or trend completely (Sekaran 1992:95).

Research design entails factors such as choosing the data collection practices and sources, such as secondary (literature and past studies) and primary data (new empirical information) (Melville & Goddard 1996:17).

Other factors include the selection of sample sizes, the classification of the particular population that will be examined and method of data collection and the specific means of evaluating the data obtained from the sample (Jankowicz 2000:193).

The research technique employed in this study will be of a quantitative nature by making use of surveys to ascertain the data required. The study will aim to determine the extent of indebtedness and savings of respondents through the use of fully structured questionnaires. Articles, unpublished reports, academic journals, the Internet, newspapers and other publications will be used as secondary data. This study contains literature from South Africa, as well as the United States of America and the United Kingdom, where more comprehensive research has been done.

4.3 RESEARCH METHODOLOGY

Jankowicz (2000:209) defines a research method as ‘a systematic and orderly approach taken towards the collection and analysis of data so that the information can be obtained from the data’. According to Hussey & Hussey (1997:54) methods distinguish between a range of measures by which data are collected and analysed, while methodology involves the following issues:

- Why you collected certain data.
- What data you collected.
- From where you collected it.
- When you collected it.
- How you collected it.
- How you will analyse it.

The research methodology in this study will involve obtaining information from respondents through structured questionnaires. The purpose would be to gain data on the personal financial management practices of respondents, their perceptions, attitudes and behaviours concerning their personal finances as well as the level of debt and savings they have acquired. After the information is gathered the data needs to be analysed using statistical procedures to settle the research objectives.

The selection of the population, in addition to the specific target population is an important determinant in substantiating the research objectives.

4.4 TARGET POPULATION

A population is 'a group of people, events or things of interest that the researcher wished to investigate' (Sekaran 1992:225). The study of an entire population is not possible in most cases.

The unit of analysis used in this particular study, comprises of all enrolled students at the University of the Free State School of Management during 2005. The individuals concerned, range from lower to higher income and have qualifications varying from matric certificates, university/technicon degrees or diplomas, to other technical qualifications. The target population consisted of varying age, sex, income and educational levels to demonstrate the differences in financial management practices.

Individual debt management practices, perceptions, attitudes and behaviours were examined to determine the extent of the research problem.

Lea, Webley & Walker (1995:682) found that higher income households, in contrast with lower income households, had higher instalment debt because of their less limited access to credit facilities. The deduction can therefore be made that lower income individuals and higher income individuals' personal financial management practices differ.

4.4.1 Description of the population

The respondents were enrolled at either one of the following programmes presented at the University of the Free State School of Management during 2005:

4.4.1.1 Management Development Programme (MDP)

The programme transpires over 1 year and admission to the course necessitates a grade 12 qualification and/or 3 year's management experience and/or a managers' recommendation.

4.4.1.2 Bachelor in Management Leadership (BML)

The duration of the course is four years and call for the following minimum requirements to be met before commencing the programme:

- 23 years of age
- a grade 12 certificate with at least 2 years working experience; or
- a grade 10 certificate with at least 5 years working experience; or
- an equivalent qualification.

4.4.1.3 Masters in Business Administration (MBA)

The general admission requirements for an MBA at the University of the Free State are the following:

- At least 26 years of age.
- A recognised three-year tertiary qualification (degree or equivalent qualification) and recognition of acceptable prior learning.
- At least three years of relevant managerial experience/work experience.
- Appropriate numeracy skills.
- Appropriate language proficiency.
- Adequate computer literacy.

4.5 SAMPLING

Sampling is the selection of an adequate amount of respondents from a certain population, so that generalisation of the properties or characteristics of the population can occur through the study of these respondents. By investigating the sample, the researcher will be able to draw conclusions about the particular population (Sekaran 1992:226). The sample that epitomises the population concerned must be representative of the population. If not, no observations can be drawn from the sample (Melville & Goddard 1996:30).

There can be distinguished between two forms of sampling, called non-probability sampling and probability sampling. Non-probability sampling refers to establishing a sample from a population where the respondents are identified and questioned because of certain variables such as their background, positions, roles or experience. The researcher is interested in variety and has no wish to generalise findings. Probability sampling differs from non-probability sampling in the sense that the respondents are identified because they are part of a certain population. The same questions are posed to each respondent and the researcher aim to generalise the findings to be specific towards the particular population (Jankowicz 2000:193).

The defined target population consists of 425 enrolled students at the University of the Free State School of Management during 2005. In order to make provision for a non-response, it was decided to use the whole population. This decision eliminates the use of a population sample. Due to the fact that all individuals in the population had a non-zero probability of selection, each member of the population had an equal probability of being selected.

4.6 PILOT STUDY

A pilot survey allows for the pre-testing of the target population (Hair, Bush & Ortinau 2003:464). Hussey & Hussey (1997:163) emphasise the importance of pilot testing a questionnaire to smooth out any discrepancies or difficulties that could cause misunderstanding of the questions. It is imperative to test the questionnaire on individuals that is similar to those in the sample to improve the effectiveness or the data.

The study was pilot tested by a sample of employed nurses engaged in completing adult learning programmes through the University of the Free State School of Nursing.

4.7 DATA ANALYSIS

Sekaran (1992:275) classify data analysis as the following steps:

1) Getting data ready for analysis.
2) Getting a feel for the data.
3) Testing the goodness of the data.
4) Testing the hypotheses.

The steps identified were followed during the course of the study. The questionnaires were coded and categorised. The mean, standard deviation, correlations and frequency distributions of the data were calculated to get a feel for the data. Validity and reliability were established and the research questions were answered through the use of statistical manipulation. A detailed discussion of the data obtained will follow in Chapter 5.

4.8 METHOD OF DATA COLLECTION

The method of data collection used in this study was through structured questionnaires distributed to respondents.

The following key functions in the research process are performed by a questionnaire:

- Research objectives are transformed into specific questions.
- Standardised questions and response categories are identified.
- A questionnaire is an enduring record of the research.
- Questionnaires facilitate data analysis.

(Burns & Bush 2000:344).

The questionnaire aimed to verify the extent of indebtedness of the population, as well as determine their attitudes and behaviours concerning personal financial management. The majority of the questions in the questionnaire consisted of multiple choice questions that endeavoured to reveal the objectives set. The questionnaire was presented to a pilot study group and the necessary changes were made after the pilot study was conducted.

4.9 STATISTICAL TESTS APPLIED

The SPSS (version 13.0 for Windows) software programme was used in the statistical analysis of the data. This program, which is dedicated to processing statistics, is used by the University of the Free State in the analysis of information. Pearson Chi-Square statistics were used to obtain information regarding the statistical significance for the population.

Descriptive statistical methods such as means, medians, standard deviation and frequency distribution were used to analyse data, as well as binominal statistical analysis.

4.10 CONCLUSION

This chapter aim to examine the research methodology used in collecting and investigating the data necessary to answer the objectives. The target population was identified and defined and the total population was used in the study. This decision eliminates the use of a sample.

Data was collected by making use of questionnaires disseminated to the selected population. The data obtained from these individuals were processed and analysed with the use of statistical software, binominal and descriptive statistical methods. Chapter five will present the data analysis and discussions related to the information obtained through the empirical study.

CHAPTER 5

DISCUSSION OF RESEARCH RESULTS

5.1 INTRODUCTION

The examination of individuals' personal financial management practices is necessary to understand the depth of the personal debt problem. Personal debt has certain consequences that could lead to several negative personal and professional outcomes. These outcomes may quite possibly reduce the standard of living for these individuals, impact on their productivity in the workplace, as well as having a number of negative economic consequences.

This chapter is dedicated to evaluating the extent of debt that individuals have accrued. Individuals' perceptions, attitudes and behaviours concerning personal finances will be aligned against their debt usage, as well as their savings with specific reference to demographic factors such as age, gender, income and qualifications.

A variety of consequences result from excessive debt usage, for instance insufficient savings, extreme stress, interference with responsibilities, a pessimistic financial outlook for the future, as well as not feeling in control of financial responsibilities.

In this section of the study the most important determinants of and attitudes towards personal debt, as well as the management of personal finances will be examined and the results will be presented to better appreciate the magnitude of the evident tendency to overspend.

5.2 SAMPLE SELECTION

The population was selected in conjunction with the University of the Free State School of Management. The individuals provided by the School of Management were all enrolled students that attended either one of the three management programmes during 2005. The decision was made to use the whole population in order to make provision for a non-response and therefore, the use of a population sample was eliminated.

The 286 respondents attended either one of the following management programmes:

- Management Development Programme (MDP).
- Bachelor in Management Leadership (BML).
- Masters in Business Administration (MBA).

It is apparent that the respondents are exposed to business training and the expectations are therefore, that these individuals are supposed to be more financial literate than the average South African. The sample consisted of 136 women and 150 men. Five different age groups were identified, namely individuals aged younger than 30, 30-39, 40-49 as well as individuals older than 50. The respondents were classified according to their annual disposable income in subdivisions of less than R40 000 a year, between R40 001 and R60 000, between R60 001 and R80 000, between R80 001 and R100 000 and individuals that earn more than R100 000 annually. Disposable income is the amount of income left to an individual after taxes have been paid, available for spending and saving (see p.10 for definition). The respondents had educational backgrounds that range from matric certificates, university or technicon degrees or diplomas to any other recognised qualification. The vast majority of the respondents presented were between the ages of 30-49, earning a disposable annual income of less than R40 000 and had higher than average learning that consisted of either a university or technicon degree or diploma.

5.3 METHODOLOGY USED TO OBTAIN DATA

The method of using self-rating questionnaires as a measure of data collection was applied to obtain information regarding the respondents' personal financial management practices. The questionnaire aimed to verify the extent of indebtedness of respondents enrolled in either one of three management programmes at the University of the Free State School of Management, as well as determine their attitudes and behaviours concerning personal financial management. The majority of the questions in the questionnaire consisted of multiple-choice questions that endeavoured to uncover the level of indebtedness.

5.4 THE EMPERICAL RESULTS, ANALYSIS AND DISCUSSION

The empirical results will test the degree of debt acquired by individuals, their attitudes, behaviours and perceptions regarding their financial situation, as well as the savings accumulated by the population. Particular consideration will be paid to the difference in debt management amongst the different genders, age and income groups and individuals with different qualifications.

5.4.1 Profile of the respondents

It is essential to illustrate and evaluate the following demographics of the participating respondents. There exist underlying differences in the debt managing practices of the following demographic groupings:

- Gender
- Age
- Income
- Qualifications.

The following table assess the gender profile of the respondents:

Table 5.1: Gender profile of the respondents

Gender	Number	Percentage
Male	150	52,4%
Female	136	47,6%
TOTAL	**286**	**100%**

The table indicates that the genders are approximately equally distributed, with 52,4% being male and 47,6% female.

Table 5.2 shows the different age groups that participated in the study.

Table 5.2: Age evaluation of the respondents

Age groups	Number	Percentage
Younger than 30	40	14,0%
30-39	113	39,5%
40-49	108	37,8%
Older than 50	25	8,7%
TOTAL	**286**	**100%**

The table shows that more than 77% of the respondents are between the ages of 30 and 49. These two age groups represent the majority of the working force in this population illustration. Respondents can be considered to be at a pre-retirement age when they reach the age of fifty. Only 8,7% of the respondents were older than 50 and at a complete different stage of the life cycle than the rest of the group. At the other side of the spectrum you can find the career-starters, which is individuals that are younger than 30. Fourteen percent of the respondents were younger than 30.

Table 5.3 estimates the disposable income classifications of the respondents.

Table 5.3: <u>Income groups of the respondents</u>

Income	Number	Percentage
Less than R40 000	153	53,5%
R40 001 – R60 000	46	16,1%
R60 001 – R80 000	22	7,7%
R80 001 – R100 000	14	4,9%
More than R100 000	51	17,8%
TOTAL	**286**	**100%**

The greater part (53,5%) of the respondents are in the less than R40 000 annual disposable income group. A large number of the individuals were either part of the R40 001 – R60 000 income group (16,1%), or the income group that earned more than R100 000 annually (17,8%).

Table 5.4 illustrates the qualifications obtained by the 286 individuals involved in the study.

Table 5.4: <u>Qualification profile of the respondents</u>

Age	Number	Percentage
Grade 8-12	74	25,9%
University/technicon degree	187	65,4%
Other qualifications	25	8,7%
TOTAL	**286**	**100%**

The greater part of the respondents (65,4%) have either a university degree or a technicon diploma, bringing about that the majority of the individuals involved are highly educated (white-collar workers). This was expected, given the population used. More than a quarter of the respondents have only a matric certificate and 8,7% of the individuals that took part in the study had other acclaimed qualifications.

It is therefore clear that the respondents' gender were approximately equally balanced, with most of the respondents being between the ages of 30 and 49, have a annual disposable income of between R20 001 and R40 000 and having either an university or technicon degree or diploma.

5.4.2 The different sources of debt used

The various sources of debt made available to the public that were investigated, depending on their credit status, are:

- Home loans
- Personal bank loans
- Micro lenders
- Clothing accounts
- Vehicle finance
- Furniture accounts
- Credit cards

The following table displays the total number of users for each of the various sources of debt available in the market, as well as the total percentage of the respondents making use of the specific source of debt.

Table 5.5: The total number of users associated with the different sources of debt

Different forms of debt	Population	Number	Percentage
Home loans	286	174	60,8%
Bank loans	286	130	45,5%
Vehicle finance	286	161	56,3%
Micro lender	286	26	9,1%
Clothing account	286	192	67,1%
Furniture account	286	78	27,3%
Credit card	286	201	70,3%

Table 5.5 clearly illustrates that:

- Credit cards are the most popular source of debt (70,3%).
- Clothing accounts, home loans and to a lesser extent vehicle finance, are widely used by most of the respondents.

- The various sources of debt can be ranked in the following order of dominance:
  - Credit cards
  - Clothing accounts
  - Home loans
  - Vehicle finance
  - Bank loans
  - Furniture accounts
  - Micro lenders
- Although only 9,1% of the respondents make use of micro lenders, this is still a very high percentage.

It is the opinion of the author that home loans, bank loans and vehicle finance can be seen as more acceptable sources of debt, because of relatively lower interest rates charged on these forms of debt. Reputable institutions that have these credit facilities on offer usually appraise their clients' creditworthiness and extend credit accordingly. Micro lenders and furniture accounts are seen as less acceptable sources of debt because of the excessive costs associated with these sources of debt, as well as the ease with which these credit facilities are made available to consumers. Clothing accounts are generally interest free for the first six months. These accounts, although no interest is paid for an extended period (six months), procure consumer goods that could be seasonal and delay payment. Interest rates after the six month period can be as much as 14,5% in excess of the banks' prime rate, making this source of debt very expensive, if not managed correctly. Credit cards can also be regarded as a less acceptable source of debt because of the elevated interest rates charged and the ease of making use of it. It is one of the most convenient forms of debt and therefore could be one of the most dangerous if not controlled (see Appendix A).

The following four tables present the total number of users associated with each source of debt, corresponding to the four different demographic categories namely gender, age, income and qualifications. The different genders are compared using the different forms of debt in Table 5.6.

Table 5.6: The total number of users associated with the different sources of debt corresponding to gender

Gender	Male	Female	Average
Home loans	69,3%	51,5%	60,8%
Bank loans	49,3%	41,2%	45,5%
Vehicle finance	64,7%	47,1%	56,3%
Micro lender	7,3%	11,0%	9,1%
Clothing account	55,3%	80,1%	67,1%
Furniture account	25,3%	29,4%	27,3%
Credit card	76,0%	64,0%	70,3%

- Males have a higher usage rate of home loans, bank loans, vehicle finance and credit cards.
- More females (3,7%) than males, make use of micro lenders.
- 80,1% of females have clothing accounts, compared to only 55,3% of males.

There seems to be a distinct difference between male and female users of debt. Males tend to make use of more bank and financially accredited forms of debt, such as house bonds, vehicle finance and bank loans, while females use more of the less acceptable sources of debt such as micro lenders, clothing accounts and furniture accounts.

Table 5.7 displays the total number of users associated with each form of debt according to the four different age groups.

Table 5.7: The total number of users associated with the different sources of debt corresponding to age

Age	Younger than 30	30-39	40-49	50+	Average
Home loans	37,5%	70,8%	60,2%	56,0%	60,8%
Bank loans	40,0%	47,8%	48,1%	32,0%	45,5%
Vehicle finance	45,0%	61,1%	57,4%	48,0%	56,3%
Micro lender	2,5%	9,7%	10,2%	12,0%	9,1%
Clothing account	75,0%	63,7%	67,6%	68,0%	67,1%
Furniture account	25,0%	24,8%	33,3%	16,0%	27,3%
Credit card	75,0%	72,6%	70,4%	52,0%	70,3%

- Individuals between the ages of 30 and 49 have more home mortgages, bank loans and vehicle finance than the other age groups.
- The oldest age group (older than 50) has the highest percentage of respondents making use of micro lenders (12%).
- The youngest age group (younger than 30) use more clothing accounts than the older age groups.
- Credit cards are widely used by all age groups.
- Usage of credit cards decline with age.

The five specific income groups are expressed in Table 5.8.

Table 5.8: <u>The total number of users associated with the different sources of debt corresponding to income</u>

Income	Less than R40 000	R40 001 – R60 000	R60 001- R80 000*	R80 001 - R100 000*	R100 000 +	Average
Home loans	64,7%	63,0%	31,8%	35,7%	66,7%	60,8%
Bank loans	39,9%	58,7%	27,3%	64,3%	52,9%	45,5%
Vehicle finance	58,8%	43,5%	50,0%	35,7%	68,6%	56,3%
Micro lender	8,5%	8,7%	4,5%	14,3%	11,8%	9,1%
Clothing account	60,8%	73,9%	95,5%	85,7%	62,7%	67,1%
Furniture account	20,9%	41,3%	36,4%	28,6%	29,4%	27,3%
Credit card	69,3%	73,9%	68,2%	71,4%	70,6%	70,3%

* As only 7 and 5 out of the 286 respondents earn between R60 001 – R80 000 and R80 001 – R100 000 respectively, it is recognised that the small sample in these two categories can not warrant definite deductions. All of the subsequent findings of these categories will be dealt with in this manner.

- The lower income individuals and the highest income group (more than R100 000 annually) use home loans more extensively.
- The highest income group has the highest percentage (68,6%) of respondents making use of vehicle finance.
- The higher income groups make more use of micro lenders than the other income groups.

It would be expected that education should give an indication of debt management practices. Table 5.9 displays the total number of users associated with the different sources of debt corresponding to qualifications.

Table 5.9: The total number of users associated with the different sources of debt corresponding to qualifications

Qualifications	Grade 12	University/ technicon degree	Other qualification*	Average
Home loans	66,2%	60,4%	48,0%	60,8%
Bank loans	51,4%	40,6%	64,0%	45,5%
Vehicle finance	60,8%	55,6%	48,0%	56,3%
Micro lender	16,2%	7,0%	4,0%	9,1%
Clothing account	68,9%	63,6%	88,0%	67,1%
Furniture account	37,8%	24,1%	20,0%	27,3%
Credit card	67,6%	71,1%	72,0%	70,3%

* As only 12 out of the 286 respondents have other recognised qualifications, it is recognised that the small sample in this category can not warrant definite deductions. All of the subsequent findings will be dealt with in this manner.

- The lowest educated group (grade 12) has the highest percentage of individuals making use of home loans (66,2%) and vehicle finance (60,8%).
- The highest educated individuals with either a university degree or a technicon diploma have the lowest percentage of individuals making use of bank loans and clothing accounts.
- The grade 12 group also use micro lenders and furniture accounts more than their higher educated counterparts.
- The grade 12 group has higher usage of all of the sources of debt compared to the university or technicon graduates, except for credit cards, where the highest educated individuals show a higher percentage.

Consequently, it was determined that there is a definite difference between the usage of the different sources of debt by the diverse demographic groups. The two genders differ a great deal in their usage of the different sources of debt, as well as the younger and older individuals, the lower and higher income groups and the grade 12 and the university and technicon graduates.

To evaluate the level of debt accumulation on each of the various forms of debt in the marketplace, it is necessary to analyse the amount of money expended on the debt in question each month.

5.4.3 The average percentage of income spent on the different sources of debt

Respondents were asked to indicate the percentage they spend on each source of debt (if any) to establish the total average percentage spent on that specific source of debt. The average percentage was multiplied by the percentage of individuals making use of the source of debt to reveal the total percentage of disposable income spent by each demographic group (see last column in Table 5.10). Table 5.10 indicates the total percentage of disposable income spent on each source of debt.

Table 5.10: Total amount of disposable income spent on the different sources of debt

Sources of debt	Population	Respondents	Percentage	Average % of income spent*	Total % of income spent**
Home loans	286	174	60,8%	23,0%	14,0%
Bank loans	286	130	45,5%	18,0%	8,2%
Vehicle finance	286	161	56,3%	21,0%	11,3%
Micro lenders	286	26	9,1%	~	~
Clothing accounts	286	192	67,1%	15,0%	10,1%
Furniture accounts	286	78	27,3%	16,0%	4,4%
Credit cards	286	201	70,3%	20,0%	14,1%
Total					62,1%

* The average percentage of income spent by the respondents that make use of that specific source of debt.

** By multiplying the percentage of respondents that make use of the specific source of the debt and the average percentage they spend on that debt equal the total percentage of income spent by all of the respondents.

- The total percentage paid each month for all of the available sources of debt is 62,1%. In general terms that means that 62,1% of all available disposable income goes to the repayment of debt, leaving only 37,9% of the disposable income for general monthly expenditures and savings. This finding is more or less in line with research in the literature.
- As expected the highest percentage of disposable income are paid each month on credit cards (14.1%) and home loans (14%).

- The sequence in descending order from the highest percentage spent on each form of debt is firstly, credit cards, home loans, then vehicle finance, clothing accounts, bank loans and lastly furniture accounts.
- It was expected that home loans and vehicle finance would constitute a very high percentage of disposable income, given the fact that the two assets purchased (house and car) are generally the most expensive assets individuals would acquire.
- It is worrying to see that the largest amount is spent on credit cards, rather than home loans and vehicle finance. Credit cards are not generally used to purchase assets and could be used instead to procure consumables.
- Another disturbing finding is that the repayment of clothing accounts constitute for 10,1% of disposable income.
- The respondents were not asked to indicate the percentage of disposable income they spend on micro lenders each month, as such a small percentage of respondents make use of this source of debt.

The average and total amount of disposable income spent on home loans in relation to the various age, gender, qualification and income groups are discussed in section 5.4.3.1.

5.4.3.1 Home loans

Table 5.11 generated the following findings:

- Out of the total population, 60,8% of the respondents have home loans. The average percentage of income spent by this 60,8% is 23% of their monthly disposable income. By multiplying the percentage of users and their average percentage of income spent, the total average percentage spent each month on the specific source of debt is determined. In the case of home loans, it can be established that a total of 14% is spent on home loans each month. This calculation was done for each of the demographic groups.

- It is therefore important to note that the majority of the respondents make use of home loans.
- As the total percentage spent on home loans of all the respondents is 14%, the groups that exceeds that percentage are the following:
  - males
  - 30-39 age group
  - individuals earning less than R40 000 annually
  - individuals earning between R40 001 and R60 000 annually
- In relative terms males spend a great deal more (17,3%) on home loans than females (9,8%), as more males make use of home loans and they spend on average more than females.
- The youngest individuals (younger than 30) spend comparatively less on home loans than all of the other age groups.
- The 30-39 age group spend a total of 18,4% each month on home loans, as this group also has the highest percentage of respondents that have this source of debt and the highest average percentage spent each month.
- Individuals older than 50 (pre-retirement age individuals) have the second highest expenditure (13,4%) a month on home loans.
- There seems to be no definite differences between the various income groups, although the lower income individuals spend higher percentages of their disposable income than all of the other income groups (no definite deductions can be made regarding the R60 001 – R80 000 and the R80 001 – R100 000 income groups).
- There is no significant difference between the various educational groups.

Table 5.11: Total amount of disposable income spent on home loans

Home loans	Population	Respondents	Percentage	Average % of income spent	Total % of income spent
Total	286	174	60,8%	23,0%	14,0%
Gender					
Male	150	104	69,3%	25,0%	17.3%
Female	136	70	51,5%	19,0%	9.8%
Age					
Younger than 30	40	15	37,5%	22,0%	8,3%
30-39	113	80	70,8%	26,0%	18,4%
40-49	108	65	60,2%	20,0%	12,0%
Older than 50	25	14	56,0%	24,0%	13,4%
Income					
Less than R40 000	153	99	64,7%	22,0%	14,2%
R40 001 - R60 000	46	29	63,0%	28,0%	17,6%
R60 001 - R80 000	22	7	31,8%	17,0%	5,4%
R80 001 - R100 000	14	5	35,7%	28,0%	10,0%
R100 000 +	51	34	66,7%	20,0%	13,3%
Qualifications					
Grade 12	74	49	66,2%	21,0%	13.9%
University/technicon degree	187	113	60,4%	23,0%	13,9%
Other qualifications	25	12	48,0%	26,0%	12.5%

As home loans are essential in purchasing, in general, an appreciating asset, this source of debt can be regarded as a more acceptable debt. Bank loans can also be regarded as a more acceptable source of debt (see Appendix A), and are examined in section 5.4.3.2.

5.4.3.2 Bank loans

Bank loans are seen as more acceptable sources of debt, because an individual would have to be creditworthy to obtain the loan from a bank or other accredited financial institution, as well as at market related interest rates.

Table 5.12: Total amount of disposable income spent on bank loans

Bank loans	Population	Respondents	Percentage	Average % of income spent	Total % of income spent
Total	286	130	45,5%	18,0%	8,2%
Gender					
Male	150	74	49,3%	18,0%	8,9%
Female	136	56	41,2%	18,0%	7,4%
Age					
Younger than 30	40	16	40,0%	18,0%	7,2%
30-39	113	54	47,8%	19,0%	9,1%
40-49	108	52	48,1%	20,0%	9,6%
Older than 50	25	8	32,0%	13,0%	4,2%
Income					
Less than R40 000	153	61	39,9%	13,0%	5,2%
R40 001 - R60 000	46	27	58,7%	21,0%	12,3%
R60 001 - R80 000	22	6	27,3%	20,0%	5,5%
R80 001 - R100 000	14	9	64,3%	22,0%	14,2%
R100 000 +	51	27	52,9%	14,0%	7,4%
Qualifications					
Grade 12	74	38	51,4%	20,0%	10,3%
University/technicon degree	187	76	40,6%	16,0%	6,5%
Other qualifications	25	16	64,0%	19,0%	12,2%

- The average percentage of income of 18% spent by the 45,5% of the respondents that make use of bank loans equals a total percentage of 8,2% spent on bank loans each month. Thus, although the average percentage of income spent by the respondents is relatively high, the lower percentage of users (45,5%) brings the total percentage of disposable monthly income spent down.
- The groups that spends more than this percentage are the following:
  - males
  - individuals aged between 30 and 39
  - individuals aged between 40 and 49
  - individuals earning between R40 001 and R60 000 annually
  - individuals earning between R80 001 and R100 000 annually
  - the grade 12 group
  - individuals with other recognised qualifications.

- There is no distinct difference between males and females, with males spending an approximately 1,5% more on bank loans than their female counterparts.
- Individuals older than 50 spends a comparatively low percentage on bank loans compared to all of the other groups.
- The R40 001 – R60 000 income group spends a large percentage of 12,3% each month.
- The highest educated individuals with either university or technicon degrees or diplomas spend on average much less on bank loans than the individuals with matric certificates.

Bank loans have higher interest rates than home loans, but are still considered to be more acceptable sources of debt. It was clear that there is no difference in the amount spent each month between the two genders. The pre-retirement group spends substantially less each month on bank loans, as well as the income group earning less that R40 000 annually, the income group earning more than R100 000 annually and the highly educated group.

5.4.3.3 Vehicle finance

Vehicle finance is also considered to be a more acceptable source of debt, because of the linkage between the individual and a reputable financial institution and the moderately low interest rate. Vehicle finance is also the amassing of an asset, but unlike in the case of property, the value of vehicles tends to decrease, whereas the value of property increases as time goes by. Table 5.13 yielded the following results:

- All of the respondents as a whole spend a total of 11,3% of their respective personal disposable income each month on repaying their vehicle finance, as 56,3% of the respondents make use of vehicle finance, while spending an average of 20% of their disposable income on vehicle finance.
- Most of the demographic groups spend more than this amount with the exception of the following:

- females
- individuals younger than 30
- individuals aged between 40 and 49
- individuals earning less than R40 0000 annually
- individuals earning between R40 001 and R60 000 annually
- individuals earning between R80 001 and R100 000 annually
- the highest educated individuals.

▪ Males spend more on vehicle finance than females on a monthly basis (taken into account that females spend more on average, but much less females make use of vehicle finance).

▪ The youngest age group spends much less than the other age groups on vehicle finance, but there is a significant increase when it comes to the 30-39 age group.

▪ Even though the individuals that earn between R40 000 and R80 001 annually has the highest average percentage expenditure on vehicles, there is a significant amount of the highest income group (R100 000 +) that makes use of vehicle finance, making this group's total percentage of income spent on vehicle finance very high.

▪ There is no distinct difference between the various educational groups, although the highest educated individuals spend less than the least educated group.

Vehicle financing tends to be, as home loans, an essential source of debt for consumers. Home loans and vehicle finance purchase assets (generally appreciating and depreciating respectively) that in this day and age are basic commodities needed.

Table 5.13: Total amount of disposable income spent on vehicle finance

Vehicle finance	Population	Respondents	Percentage	Average % of income spent	Total % of income spent
Total	286	161	56,3%	21,0%	11,3%
Gender					
Male	150	97	64,7%	20,0%	12,9%
Female	136	64	47,1%	21,0%	9,9%
Age					
Younger than 30	40	18	45,0%	19,0%	8,6%
30-39	113	69	61,1%	23,0%	14,1%
40-49	108	62	57,4%	18,0%	10,3%
Older than 50	25	12	48,0%	24,0%	11,5%
Income					
Less than R40 000	153	90	58,8%	19,0%	11,2%
R40 001 - R60 000	46	20	43,5%	25,0%	10,9%
R60 001 - R80 000	22	11	50,0%	25,0%	12,5%
R80 001 - R100 000	14	5	35,7%	19,0%	6,8%
R100 000 +	51	35	68,6%	18,0%	12,3%
Qualifications					
Grade 12	74	45	60,8%	20,0%	12,2%
University/technicon degree	187	104	55,6%	19,0%	10,6%
Other qualifications	25	12	48,0%	25,0%	12,0%

Micro lenders are discussed in the next section.

5.4.3.4 Micro lenders

Respondents were asked to indicate if they currently are making use of micro lenders to obtain credit. The results can be seen in Table 5.10. Only 9,1% of the respondents make use of this source of debt. These credit providers ask exorbitant and inflated interest rates and are therefore regarded as a very unacceptable source of debt. The micro lender credit providers are usually used as a last resort, when no other funds could be obtained (see Appendix A). The respondents were not asked to indicate the percentage of disposable income they spend on micro lenders each month.

Section 5.4.3.5 deals with the average and total amount of disposable income spent on clothing accounts by the various demographic groups.

5.4.3.5 Clothing accounts

Clothing accounts are a very convenient way of doing business, because it offers consumers the opportunity to purchase clothing and apparel and delay the payment of these consumable goods. Most of the clothing account credit providers offer 6 months interest free periods, but after that interval, high interest rates are charged on the amounts outstanding (see Appendix A). Table 5.14 displays the results for the different demographical groups with regards to clothing accounts.

Table 5.14: Total amount of disposable income spent clothing accounts

Clothing accounts	**Population**	**Respondents**	**Percentage**	**Average % of income spent**	**Total % of income spent**
Total	286	192	67,1%	15,0%	10,1%
Gender					
Male	150	83	55,3%	12,0%	6,6%
Female	136	109	80,1%	17,0%	13,6%
Age					
Younger than 30	40	30	75,0%	15,0%	11,3%
30-39	113	72	63,7%	18,0%	11,5%
40-49	108	73	67,6%	16,0%	10,8%
Older than 50	25	17	68,0%	11,0%	7,5%
Income					
Less than R40 000	153	93	60,8%	12,0%	7,3%
R40 001 - R60 000	46	34	73,9%	17,0%	12.6%
R60 001 - R80 000	22	21	95,5%	15,0%	14,3%
R80 001 - R100 000	14	12	85,7%	15,0%	12,9%
R100 000 +	51	32	62,7%	17,0%	10,7%
Qualifications					
Grade 12	74	51	68,9%	17,0%	11,7%
University/technicon degree	187	119	63,6%	14,0%	8,9%
Other qualifications	25	22	88,0%	14,0%	12,3%

- The total percentage of disposable income spent by all of the respondents is a total of 10,1%. The percentage of respondents making use of clothing accounts is 67,1%, with an average spending of 15% of their disposable monthly income on this source of debt. Clothing accounts are the second most popular source of debt used by the respondents, next to credit cards.

- The majority of the groups spend more than this, with the exception of the male group, the individuals older than 50, individuals earning less than R40 000 and highly educated individuals.
- More than 80% of females have clothing accounts as oppose to 55,3% of males, as more females make use of clothing accounts.
- This figure is also reflected in the total amounts of disposable income spent each month by females (13,6%) compared to males (6,6%).
- Individuals older than 50 spend significantly less than the other younger age groups, as well as the lowest income individuals.
- The individuals with university or technicon degrees or diplomas spend less than their less educated counterparts.

Clothing accounts can be looked upon as a less acceptable source of debt, because of the fact that it delays payment of a product that is seasonal and the high interest rates charged after the 6 month interest-free period. Women spend more on a monthly basis than their male counterparts. Individuals older than 50 has a lower level of spending than the other groups as well as the lowest income individuals and the highest educated individuals.

5.4.3.6 Furniture accounts

Furniture accounts are usually a very expensive form of debt and therefore considered to be less acceptable. Furniture stores offer financing for furniture purchased, normally for either 12 or 24 months. This form of financing has inflated interest rates and will therefore increase the cost of debt.

The following table contains information connecting furniture accounts and the demographic variables, namely gender, age, income and qualifications.

Table 5.15: Total amount of disposable income spent furniture accounts

Furniture accounts	Population	Respondents	Percentage	Average % of income spent	Total % of income spent
Total	286	78	27,3%	16,0%	4,4%
Gender					
Male	150	38	25,3%	17,0%	4,3%
Female	136	40	29,4%	15,0%	4,4%
Age					
Younger than 30	40	10	25,0%	13,0%	3,3%
30-39	113	28	24,8%	16,0%	4,0%
40-49	108	36	33,3%	18,0%	6,0%
Older than 50	25	4	16,0%	18,0%	2,9%
Income					
Less than R40 000	153	32	20,9%	14,0%	2,9%
R40 001 - R60 000	46	19	41.3%	20,0%	8,3%
R60 001 - R80 000	22	8	36,4%	13,0%	4,7%
R80 001 - R100 000	14	4	28,6%	19,0%	5,4%
R100 000 +	51	15	29,4%	15,0%	4,4%
Qualifications					
Grade 12	74	28	37,8%	17,0%	6,4%
University/technicon degree	187	45	24,1%	15,0%	3,6%
Other qualifications	25	5	20,0%	15,0%	3,0%

- 27,3% of the respondents make use of furniture accounts, spending an average of 16% of their monthly disposable income on this source of debt. This equals a total of 4,4% of disposable income spent on furniture accounts each month.
- The following demographic groups spend more than the average of 4,4% of the overall group of respondents:
  - individuals between the ages of 40 and 49
  - individuals that earn between R40 001 and R60 000 annually
  - individuals that earn between R60 001 and R80 000 annually
  - individuals that earn between R80 001 and R100 000 annually
  - individuals with a matric certificate.
- There is no distinct difference between males and females, even though males on average spend more than females.

- Individuals older than 50 spend less than all of the other demographic groups, as a relatively smaller percentage of the older individuals make use of furniture accounts.
- The same is true for the youngest individuals with the lowest total expenditure of all the age groups, because of the lower percentage of furniture accounts users.
- The lowest educated individuals (grade 12) spend more on furniture accounts because of the higher percentage of individuals making use of this source of debt.

Furniture accounts are definitely a less acceptable source of debt available to consumers. Credit cards are the widely used source of debt and are discussed in section 5.4.3.7.

5.4.3.7 Credit cards

Credit cards are the most popular form of debt available to consumers, with 70,3% of the respondents making use of credit cards. The convenience of using a credit card comes at a high price. The interest rates charged on credit cards are elevated compared to other bank- and financially accredited debt, such as home loans, bank loans and vehicle finance. The various demographical groups are compared in Table 5.16.

The following results were obtained:

- An average of 20% of monthly disposable income is spent each month by the 70,3% of the respondents making use of credit cards.
- The average total of disposable income spent on credit cards by all of the respondents is 14,1%.
- Males spend more each month than females by a relatively small percentage.
- There is no definite difference between monthly expenditure in the various age groups.

- The oldest individuals have the lowest percentage of users utilising credit cards as a debt option compared to all the other demographical groups.
- The individuals that earn between R40 001 and R60 000 annually spend in total more than the other income groups, as the highest percentage of users, as well as the highest average expenditure by respondents that make use of this source of debt.
- The highest educated individuals spend considerably less than the other groups, because of the comparatively lower average expenditure by users of credit cards.

Table 5.16: Total amount of disposable income spent credit cards

Credit cards	**Population**	**Respondents**	**Percentage**	**Average % of income spent**	**Total % of income spent**
Total	286	201	70,3%	20,0%	14,1%
Gender					
Male	150	114	76,0%	20,0%	15,2%
Female	136	87	64,0%	21,0%	13,4%
Age					
Younger than 30	40	30	75,0%	18,0%	13,5%
30-39	113	82	72,6%	18,0%	13,1%
40-49	108	76	70,4%	20,0%	14,1%
Older than 50	25	13	52,0%	25,0%	13,0%
Income					
Less than R40 000	153	106	69,3%	16,0%	11,1%
R40 001 - R60 000	46	34	73,9%	26,0%	19,2%
R60 001 - R80 000	22	15	68,2%	17,0%	11,6%
R80 001 - R100 000	14	10	71,4%	25,0%	17.9%
R100 000 +	51	36	70,6%	18,0%	12,7%
Qualifications					
Grade 12	74	50	67,6%	23,0%	15,6%
University/technicon degree	187	133	71,1%	16,0%	11,4%
Other qualifications	25	18	72,0%	21,0%	15,1%

People tend to have different mind-sets and opinions on the subject of personal finance and that could give insight into spending habits and behaviour surrounding personal finances.

5.4.4 Attitudes and perceptions regarding personal financial issues

Respondents were asked to grade themselves on certain statements in an attempt to estimate their respective attitudes, perceptions and satisfaction in regards to their personal financial situation. The respondents had to rank their respective feelings or perspectives towards a certain attitude by specifying a number on a scale from 1 to 5. For example, 1 as an answer for Attitude 1 means that the respondent feels that he/she has adequate knowledge to manage his/her personal finances. While 5 as an answer, on the other side of the spectrum, signify that the respondent feels that he/she has inadequate knowledge to manage his/her personal finances. Every statement is aimed at determining a certain feeling or attitude.

The following feelings or attitudes were measured:

- Attitude 1: I feel I have adequate knowledge to manage my personal finances.
- Attitude 2: I feel that I have control over my personal finances.
- Attitude 3: I am confident in managing money to achieve financial goals.
- Attitude 4: I feel confident in making investment decisions.
- Attitude 5: I am satisfied with my present financial situation.
- Attitude 6: My income is enough to meet my monthly living expenses.
- Attitude 7: I am concerned about how much money I owe.
- Attitude 8: I am satisfied with the amount of money I am saving and investing for retirement.
- Attitude 9: I think I will have enough money to live throughout retirement.
- Attitude 10: When I think of my financial situation, I am optimistic about the future.
- Attitude 11: I feel that I am doing well financially.
- Attitude 12: I earn more than I spend.
- Attitude 13: Concerns over personal finances do interfere with responsibilities and cause stress.
- Attitude 14: I do not feel any financial stress.

The following table presents the total level of dissatisfaction perceived by the respondents for each attitude presented, as well as the overall percentage of respondents that demonstrated negative views towards the respective attitudes. From the answers, on a scale of 1 to 5, it was possible to deduct a mean (or factor) for each of the attitudes, as well as the various demographic groups.

The level of dissatisfaction is determined by using the following formula:

$$\text{Level of dissatisfaction} = \frac{\text{Mean} - 1}{n - 1} \times 100$$

n = the number of answers available to the respondent.

As these questions were presented on a scale of 1 to 5 to plot answers, *n* would be 5. Between one and five there are 4 intervals, therefore 1 is deducted from *n* to determine the amount of intervals in each specific question presented to the respondents. The assumption are also made that a response of 1 represents a 0% level of satisfaction, while a response of 5 a 100% level of satisfaction, with 2, 3 and 4 representing 25%, 50% and 75% respectively. The above-mentioned formula was based upon these assumptions.

The percentage that is dissatisfied is determined by calculating the overall percentage of the respondents that displayed dissatisfaction towards this statement in the questionnaire, thus positioning their answers to the specific attitude to be the two most negative figures. For instance, one and two would consequently be regarded as a positive feeling towards Attitude 1, while four and five would be regarded as a negative feeling.

As for Attitude 1 for example, it was possible to establish that there was an overall level of dissatisfaction of 45% and 27,6% of the respondents reacted negatively towards this specific statement.

Table 5.17 displays the level of dissatisfaction and the percentage of respondents that reacted in a negative manner to the 14 attitudes presented in the questionnaire.

Table 5.17: Level of dissatisfaction and the percentage of respondents dissatisfied with regards to the different attitudes

	Level of dissatisfaction	**Dissatisfied percentage**
Attitude 1	45,0%	27,6%
Attitude 2	47,5%	33,9%
Attitude 3	47,5%	31,8%
Attitude 4	50,0%	36,0%
Attitude 5	57,5%	48,6%
Attitude 6	50,0%	38,5%
Attitude 7	50,0%	37,4%
Attitude 8	57,5%	49,0%
Attitude 9	60,0%	50,7%
Attitude 10	57,5%	43,0%
Attitude 11	57,5%	40,2%
Attitude 12	55,0%	44,8%
Attitude 13	52,5%	36,7%
Attitude 14	57,5%	39,5%
Average	53,2%	39,8%

- The average level of dissatisfaction for al of the 14 attitudes is 53,2%, thus the overall level of dissatisfaction that the respondents experience towards the statements is more negative than positive.
- The average percentage of the respondents that are dissatisfied with the statements presented in the questionnaire is 39,8%.
- All of the attitudes presented to the respondents had levels of dissatisfaction of between 45% and 60%.
- Attitude five namely; 'I am satisfied with my present financial situation' has a high dissatisfaction level of 57,5% and a very high percentage of individuals that indicated that they are dissatisfied with their present financial situation.
- The same results were found for Attitude 8 where respondents had to indicate their satisfaction with the amount of money they are saving and investing for retirement.

- The highest level of dissatisfaction (60%) was experienced when respondents were confronted with Attitude 9: I think I will have enough money to live throughout retirement. Fifty percent of the respondents indicated dissatisfaction towards this statement.
- On average respondents felt to a great extent that they were pessimistic towards the future (Attitude 10), that they are not doing well financially (Attitude 11), that they spend more money than they earn (Attitude 12) and that they experience extreme financial stress (Attitude 14).

The results for the fourteen attitudes will be presented in Table 5.18 to 5.31 compared to gender, age, income and qualifications. The overall level of dissatisfaction for each demographical group will be stated, as well as the percentage of respondents dissatisfied with the statement. The last column will display the statistical significance for each of the demographic groups. Chi-square values were calculated to test significance. A value of less than 0.05 would be regarded to be statistically significant. The various demographical groups are ranked in ascending order for both their respective level of dissatisfaction, as well as the percentage of the respondents that is dissatisfied with the statement. The level of dissatisfaction for Attitude 1, for example, is the lowest for individuals aged older than 50 (ranked first) and the demographic group that experience the highest level of dissatisfaction is the individuals that earn between R80 001 and R100 000 annually (ranked last).

Attitude 1 is discussed in section 5.4.4.1.

5.4.4.1 Attitude 1: I feel I have adequate knowledge to manage my personal finances

Table 5.18 shows Attitude 1 namely, ‘I feel I have adequate knowledge to manage my personal finances’ compared to the four demographic groups respectively and presented the following outcomes:

- This attitude is not statistically significant for any of the demographical groups.
- The average level of dissatisfaction is 45%, with 27,6% of the respondents feeling that they do not have adequate knowledge to manage their personal finances.
- As the average level of dissatisfaction of all of the respondents is 45%, most of the demographic groups have similar or higher scores, except for individuals older than 50, individuals earning less than R40 000 annually and individuals that earn more than R100 000 annually that indicated more positive attitudes towards this statement.

Table 5.18: Attitude 1: I feel I have adequate knowledge to manage my personal finances compared to the demographic groups

Attitude 1	Level of dissatisfaction	Rank	Dissatisfied percentage	Rank	Significance
Total	45,0%		27,6%		
Gender					0,602
Male	45,0%	3	25,3%	4	
Female	47,5%	4	30,2%	9	
Age					0,496
Younger than 30	47,5%	4	22,5%	1	
30-39	45,0%	3	30,1%	8	
40-49	47,5%	4	27,8%	7	
Older than 50	35,0%	1	24,0%	3	
Income					0,242
Less than R40 000	42,5%	2	22,9%	2	
R40 001 - R60 000	50,0%	5	32,6%	12	
R60 001 - R80 000	57,5%	7	45,5%	14	
R80 001 - R100 000	60,0%	8	42,9%	13	
R100 000 +	42,5%	2	25,5%	5	
Qualifications					0,241
Grade 12	52,5%	6	31,1%	10	
University/technicon degree	47,5%	4	25,7%	6	
Other qualifications	50,0%	5	32,0%	11	

5.4.4.2 Attitude 2: I feel that I have control over my personal finances

Attitude 2 measures the feeling of control over personal finances, compared to the four demographic variables. Table 5.19 displays the results for this statement.

Table 5.19: Attitude 2: I feel that I have control over my personal finances compared to the demographic groups

Attitude 2	Level of dissatisfaction	Rank	Dissatisfied percentage	Rank	Significance
Total	47,5%		33,9%		
Gender					0,367
Male	47,5%	3	31,3%	4	
Female	50,0%	4	36,8%	9	
Age					0,055
Younger than 30	50,0%	4	27,5%	1	
30-39	47,5%	3	33,6%	7	
40-49	52,5%	5	38,0%	10	
Older than 50	37,5%	1	28,0%	2	
Income					0,051
Less than R40 000	45,0%	2	31,4%	5	
R40 001 - R60 000	55,0%	6	39,1%	11	
R60 001 - R80 000	52,5%	5	45,5%	14	
R80 001 - R100 000	60,0%	7	42,9%	12	
R100 000 +	45,0%	2	29,4%	3	
Qualifications					0,381
Grade 12	52,5%	5	36,5%	8	
University/technicon degree	47,5%	3	31,6%	6	
Other qualifications	55,0%	6	44,0%	13	

- The overall level for this statement is 47,5% and there is a dissatisfied percentage of 33,9% that do not feel in control of their personal finances.
- This statement is not statistically significant for any of the demographical groups.
- The age and income groups are very close of statistical significance (0.055 and 0.051 respectively).

- The total overall level of dissatisfaction for all of the respondents is 47,5%. All of the demographic group either exceeds or is equal to this percentage, except for the oldest age group (older than 50) and individuals earning less than R40 000 and more than R100 000 on an annual basis.
- Females (on a small scale) feel that they are less in control of their personal finances.
- The oldest age group feels more in control of their personal finances than any of the other age groups.
- The youngest individuals showed the lowest percentage of respondents that are dissatisfied with the control they feel over their personal finances.

5.4.4.3 Attitude 3: I am confident in managing money to achieve financial goals

Confidence in managing money to achieve financial goals is displayed in Table 5.20 relating to gender, age, income and qualifications. The following outcomes were revealed:

- None of the demographic groups showed statistical significance towards Attitude 3.
- The total overall level of dissatisfaction is 47,5% and there is 31,8% of the respondents that feel that they are not confident in managing money to achieve financial goals.
- The only two groups with a lower level of dissatisfaction are the oldest age group and individuals earning less than R40 000 annually.
- Again, females show a small percentage more dissatisfaction towards this statement than males, as well as more respondents indicating dissatisfaction.
- Individuals older than 50 feel more confident in managing their money to achieve financial goals than all of the other groups.
- The youngest individuals feel less confident than the oldest respondents.

- As expected, on a small scale, the least qualified respondents feel less confident in managing their financial affairs to reach goals than the individuals with either a university or technicon degree or diploma.

Table 5.20: Attitude 3: I am confident in managing money to achieve financial goals compared to the demographic groups

Attitude 3	Level of dissatisfaction	Rank	Dissatisfied percentage	Rank	Significance
Total	47,5%		31,8%		
Gender					0,633
Male	47,5%	3	29,3%	2	
Female	50,0%	4	34,6%	9	
Age					0,766
Younger than 30	52,5%	5	37,5%	12	
30-39	47,5%	3	31,9%	7	
40-49	50,0%	4	33,3%	8	
Older than 50	37,5%	1	16,0%	1	
Income					0,19
Less than R40 000	45,0%	2	30,1%	5	
R40 001 – R60 000	52,5%	5	30,4%	6	
R60 001 – R80 000	52,5%	5	45,5%	14	
R80 001 – R100 000	60,0%	6	42,9%	13	
R100 000 +	50,0%	4	29,4%	3	
Qualifications					0,535
Grade 12	52,5%	5	35,1%	10	
University/technicon degree	47,5%	3	30,0%	4	
Other qualifications	50,0%	4	36,0%	11	

5.4.4.4 Attitude 4: I feel confident in making investment decisions

The feeling of confidence in making investment decisions are discussed in Table 5.21. The following results were obtained:

- The overall level of dissatisfaction towards this statement is 50%, while 36% of the respondents do not feel confident in making investment decisions.
- Attitude 4 is statistically significant when it comes to the various age groups.

- There seems to be an indication that as individuals age, they tend to become more confident in making investment decisions.
- As the total level of dissatisfaction for the entire sample is 50%. All of the demographic groups exceed the 50% level of dissatisfaction, except for individuals older than 50.
- The female group showed a relatively more (although small) dissatisfaction with their confidence in making investment decisions.

Table 5.21: Attitude 4: I feel confident in making investment decisions compared to the demographic groups

Attitude 4	Level of dissatisfaction	Rank	Dissatisfied percentage	Rank	Significance
Total	50,0%		36,0%		
Gender					0,946
Male	52,5%	3	35,3%	4	
Female	50,0%	2	37,0%	6	
Age					0,028
Younger than 30	55,0%	4	35,0%	3	
30-39	55,0%	4	40,7%	7	
40-49	50,0%	2	37,0%	6	
Older than 50	35,0%	1	16,0%	1	
Income					0,377
Less than R40 000	50,0%	2	32,0%	2	
R40 001 - R60 000	50,0%	2	41,3%	10	
R60 001 - R80 000	55,0%	4	41,0%	8	
R80 001 - R100 000	55,0%	4	42,9%	11	
R100 000 +	52,5%	3	41,2%	9	
Qualifications					0,548
Grade 12	52,5%	3	36,5%	5	
University/technicon degree	50,0%	2	35,3%	4	
Other qualifications	55,0%	4	44,0%	12	

5.4.4.5 Attitude 5: I am satisfied with my present financial situation

The following table assesses the respondents' satisfaction with their present financial situation in terms of gender, age, income and qualifications.

Table 5.22: Attitude 5: I am satisfied with my present financial situation compared to the demographic groups

Attitude 5	Level of dissatisfaction	Rank	Dissatisfied percentage	Rank	Significance
Total	57,5%		48,6%		
Gender					0,655
Male	57,5%	4	47,3%	4	
Female	57,5%	4	50,0%	6	
Age					0,133
Younger than 30	65,0%	7	60,0%	10	
30-39	55,0%	3	44,3%	2	
40-49	60,0%	5	50,0%	6	
Older than 50	47,5%	2	44,0%	1	
Income					0,406
Less than R40 000	55,0%	3	44,4%	3	
R40 001 - R60 000	60,0%	5	50,0%	6	
R60 001 - R80 000	65,0%	7	59,1%	9	
R80 001 - R100 000	70,0%	8	64,3%	11	
R100 000 +	57,5%	4	51,0%	7	
Qualifications					0,805
Grade 12	57,5%	4	47,3%	4	
University/technicon degree	42,5%	1	48,1%	5	
Other qualifications	62,5%	6	56,0%	8	

- The overall level of dissatisfaction towards this statement is 57,5%, which signifies a relatively large level of discontent among the respondents towards their present financial situation.
- 48,6% of the respondents feel dissatisfied with their present financial situation.
- None of the demographic groups proved to be statistically significant.
- There is no difference between males and females towards this attitude.
- Individuals younger than 30 had very high levels of dissatisfaction (65%) compared to individuals older than 50 (47,5%).

- The highest educated individuals have the lowest level of dissatisfaction and therefore feel more satisfied with their present financial situation than the other groups.

Attitude 6 is discussed in section 5.4.4.6.

5.4.4.6 Attitude 6: My income is enough to meet my monthly expenses

The different demographic groups are compared with the statement: ‘My income is enough to meet my monthly expenses’.

Table 5.23: Attitude 6: My income is enough to meet my monthly expenses compared to the demographic groups

Attitude 6	Level of dissatisfaction	Rank	Dissatisfied percentage	Rank	Significance
Total	50,0%		38,5%		
Gender					0,336
Male	47,5%	2	34,7%	3	
Female	55,0%	5	42,7%	10	
Age					0,642
Younger than 30	50,0%	3	37,5%	7	
30-39	52,5%	4	40,7%	9	
40-49	50,0%	3	37,0%	6	
Older than 50	45,0%	1	36,0%	5	
Income					0,012
Less than R40 000	45,0%	1	31,4%	1	
R40 001 - R60 000	60,0%	6	52,2%	11	
R60 001 - R80 000	65,0%	7	54,6%	12	
R80 001 - R100 000	60,0%	6	57,0%	14	
R100 000 +	45,0%	1	35,3%	4	
Qualifications					0,173
Grade 12	50,0%	3	33,8%	2	
University/technicon degree	50,0%	3	38,0%	8	
Other qualifications	65,0%	7	56,0%	13	

- There is an overall level of dissatisfaction towards this statement of 50%, while 38,5% of the respondents feel that their income is not enough to meet their monthly living expenses.
- This attitude can be considered statistically significant for the various income groups (0.012 < 0.05). Ironically, the higher the income, the less the respondents are able to cover their expenses.
- More females feel that their income is not enough to meet their monthly expenses than males, with a higher level of dissatisfaction and a higher percentage of respondents dissatisfied with the statement.
- The oldest individuals, again, feel more positive towards this statement than the other age groups.
- There is no difference between higher and lower educated individuals towards this statement.

5.4.4.7 Attitude 7: I am concerned about how much money I owe

Concerns over high levels of debt are an important determinant in comparison with gender, age, income and qualifications. The following results were obtained from Table 5.24:

- The overall level of dissatisfaction towards this statement for all of the respondents is 50%. The following groups have higher levels of dissatisfaction than 50%:
  - individuals between the ages of 40 and 49
  - individuals that earn between R40 001 and R60 000 annually
  - individuals that earn between R60 001 and R80 000 annually
  - individuals with a matric certificate.
- 37,4% of the respondents feel concerned about the amount of money they owe.
- None of the groups proved to be statistically significant towards this statement.

- There is not a definite distinction between males and females, even though more males, to a small extent, feel concerned about the amount of money they owe.
- Individuals between the ages of 40-49 have higher levels of dissatisfaction towards this specific statement.
- The highest earning individuals (R100 000+) feel less concerned about the amount of money they owe in comparison to the other income groups.
- The lowest educated individuals feel more concerned about the amount of money they owe than individuals with higher education.

Table 5.24: Attitude 7: I am concerned about how much money I owe compared to the demographic groups

Attitude 7	**Level of dissatisfaction**	**Rank**	**Dissatisfied percentage**	**Rank**	**Significance**
Total	50,0%		37,4%		
Gender					0,636
Male	50,0%	5	40,0%	9	
Female	47,5%	4	34,6%	5	
Age					0,603
Younger than 30	42,5%	2	30,0%	2	
30-39	47,5%	4	37,2%	8	
40-49	55,0%	6	42,6%	13	
Older than 50	45,0%	3	28,0%	1	
Income					0,606
Less than R40 000	50,0%	5	36,0%	7	
R40 001 - R60 000	55,0%	6	43,5%	14	
R60 001 - R80 000	57,5%	7	40,9%	10	
R80 001 - R100 000	47,5%	4	42,9%	11	
R100 000 +	40,0%	1	33,3%	4	
Qualifications					0,491
Grade 12	55,0%	6	43,2%	12	
University/technicon degree	47,5%	4	35,8%	6	
Other qualifications	42,5%	2	32,0%	3	

Attitude 8 measures satisfaction with the amount of money saved and invested for retirement.

5.4.4.8 Attitude 8: I am satisfied with the amount of money I am saving and investing for retirement

Table 5.25 compares the different demographical groups with the respondents' satisfaction with the amount of money they are saving and investing towards retirement.

Table 5.25: *<u>Attitude 8: I am satisfied with the amount of money I am saving and investing for retirement compared to the demographic groups</u>*

Attitude 8	Level of dissatisfaction	Rank	Dissatisfied percentage	Rank	Significance
Total	57,5%		49,0%		
Gender					0,096
Male	57,5%	2	50,0%	7	
Female	57,5%	2	47,8%	4	
Age					0,632
Younger than 30	62,5%	4	55,0%	8	
30-39	57,5%	2	48,7%	5	
40-49	57,5%	2	49,1%	6	
Older than 50	55,0%	1	40,0%	1	
Income					0,921
Less than R40 000	55,0%	1	46,4%	2	
R40 001 - R60 000	57,5%	2	47,8%	4	
R60 001 - R80 000	72,5%	6	68,2%	10	
R80 001 - R100 000	70,0%	5	57,1%	9	
R100 000 +	60,0%	3	47,1%	3	
Qualifications					0,192
Grade 12	55,0%	1	47,3%	4	
University/technicon degree	57,5%	2	48,7%	5	
Other qualifications	97,5%	7	77,8%	11	

- The overall level of dissatisfaction is 57,5% for all of the respondents. and 49% feels dissatisfied with the amount of money they are saving and investing for retirement.
- This statement did not prove to be statistically significant for any of the four demographic groups.

- The following groups have higher levels of dissatisfaction than the overall dissatisfaction level of 57,5%:
  - individuals younger than 30
  - individuals that earn between R60 001 and R100 000 annually
  - individuals that earn more than R100 000 annually
  - individuals with other recognised qualifications.
- There is no difference between the two genders or the different qualification groups.
- The youngest age group displayed the highest level of dissatisfaction with the amount of money they are saving and investing for retirement.

5.4.4.9 Attitude 9: I think I will have enough money to live throughout retirement

The following attitude, namely 'I will have enough money to live throughout retirement' is compared with gender, age, income and qualifications in Table 5.26. The findings are presented below:

- The overall level of dissatisfaction towards this statement is considerably high with a percentage of 60% and more than half (50,7%) of the respondents indicated that they do not think they will have enough money to live throughout retirement.
- This statement did not prove to be statistically significant for any of the groups.
- There is no definite difference between males and females or between the different educational groups.
- There is no conclusive difference between the various age groups, except for the fact that the pre-retirement group (50 +) has a slightly higher level of dissatisfaction and 60% of the respondents indicated that they will not have enough money to live throughout retirement.

Table 5.26: Attitude 9: I think I will have enough money to live throughout retirement compared to the demographic groups

Attitude 9	Level of dissatisfaction	Rank	Dissatisfied percentage	Rank	Significance
Total	60,0%		50,7%		
Gender					0,678
Male	60,0%	3	48,7%	5	
Female	62,5%	4	52,9%	10	
Age					0,417
Younger than 30	62,5%	4	52,5%	9	
30-39	60,0%	3	46,0%	2	
40-49	60,0%	3	57,8%	11	
Older than 50	65,0%	5	60,0%	12	
Income					0,757
Less than R40 000	57,5%	2	44,4%	1	
R40 001 - R60 000	47,5%	1	50,0%	6	
R60 001 - R80 000	75,0%	6	81,8%	13	
R80 001 - R100 000	85,0%	7	85,7%	14	
R100 000 +	60,0%	3	47,1%	3	
Qualifications					0,747
Grade 12	62,5%	4	51,4%	8	
University/technicon degree	60,0%	3	50,8%	7	
Other qualifications	62,5%	4	48,0%	4	

5.4.4.10 Attitude 10: When I think of my financial situation, I am optimistic about the future

Optimism towards the future when assessing the respondents' current financial situation is considered below and compared with the four demographic groups. Table 5.27 demonstrates the differences between gender, age, income and qualification. Table 5.27 yielded the following results:

- The overall level of dissatisfaction is 57,5%, while 43% of the respondents feel pessimistic about the future, when they consider their financial situation.
- Attitude 10 can not be considered to be statistically significant for any of the groups.

- There is a large difference between the responses of the two genders. Females feel far more pessimistic than males when they think of their future personal financial situation.
- It seems to be a trend that pessimism towards future financial situations increases with age.
- Individuals earning more than R100 000 annually feel more pessimistic than individuals that earn less than R40 000 on an annual basis.
- There is no distinct difference between the different educational groups.

Table 5.27: Attitude 10: When I think of my financial situation, I am optimistic about the future compared to the demographic groups

Attitude 10	**Level of dissatisfaction**	**Rank**	**Dissatisfied percentage**	**Rank**	**Significance**
Total	57,5%		43,0%		
Gender					0,39
Male	47,5%	1	39,3%	4	
Female	60,0%	6	47,1%	8	
Age					0,11
Younger than 30	52,5%	3	30,0%	1	
30-39	55,0%	4	42,5%	5	
40-49	60,0%	6	47,2%	9	
Older than 50	62,5%	7	48,0%	10	
Income					0,434
Less than R40 000	50,0%	2	34,0%	2	
R40 001 - R60 000	65,0%	8	56,5%	13	
R60 001 - R80 000	62,5%	7	45,5%	7	
R80 001 - R100 000	75,0%	9	71,4%	14	
R100 000 +	60,0%	6	49,0%	11	
Qualifications					0,293
Grade 12	55,0%	4	36,5%	3	
University/technicon degree	57,5%	5	43,9%	6	
Other qualifications	62,5%	7	56,0%	12	

5.4.4.11 Attitude 11: I feel that I am doing well financially

Respondents' feelings whether they are doing well financially and managing their finances well are described, as well as compared to gender, age, income and qualifications.

Table 5.28: Attitude 11: I feel that I am doing well financially compared to the demographic groups

Attitude 11	Level of dissatisfaction	Rank	Dissatisfied percentage	Rank	Significance
Total	57,5%		40,2%		
Gender					0,02
Male	55,0%	2	36,0%	3	
Female	60,0%	4	44,9%	9	
Age					0,288
Younger than 30	57,5%	3	42,5%	7	
30-39	55,0%	2	34,5%	2	
40-49	60,0%	4	45,4%	10	
Older than 50	57,5%	3	40,0%	5	
Income					0,172
Less than R40 000	52,5%	1	33,3%	1	
R40 001 - R60 000	60,0%	4	50,0%	12	
R60 001 - R80 000	60,0%	4	50,0%	12	
R80 001 - R100 000	72,5%	6	57,1%	13	
R100 000 +	60,0%	4	43,1%	8	
Qualifications					0,623
Grade 12	57,5%	3	37,8%	4	
University/technicon degree	72,5%	6	40,1%	6	
Other qualifications	65,0%	5	48,0%	11	

- The level of dissatisfaction for all of the respondents is 57,5%, which can be regarded as very negative.
- 43% of the respondents feel that they are financially not doing very well.
- This statement are statistically significant for the two genders ($0.02 < 0.05$). Females feel significantly less satisfied about their financial performance as compared to the male respondents.
- There is no distinct difference between the age groups.

- It is worthy to note that individuals that earn less than R40 000 has a lower level of dissatisfaction than the higher earning individuals.
- Interestingly, individuals with higher education has a significantly higher level of dissatisfaction (feel that they are not doing well financially) than individuals with a grade 12 qualification.

5.4.4.12 Attitude 12: I earn more than I spend

It was necessary to establish the respondents' attitudes regarding this particular statement, as dissatisfaction would indicate that the respondents spend more money than they earn. Table 5.29 compares the different gender, age, income and qualification groups.

Table 5.29: Attitude 12: I earn more than I spend compared to the demographic groups

Attitude 12	Level of dissatisfaction	Rank	Dissatisfied percentage	Rank	Significance
Total	55,0%		44,8%		
Gender					0,58
Male	52,5%	2	44,7%	8	
Female	57,5%	4	44,9%	9	
Age					0,104
Younger than 30	55,0%	3	35,0%	2	
30-39	52,5%	2	43,4%	6	
40-49	57,5%	4	50,0%	12	
Older than 50	50,0%	1	44,0%	7	
Income					0,78
Less than R40 000	52,5%	2	41,2%	4	
R40 001 - R60 000	52,5%	2	39,1%	3	
R60 001 - R80 000	62,5%	5	50,0%	12	
R80 001 - R100 000	85,0%	6	78,6%	13	
R100 000 +	57,5%	4	49,0%	11	
Qualifications					0,12
Grade 12	55,0%	3	41,9%	5	
University/technicon degree	57,5%	4	48,1%	10	
Other qualifications	52,5%	2	28,0%	1	

- The overall level of dissatisfaction is 55%, which can be regarded as a very high degree of discontent, while 44,8% of the respondents indicated that they spend more money than they earn.
- This statement is not statistically significant for any of the specific demographical groups.
- More females feel that they are spending more than they are earning compared to males.
- There is no significant difference between the different age group. More of the oldest individuals, however, feel that they are earning more than they are spending compared to the other age groups.
- The highest income group feels higher levels of dissatisfaction towards this statement than the other income groups.

5.4.4.13 Attitude 13: Concerns over personal finances do interfere with responsibilities and cause stress

This attitude is an important determinant in establishing if financial stress can interfere with daily responsibilities. Table 5.30 displays the linkage between this attitude and the different genders, ages, income groups, as well as qualification groups and the outcomes are:

- The overall level of dissatisfaction is 52,5% and 36,7% of the respondents feel that concerns over their personal finances do interfere with their daily responsibilities and cause them stress.
- This statement proved not to be statistically significant for any of the groups, although the age and qualifications groups are very close to being statistically significant with values of 0.06 and 0.09 respectively.
- The following groups' dissatisfaction levels exceed the overall percentage:
  - individuals aged between 30 and 39
  - individuals that earn between R60 001 and R100 000
  - individuals with either a university or technicon degree or diploma.

- There is no definite difference between the two genders concerning this attitude.
- Individuals over the age of 50 has lower levels of dissatisfaction than the other age groups and as a result less older individuals feel that concerns over personal finances do interfere with responsibilities and cause stress.
- More highly educated individuals feel that concerns over personal finances interfere with their daily responsibilities and cause stress.

Table 5.30: <u>Attitude 13: Concerns over personal finances do interfere with responsibilities and cause stress compared to the demographic groups</u>

Attitude 13	Level of dissatisfaction	Rank	Dissatisfied percentage	Rank	Significance
Total	52,5%		36,7%		
Gender					0,835
Male	52,5%	4	38,0%	10	
Female	52,5%	4	35,3%	6	
Age					0,06
Younger than 30	52,5%	4	45,0%	12	
30-39	55,0%	5	33,6%	3	
40-49	50,0%	3	38,0%	10	
Older than 50	37,5%	1	32,0%	2	
Income					0,569
Less than R40 000	52,5%	4	34,0%	5	
R40 001 - R60 000	50,0%	3	37,0%	8	
R60 001 - R80 000	65,0%	6	54,6%	13	
R80 001 - R100 000	55,0%	5	35,7%	7	
R100 000 +	50,0%	3	37,3%	9	
Qualifications					0,09
Grade 12	50,0%	3	33,8%	4	
University/technicon degree	55,0%	5	40,1%	11	
Other qualifications	40,0%	2	20,0%	1	

5.4.4.14 Attitude 14: I do not feel any financial stress

The last attitude that concerns financial stress is presented in Table 5.31.

Table 5.31: Attitude 14: I do not feel any financial stress compared to the demographic groups

Attitude 14	Level of dissatisfaction	Rank	Dissatisfied percentage	Rank	Significance
Total	57,5%		39,5%		
Gender					0,695
Male	55,0%	3	37,3%	5	
Female	57,5%	4	41,9%	7	
Age					0,598
Younger than 30	57,5%	4	40,0%	6	
30-39	52,5%	2	35,4%	3	
40-49	57,5%	4	43,5%	8	
Older than 50	55,0%	3	40,0%	6	
Income					0,38
Less than R40 000	50,0%	1	33,3%	2	
R40 001 – R60 000	62,5%	6	47,8%	12	
R60 001 – R80 000	52,5%	2	31,8%	1	
R80 001 – R100 000	72,5%	8	64,3%	13	
R100 000 +	65,0%	7	47,1%	10	
Qualifications					0,382
Grade 12	60,0%	5	47,3%	11	
University/technicon degree	52,5%	2	35,8%	4	
Other qualifications	65,5%	7	44,0%	9	

- This statement did not prove to be statistically significant to any of the groups.
- A high overall level of dissatisfaction (57,5%) was experienced by all of the respondents, indicating that all of the respondents experience high levels of financial stress.
- 39,5% of the respondents specified that they experience extreme financial stress.
- The following groups indicated higher levels of dissatisfaction than the overall level of dissatisfaction:
  - individuals that earn between R80 001 and R100 000 annually

- individuals with a matric certificate.

- There is no distinct difference between the gender and age groups.
- Individuals that earn less than R40 000 shows lower levels of dissatisfaction towards this statement than the other income groups. This is very interesting, as the lowest income individual experience less stress than the higher income individuals.
- The least educated individuals (grade 12) have higher levels of dissatisfaction than the individuals with either a university or technicon qualification.

The specific financial attitudes discussed can lead to particular financial behaviours that can either be destructive to personal finances or to the benefit of the individual employing positive financial actions.

5.4.5 Behaviours displayed by respondents

A selection of behaviours was presented to the respondents and they were asked to show the regularity that each of these behaviours transpired. The following behaviours were examined:

- Behaviour 1: I set money aside for savings.
- Behaviour 2: I set money aside for retirement.
- Behaviour 3: I had a weekly or monthly budget that I followed.
- Behaviour 4: I do pay credit cards in full and avoid financial charges.
- Behaviour 5: I have not reached the maximum limit on my credit card.
- Behaviour 6: I do not spend more money than I have.
- Behaviour 7: I have not had to cut living expenses.

The various frequencies presented to the respondents were ‘never’, ‘sometimes’, ‘usually’ and ‘always’. Individuals had to choose the rate of recurrence that appealed to their respective personal financial circumstances and from the answers the mean (or factor) for all the behaviours, as well as those for the different demographic groups could be calculated.

The level of poor financial management was determined by using the following formula:

$$\text{Dissatisfied percentage} = \frac{\text{Mean} - 1}{n - 1} \times 100$$

n = the number of answers available to the respondent.

As these questions were presented on a scale of 1 to 4 to plot answers, *n* would be 4. Between one and four there are 3 intervals, therefore 1 is deducted from *n* to determine the amount of intervals in each specific question presented to the respondents.

The poor financial management percentage was calculated by adding up the two most negative responses for each of the behaviours and dividing it by the number of respondents (i.e. 286 respondents).

The following table presents the level of poor financial management displayed by the respondents for each of the behaviours presented, as well as the overall percentage of respondents that demonstrated poor financial conduct.

Table 5.32: Level of poor financial management and the percentage of respondents indicating that they have demonstrated poor financial management conduct.

	Level of poor financial management	**Poor financial management percentage**
Behaviour 1	60,0%	67,1%
Behaviour 2	40,0%	37,8%
Behaviour 3	50,0%	50,7%
Behaviour 4	46,7%	47,6%
Behaviour 5	30,0%	25,2%
Behaviour 6	36,7%	21,7%
Behaviour 7	40,0%	26,2%
Average	44,3%	39,5%

- The average level of poor financial behaviour for the seven behaviours is 44,3%.
- The overall percentage of respondents that displayed poor financial management behaviours was 39,5% for all of the behaviours combined.
- The levels of poor financial management ranges from 30% to 60%, while the percentages of individuals that displayed poor financial management behaviours were between the ranges of 21,7% and 67%.
- Behaviour 2 (I set money aside for retirement), 3 (I had a weekly or monthly budget that I followed) and 4 (I do pay credit cards in full and avoid financial charges) displayed higher levels of poor financial management than the overall percentage of 44,3%.
- Behaviour 1 (I set money aside for savings), 3 and 4 had higher than average percentages of respondents that specified poor financial management behaviours.

All of the results for the different behaviours or financial management conduct, compared to gender, age, income and qualifications will be displayed as the level of poor financial management and the percentage of respondents indicating poor financial management behaviours, with their rankings and statistical significance. The various demographic groups are ranked in ascending order. As before, lower rankings would indicate a lower level of poor financial management, while a high ranking would mean a higher level of poor financial management. The seven different behaviours will be expressed according to the four demographic groups, which are gender, age, income and qualifications.

5.4.5.1 Behaviour 1: I set money aside for savings

The first behaviour that sets out the frequency of saving is demonstrated in Table 5.33.

Table 5.33: I set money aside for savings compared to the demographic groups.

Behaviour 1	Level of poor financial management	Rank	Poor financial management percentage	Rank	Significance
Total	60,0%		67,1%		
Gender					0,1
Male	66,3%	7	72,0%	11	
Female	53,3%	3	61,8%	4	
Age					0,341
Younger than 30	63,7%	6	75,0%	12	
30-39	60,0%	5	70,8%	10	
40-49	56,7%	4	64,8%	8	
Older than 50	46,7%	1	48,0%	1	
Income					0,005
Less than R40 000	56,7%	4	64,1%	7	
R40 001 - R60 000	70,0%	8	84,8%	14	
R60 001 - R80 000	56,7%	4	68,2%	9	
R80 001 - R100 000	50,0%	2	57,1%	2	
R100 000 +	50,0%	2	62,7%	6	
Qualifications					0,022
Grade 12	70,0%	8	81,0%	13	
University/technicon degree	53,3%	3	62,6%	5	
Other qualifications	53,3%	3	60,0%	3	

- The total level of poor financial management by the respondents is 60%, while 67,1% of all the respondents indicated that they either never saves, or only sometimes put money aside for savings.
- Behaviour 1 is statistically significant for the different income groups, as well as the qualification groups.
- There tend to be a decline in the level of poor financial management (more frequent savings) with a rise in income.
- There also tend to be a decrease in the level of poor financial management with an increase in qualifications. Thus, individuals with higher qualifications save more frequently than the individuals with only a matric certificate.

5.4.5.2 Behaviour 2: I set money aside for retirement

The second behaviour, which is more or less similar to the first behaviour determine the regularity of saving for retirement. The results for Behaviour 2 are presented below:

Table 5.34: *I set money aside for retirement compared to the demographic groups.*

Behaviour 2	Level of poor financial management	Rank	Poor financial management percentage	Rank	Significance
Total	40,0%		37,8%		
Gender					0,545
Male	40,0%	3	41,3%	9	
Female	36,7%	2	33,8%	3	
Age					0,35
Younger than 30	50,0%	6	55,0%	12	
30-39	36,7%	2	35,4%	5	
40-49	43,3%	4	37,0%	8	
Older than 50	26,7%	1	24,0%	1	
Income					0,008
Less than R40 000	36,7%	2	34,0%	4	
R40 001 - R60 000	50,0%	6	50,0%	11	
R60 001 - R80 000	60,0%	7	59,1%	13	
R80 001 - R100 000	46,7%	5	50,0%	11	
R100 000 +	26,7%	1	25,5%	2	
Qualifications					0,402
Grade 12	46,7%	5	43,2%	10	
University/technicon degree	43,3%	4	35,8%	6	
Other qualifications	36,7%	2	36,0%	7	

- There is a total level of poor financial management of 40%, indicating a large part of the respondents that do not adequately make provision for retirement.
- 37,8% of the respondents indicated that they either never save or only sometimes put money aside for retirement.
- Behaviour 2 is statistically significant for the different income groups (0.008 < 0.05). The highest income individuals save more frequently for retirement than the other income groups.
- Individuals earning less than R40 000 annually also display a high frequency of not saving for retirement (36,7%).

- There is a significant increase in the frequency of poor financial management behaviour for the individuals earning between R40 001 and R60 000 on an annual basis (50%), although 50% of the respondents indicated that they either never save for retirement or only sometimes.
- Individuals older than 50 indicated a comparatively lower level of poor financial management (26,7%) towards this statement. This is to be expected as these individuals are close to retirement and therefore would be expected to make sufficient provision for retirement.
- Younger individuals display less frequent savings for retirement than the pre-retirement respondents.
- There is no significant difference between the two genders or the educational groups.

5.4.5.3 Behaviour 3: I have a weekly or monthly budget that I follow

Budgeting is an important money management tool that gives control over personal finances, because income and expenses can be monitored and regulated. Behaviour 3 is evaluated against the various demographic groups in Table 5.35 and the following outcomes were obtained:

- There is an overall level of poor financial management of 50% for all of the respondents, as well as 50,7% of the respondents that either never budget or only sometimes.
- Behaviour 3 is statistically significant for the two genders. Females display a higher tendency to follow a weekly or monthly budget than males.
- There is no distinct difference between the different age groups, although the oldest individuals indicated that they budget more frequently than the other groups.
- There is also no major difference between the different income groups, although it seems that the individuals earning more have a higher tendency to budget than the individuals that earn lower incomes.

- There is no significant difference amongst the educational groups.

Table 5.35: I have a weekly or monthly budget that I follow compared to the demographic groups.

Behaviour 3	Level of poor financial management	Rank	Poor financial management percentage	Rank	Significance
Total	50,0%		50,7%		
Gender					0,005
Male	53,3%	4	50,7%	8	
Female	46,7%	2	50,8%	9	
Age					0,675
Younger than 30	46,7%	2	50,0%	7	
30-39	53,3%	4	55,8%	12	
40-49	50,0%	3	48,2%	4	
Older than 50	43,3%	1	40,0%	1	
Income					0,313
Less than R40 000	50,0%	3	49,7%	6	
R40 001 - R60 000	56,7%	5	60,9%	14	
R60 001 - R80 000	46,7%	2	45,5%	3	
R80 001 - R100 000	46,7%	2	57,1%	13	
R100 000 +	46,7%	2	45,1%	2	
Qualifications					0,564
Grade 12	53,3%	4	54,1%	11	
University/technicon degree	50,0%	3	49,2%	5	
Other qualifications	50,0%	3	52,0%	10	

5.4.5.4 Behaviour 4: I paid credit cards in full and avoided financial charges

Credit cards are the most widely used form of debt and very expensive with high interest rates. Paying credit cards in full to avoid high financial charges would be considered to be a good financial management practise. Table 5.36 shows the different demographic groups and the results are as follows:

- The overall level of poor financial management (not paying credit cards in full to avoid financial charges) is 46,7% and the total percentage of individuals that either never or only sometimes repay their credit cards in full is 47,6%.

- Behaviour 4 is statistically significant for the different income groups. Individuals earning more than R100 000 annually showed a higher tendency of repaying their credit cards bills in full to avoid financial charges, while the lowest paid individuals less frequently repay their credit cards in full to avoid financial charges.
- Males indicated a higher frequency of not repaying their credit cards in full compared to females and a higher percentage of the male group either never or only sometimes repay their total credit card bills.
- Individuals younger than 30 has a higher tendency to repay their credit cards in full compared to the other older age groups.
- There is no distinct difference between the various educational groups.

Table 5.36: <u>I paid credit cards in full and avoided financial charges compared to the demographic groups.</u>

Behaviour 4	**Level of poor financial management**	**Rank**	**Poor financial management percentage**	**Rank**	**Significance**
Total	46,7%		47,6%		
Gender					0,531
Male	46,7%	5	50,7%	9	
Female	36,7%	3	44,1%	4	
Age					0,478
Younger than 30	36,7%	3	40,0%	3	
30-39	46,7%	5	50,4%	8	
40-49	46,7%	5	46,3%	5	
Older than 50	50,0%	6	52,0%	11	
Income					0,028
Less than R40 000	53,3%	7	54,3%	13	
R40 001 - R60 000	46,7%	5	52,2%	12	
R60 001 - R80 000	33,3%	2	36,4%	2	
R80 001 - R100 000	53,3%	7	50,0%	7	
R100 000 +	30,0%	1	27,5%	1	
Qualifications					0,23
Grade 12	50,0%	6	51,4%	10	
University/technicon degree	46,7%	5	47,1%	6	
Other qualifications	40,0%	4	40,0%	3	

5.4.5.5 Behaviour 5: I reached the maximum limit on my credit card

Reaching the maximum limit on a credit card has high costs associated with it, unless it can be repaid very quickly. As these limits on credit cards can be very high, the interest rates payable can be large amounts. Table 5.37 shows the contrast between the demographic groups.

Table 5.37: *I reached the maximum limit on my credit card compared to the demographic groups.*

Behaviour 5	Level of poor financial management	Rank	Poor financial management percentage	Rank	Significance
Total	30,0%		25,2%		
Gender					0,802
Male	30,0%	4	24,7%	7	
Female	30,0%	4	25,7%	9	
Age					0,669
Younger than 30	33,3%	5	25,0%	8	
30-39	33,3%	5	28,3%	11	
40-49	26,7%	3	23,2%	6	
Older than 50	23,3%	2	20,0%	2	
Income					0,009
Less than R40 000	30,0%	4	22,2%	4	
R40 001 - R60 000	40,0%	7	32,6%	13	
R60 001 - R80 000	23,3%	2	22,7%	5	
R80 001 - R100 000	20,0%	1	14,3%	1	
R100 000 +	30,0%	4	31,4%	12	
Qualifications					0,496
Grade 12	36,7%	6	33,8%	14	
University/technicon degree	26,7%	3	21,4%	3	
Other qualifications	33,3%	5	28,0%	10	

- A relatively low poor financial management factor of 30% is displayed in Table 5.37. It is, however, worrying to see that 25,2% of the total respondents either always or usually reach the maximum limit on their credit cards.
- Behaviour 5 is statistically significant for the income group. There is a relatively high increase in the frequency of reaching the maximum limit on their credit cards from the individuals that earn less than R40 000 annually (30%) to the

individuals that earn between R40 001 and R60 000 annually (40%). These respondents also indicated the highest percentage of individuals that always or usually reach their credit card limit compared to the other income groups.

- There is no distinct difference between the two genders.
- It seems that as individuals grow older they have a lower tendency to reach the maximum limit on their credit cards, compared to younger respondents.
- The grade 12 group displayed a higher frequency in reaching their credit card limits compared to the highly educated respondents.

5.4.5.6 Behaviour 6: I spend more money than I have

The sixth behaviour that represents an action where the respondent spend more money than he/she has, would lead to the accumulation of debt or dissaving, where the individual use his/her savings to pay for expenses. Table 5.38 compares Behaviour 6 with the four demographic groups with the following results:

- An overall level of poor financial management of 36,7% is displayed with 21,7% of the respondents indicating that they either always or usually spend more than they have.
- Behaviour 6 is statistically significant for the income and educational groups. There is a high increase in the frequency to spend more than what is available from the individuals that earn less than R40 000 (33,3%) to the individuals earning between R40 001 and R60 000 annually (50%).
- Individuals with the lowest qualification shows a higher tendency to spend more money than they have, as well as a higher percentage of individuals that indicated that they either always spend more than they have, or sometimes spend more than they have available compared to the highest educated individuals.
- There is no significant difference between the two genders.
- Individuals older than 50 displayed a lower tendency to not spend more money than they have available compared to the younger age groups.

Table 5.38: I spend more money than I have compared to the demographic groups.

Behaviour 6	Level of poor financial management	Rank	Poor financial management percentage	Rank	Significance
Total	36,7%		21,7%		
Gender					0,556
Male	36,7%	5	22,7%	7	
Female	33,3%	4	20,6%	6	
Age					0,143
Younger than 30	33,3%	4	15,0%	2	
30-39	36,7%	5	24,8%	9	
40-49	36,7%	5	23,2%	8	
Older than 50	23,3%	1	12,0%	1	
Income					0,008
Less than R40 000	33,3%	4	17,7%	4	
R40 001 – R60 000	50,0%	8	37,0%	12	
R60 001 – R80 000	26,7%	2	18,2%	5	
R80 001 – R100 000	40,0%	6	35,7%	11	
R100 000 +	36,7%	5	17,7%	4	
Qualifications					0,008
Grade 12	40,0%	6	27,0%	10	
University/technicon degree	30,0%	3	17,1%	3	
Other qualifications	46,7%	7	40,0%	13	

5.4.5.7 Behaviour 7: I had to cut living expenses

The last behaviour where the respondents had to indicate the frequency where they had to cut living expenses is displayed in Table 5.39 with the following results:

- The overall level of poor financial behaviour is 40% for all of the respondents, as well as 26,2% of the respondents that either always or usually has to cut living expenses.
- Behaviour 7 is statistically significant for the age, as well as the qualification groups.
- Individuals older than 50 (pre-retirement individuals) displayed a lower frequency to having to cut their living expenses in contrast to the younger age groups.

- Surprisingly, individuals that earn less than R40 000 annually also showed a lower tendency to cut living expenses in comparison to the higher earning individuals.
- There is no definite difference between the male and female groups.
- There is a definite difference between the highest qualified group and the lowest qualified group, as the latter has a higher tendency to cut their living expenses compared to individuals with a university or technicon degree or diploma.

Table 5.39: <u>I had to cut living expenses compared to the demographic groups.</u>

Behaviour 7	**Level of poor financial management**	**Rank**	**Poor financial management percentage**	**Rank**	**Significance**
Total	40,0%		26,2%		
Gender					0,362
Male	40,0%	3	26,0%	8	
Female	43,3%	4	26,5%	9	
Age					0,008
Younger than 30	40,0%	3	25,0%	5	
30-39	40,0%	3	25,7%	7	
40-49	40,0%	3	30,6%	11	
Older than 50	33,3%	1	33,3%	13	
Income					0,074
Less than R40 000	36,7%	2	25,5%	6	
R40 001 - R60 000	46,7%	5	34,8%	14	
R60 001 - R80 000	46,7%	5	27,3%	10	
R80 001 - R100 000	43,3%	4	21,4%	1	
R100 000 +	40,0%	3	21,6%	2	
Qualifications					0,015
Grade 12	46,7%	5	32,4%	12	
University/technicon degree	36,7%	2	24,1%	4	
Other qualifications	43,3%	4	24,0%	3	

An important determinant of this study was to ascertain not only spending and debt tendencies, but the saving behaviours of the respondents.

5.4.6 Savings

Saving is such an important part of healthy financial management and the study would not be complete without an indication of the saving propensity of the individuals taking part in the study. The average amount of months the respondents can live on only their savings were determined, the percentage of disposable income saved each month, the main reasons for not saving, as well as voluntary contributions to employer retirement plans were evaluated and discussed

5.4.6.1 Average amount of months the respondents can live on their savings

The respondents were asked to comment on how many months they would be able to live on their savings, should they lose their jobs or stop working. The following outcomes are presented in Table 5.40.

- There is no significant difference between males and females, as both groups indicated that they would be able to live between 5 and 6 months on their savings should they not be able to work.
- As expected, older individuals can live longer on their savings in contrast to the younger age groups.
- Individuals earning more, also, can live longer on their savings in comparison to the lower income counterparts.
- There is no significant difference between the different educational groups.

The majority of the demographical groups remarked that they will be able to live a maximum of 5-6 months on only their savings. Individuals that could only survive on their savings for 3-4 months, were the 18-29 age group, 30-39 age group and the individuals that earn less than R40 000 and between R40 001 and R60 000. Thus, the younger individuals, as well as the lower earning individuals will be able to live on their savings for a shorter period than the other groups.

It is worth noting that the 50 + age group reported that they will be able to live an average of 7-12 months their existing savings. This is remarkably high compared to the other demographical groups, but proves the point that the older generations start saving more as retirement is looming.

It is distressing to see that the majority of the group will only be able to survive 5-6 months if they were not able to work. In South Africa's current employment environment, job losses are common and finding a new form of employment can take much more than just 6 months.

Table 5.40: <u>The amount of months the respondents will be able to live on their savings compared to the demographic groups</u>

Groups	**Average % of months**
Gender	
Male	5-6 months
Female	5-6 months
Age	
Younger than 30	3-4 months
30-39	3-4 months
40-49	5-6 months
50+	7-12 months
Income	
Less than R40 000	3-4 months
R40 001 – R60 000	3-4 months
R60 001 – R80 000	5-6 months
R80 001 – R100 000	5-6 months
R100 000 +	5-6 months
Qualifications	
Grade 12	5-6 months
University/technicon degree	5-6 months
Other qualification	5-6 months

An important question to focus on is to determine the average amount of money the respondents put away each month toward savings.

5.4.6.2 Percentage of disposable income spent on savings

The respondents were asked to indicate the percentage of their disposable income they contribute to savings. The percentage of disposable income that is attributed to savings each month is therefore correlated with gender, age, income and qualifications.

Table 5.41: <u>The percentage of disposable income saved every month compared to the demographic groups</u>

Groups	Average % spent on savings
Gender	
Male	10,0%
Female	13,0%
Age	
Younger than 30	10,0%
30-39	12,0%
40-49	11,0%
50+	13,0%
Income	
Less than R40 000	10,0%
R40 001 - R60 000	10,0%
R60 001 - R80 000	17,0%
R80 001 - R100 000	15,0%
R100 000 +	13,0%
Qualifications	
Grade 12	11,0%
University/technicon degree	12,0%
Other qualification	11,0%

- Males save an average of 3% of their disposable income less each month than the female group.
- Expectedly, individuals older than 50 save 3% more than the youngest age group.
- The highest income individuals also save 3% more than the lowest income individuals.
- There is no distinct difference between the different educational groups.

It is therefore clear that females save more of their disposable income than males, as well as the pre-retirement age individuals compared to the youngest respondents. It was also apparent that individuals earning lower incomes save less of their disposable income than the other income groups, and the highest educated individuals save an average of 1% more than individuals with only a matric certificate or other recognised qualifications.

The respondents specified the main reasons they are not contributing towards savings in section 5.4.6.3.

5.4.6.3 Main reasons for not saving

Respondents were asked to select the main reason they were not saving.

Table 5.42.: The main reasons respondents are not saving

MAIN REASONS FOR NOT SAVING	TOTAL	TOTAL %
1) I do not have enough money	107	74,3%
2) I do not need to save money	3	2,1%
3) I do not know how much to save	10	6,9%
4) I have not thought about it	19	13,2%
5) I do not think it is important	1	0,7%
6) Another reason	4	2,8%
TOTAL	**144**	**100%**

- The number one reason that a vast amount (74,3%) of the respondents chose was that they did not have enough money to save.
- A disturbing 13,2% stated that they have not thought about saving and 6,9% said that they did not know how much to save.

A major percentage of the respondents indicated that they contribute between 10% and 15% of their disposable income to savings. The following section presents how many of the respondents have a retirement plan provided by their employer and if they make use of this.

Having a retirement plan at work is a major benefit to employees, because of increased retirement savings. In most cases the employer also pays an equal or larger amount into the retirement fund, further increasing the retirement reserves of the employee.

5.4.6.4 Voluntary contributions to employer retirement plans

The respondents were asked to indicate if their employer offer employees a retirement plan at work. These individuals were also asked to indicate if they are part of this retirement plan. The following table therefore illustrate the total percentage of individuals whose employer do offer a retirement plan to employees, as well as the percentage of individuals that choose not to be included in that specific retirement plan.

Table 5.43: <u>Total employee retirement plans provided by employers and usage</u>

	Percentage	**Do not make use of the plan**
Total	77,8%	23,5%

- 23,5% of the total percentage of individuals that have the option of a retirement plan; choose not to make use of it.

The demographic groups are compared in Table 5.44 and the outcomes are:

- More females (21,3% compared to 16,0%) choose not to take part in the retirement plans.
- More of the older individuals have employer supplied retirement plans. It is however noticeable that a larger percentage of the individuals aged younger than 30 (37,5%) prefer not to take part in their employers' retirement plan.
- It is noteworthy that a much larger percentage (27,5%) of the highest income group (R100 000 +) chooses not to use the retirement plan compared to the lowest paid individuals (17,8%).

- There is no significant difference between the various educational groups.

Table 5.44: Retirement plans at work and voluntary contributions compared to the demographic groups

Groups	Percentage	Do not make use of the plan
Gender		
Male	80,0%	16,0%
Female	75,7%	21,3%
Age		
Younger than 30	75,0%	37,5%
30-39	79,6%	15,9%
40-49	75,9%	14,8%
50 +	84,0%	16,0%
Income		
Less than R40 000	85,0%	17,8%
R40 001 - R60 000	65,2%	22,6%
R60 001 - R80 000	59,1%	62,5%
R80 001 - R100 000	71,4%	20,0%
R100 000 +	78,4%	27,5%
Qualifications		
Grade 12	78,4%	13,5%
University/technicon degree	78,6%	19,8%
Other qualification	72,0%	24,0%

Being part of a retirement plan at work, because of the added advantages to retirement savings is a beneficial and rational choice. It is therefore disturbing to see that such a large part of the respondents choose not to make use of this plan.

Respondents' saving tendencies, as well of their perception how long they will be able to survive on current savings, should they lose their income are comparatively low. The main reason for not saving is that they feel they do not have enough money to invest and save each month. The deduction therefore, could be that these individuals need to be educated in their money management practises to ensure healthy and financially secure futures.

5.4.7 Financial education

Respondents were asked if they were of the opinion that they needed financial education and if they would participate in financial education if it was to be provided to them. Table 5.45 displays the total percentage of respondents that feel they are in need of financial education and the total percentage of all the respondents that would participate in financial education, if this training was provided at their workplace.

Table 5.45: The total respondents in need of and participation in financial education

	Need financial education	**Would participate in financial education**
Total	64,9%	85,5%

- Table 5.45 show that 64,9% of the respondents feel that they need financial education. Of the total respondents, 85,5% would participate if financial education were provided for them.

The different demographic groups are illustrated in Table 5.46 and the outcomes are:

- More males than females indicated that they feel they are in need of financial education.
- The individuals aged 50 and older indicated a low percentage of respondents that feel they need financial education.
- It is noteworthy to see that less of the younger aged individuals feel that they will participate, and the percentages rise with the age groups.
- The highest income group (R100 000 +) has the lowest percentage of individuals that are willing to participate in personal financial education in their workplace.
- There is no mentionable difference between low and highly educated individuals.

Table 5.46: The respondents' need for and participation in financial education compared to the demographic groups

Groups	Need financial education	Would participate in financial education
Gender		
Male	68,0%	84,0%
Female	61,8%	84,6%
Age		
Younger than 30	67,5%	82,5%
30-39	67,3%	85,0%
40-49	65,7%	88,0%
50 +	52,0%	68,0%
Income		
Less than R40 000	63,4%	86,1%
R40 001 - R60 000	78,3%	91,1%
R60 001 - R80 000	54,5%	81,8%
R80 001 - R100 000	78,6%	92,9%
R100 000 +	58,9%	78,0%
Qualifications		
Grade 12	63,5%	85,1%
University/technicon degree	64,7%	83,4%
Other qualification	72,0%	88,0%

The majority of the respondents feel that they need financial education and most of the respondents would participate in personal financial workplace training, even if they feel that they do not need it.

Section 5.4.8 verifies the influence of feelings of control over personal finances.

5.4.8 Hypotheses

The following hypotheses were determined for the purpose of establishing feelings of control over personal finances and subsequent opinions concerning sufficient funds to live throughout retirement, pessimism towards the future, interference with responsibilities, as well as feelings of extreme financial stress. Pearson Chi-Square calculations were done to determine the correlation between these variables. If the Pearson Chi-Square calculation is less than the significance value (0.05), then the variables are conclusive for the population without reasonable doubt.

5.4.8.1 Hypothesis 1

Individuals who do not feel in control of their personal finances, are of the opinion that they will not have sufficient funds to live throughout retirement.

Pearson Chi-Square: 0.005
Significance value: 0.05
Therefore: Statistically significant (0.005 < 0.05)

Individuals that do not feel in control of their finances tend to think that they will not have enough money to live throughout their retirement years. Retirement is an integral part of financial security for the future and it could be possible that, in most instances, people tend to think that their pension will be sufficient. This is generally not the case, as individuals need to make additional provision for this period.

5.4.8.2 Hypothesis 2

Individuals who do not feel in control of their personal finances, feel pessimistic towards the future.

Pearson Chi-Square: 0.0
Significance value: 0.05
Therefore: Statistically significant (0.0 < 0.05)

This hypothesis is statistically significant. It can be assumed that pessimism can be experienced when people do not feel in control of their finances. A pessimistic outlook on the future could lead to a loss of standard of living, because of negative feelings and apprehension towards anything that encompass personal finances.

5.4.8.3 Hypothesis 3

Individuals who do not feel in control of their personal finances, have concerns about finances that interfere with their responsibilities and cause stress.

Pearson Chi-Square: 0.367
Significance value: 0.05
Therefore: Statistically insignificant (0.367 > 0.05)

This hypothesis is not statistically significant for the entire population because the chi-square calculation is larger than the significant value. This does not mean that feelings of a loss of control do not interfere with responsibilities and cause stress. This means that this hypothesis could still be true for a number of individuals.

5.4.8.4 Hypothesis 4

Individuals who do not feel in control of their personal finances, experience extreme financial stress.

Pearson Chi-Square: 0.031
Significance value: 0.05
Therefore: Statistically significant (0.031 < 0.05)

The hypothesis can be seen as statistically significant for the entire population. Individuals that do not feel in command of their personal finances tend to experience extreme financial stress. Stress affects every aspect of an individuals' life. High debt levels and low saving ratios can cause feelings of anxiety and constant strain that influence relationships, work and every facet of an individuals' life. Stress about finances can thus cause an individuals' standard of living to decline significantly.

5.4.8.5 Hypothesis 5

Individuals who do not feel in control of their personal finances, do not follow a weekly or monthly budget.

Pearson Chi-Square: 0.049
Significance value: 0.05
Therefore: Statistically significant (0.049 < 0.05)

Hypothesis five can be seen as statistically significant for the entire population. A budget is seen as a weekly or monthly evidence of spending. This could restrain an individual from spending too much, because the individual can actually see what money is coming in and what is going out. If there is a deficit at the end of the month of week, then the person knows that he/she spent too much and by what amount. This could assist the individual in controlling their finances and facilitate in improving their financial situation. It is therefore understandable that individuals that do not follow a weekly or monthly budget will feel that their finances are uncontrollable.

Five hypotheses were found to be conclusive with the whole population and are therefore statistically significant. Hypothesis three were also found to be true, but not statistically significant, consequently being not attributed to the whole population.

5.5 CONCLUSION

The main objective of this chapter was to present, assess and examine the research results of the empirical study. Findings regarding personal financial management, as well as personal financial debt management were reported and analysed.

The empirical data were presented in eight segments. The first segment examined the profile of the respondents according to the four demographic groups, namely gender, age, income and qualifications. The second segment discussed the different sources of debt used by the respondents, such as home loans, personal bank loans, micro lenders, clothing accounts, credit cards, vehicle finance and furniture accounts compared to the four demographical groups. The third part focused on examining the average percentage of disposable income spent on these different sources of debt, again evaluated by using the gender, age, income and qualifications variables. Attitudes and perceptions of the respondents regarding personal financial issues were discussed in the fourth section with behaviours displayed by the respondents regarding personal finances in the fifth. The respondents savings and saving behaviours were considered in the sixth section with specific reference to how many months they will be able to live on their savings, should they lose their income, the average percentage of disposable income saved every month, the main reasons for not saving, as well as an indication of how many individuals make use of employer provided retirement plans at their workplace. The seventh segment offered data regarding the respondents' perception on their need for personal financial education, as well as willingness to participate in workplace financial education. Five hypotheses were presented in segment eight concerning individuals that do not feel in control of their personal finances and possible consequences thereof.

The different sources of debt use indicated that South Africans are highly indebted when looked at the percentage spent on all forms of debt each month. Attitudes and behaviours regarding personal finances were relatively pessimistic on the subject of feelings of uncontrollability, not enough income to meet financial needs, concerns regarding debt, low savings, and negative feelings towards the future, in addition to extreme financial stress. Low saving ratios were reported with an average of 5-6 months that respondents would be able to survive if they lost their jobs. The five hypotheses presented showed that individuals that do not feel in control of their personal finances think that they will not have enough money to live throughout retirement, feel pessimistic towards the future, experience extreme financial stress and do not follow a weekly or monthly budget. The findings resulted in being statistically significant in accordance with Pearson Chi-Square tests. Therefore the findings can be seen as statistically significant for the whole population. Hypothesis 3, on the topic of individuals that do not feel in control of their personal finances have concerns about finances that interfere with their responsibilities and cause stress, was found to be statistically insignificant for the whole population, but the Pearson Chi-Square value were still small and therefore indicated agreement between the data and the null hypothesis. The hypothesis is therefore true, but not conclusive for the whole population.

Chapter 6 will give an outline of the findings, as well as conclusions and recommendations.

CHAPTER 6

SUMMARY, FINDINGS AND RECOMMENDATIONS

6.1 INTRODUCTION

The intention with this study was to determine the money management practices of individuals, with specific reference to debt management practices, in addition to spending and saving behaviours. The study surveyed literature on personal debt, personal savings and financial literacy and used the empirical study to obtain an indication of the debt management practices of respondents concerning their personal finances.

Secondary objectives, according to the four demographic variables of employees, namely gender, age, income and qualifications, included the following:

- To evaluate the importance of financial literacy and effective personal financial management.
- To determine the different sources of debt used.
- To ascertain extent of household debt accumulated and the percentage of disposable income spent on each form of debt.
- To determine the extent of saving by individuals.
- To assess the impact of excessive debt on stress and productivity in the workplace.

With these objectives taken into consideration, the following hypotheses were addressed:

Hypothesis 1: Individuals who do not feel in control of their personal finances, are of the opinion that they will not have sufficient funds to live throughout retirement.

Hypothesis 2: Individuals who do not feel in control of their personal finances, feel pessimistic about the future.
Hypothesis 3: Individuals who do not feel in control of their personal finances have concerns about finances that interfere with their responsibilities and cause stress.
Hypothesis 4: Individuals who do not feel in control of their personal finances experience extreme financial stress.
Hypothesis 5: Individuals who do not feel in control of their personal finances do not follow a weekly or monthly budget.

The study obtained the relevant information from all students enrolled in management programmes presented by the University of the Free State School of Management during 2005. The School of Management provided the target population from various age, sex, income levels and education groups to demonstrate the differences in financial management practices. As the whole population was used in the study, no representative sample was necessary.

Structured questionnaires were used to determine the personal financial attitudes and behaviours of the respondents, in addition to the other research objectives. The questionnaires contained predominately multiple choice questions. Individuals were asked to provide information on the forms of debt they made use of, the average percentage of disposable income spent on each form of debt, their attitudes regarding certain financial issues, specific personal financial behaviours displayed by the respondents, savings as well as financial education.

The study consists of six chapters. The first chapter outlines the problem statement and the research objectives. The second chapter discusses personal debt management, with specific reference to debt and savings. Chapter three examines financial literacy and the connection with personal debt and savings. Chapter four outlines the research methodology and the research plan for obtaining the empirical findings. The empirical study is discussed in Chapter 5, while Chapter 6 contains the conclusions and recommendations of the study.

6.2 FINDINGS

The next section summarizes the findings in the literature, general outcomes, concluding outcomes on gender, age, income, qualifications and the five hypotheses.

6.2.1 Concluding outcomes on the literature

The literature reviewed personal debt management and financial literacy.

6.2.1.1 Personal debt management

The mismanagement of personal finances and the accumulation of excessive personal debt have far-reaching consequences with regards to the national economy of a country, the individual, as well as the organization they are working for. Mismanagement of personal finances by individuals has negative macro-economic outcomes, such as underperformance of employees, absenteeism, bankruptcy, defaults of loans and ultimately reduced productivity in totality.

On a more personal level, individuals can have a deteriorating standard of living, caused by increased stress levels, decline of financial health and not enough savings for retirement. Demographic factors such as gender, age, income and qualifications undoubtedly play a role in financial management and debt behaviours. The literature suggests that the lifecycle emphasises the reality of younger individuals accumulating more debt and saving less than individuals that are closer to retirement. Female individuals were reported to spend more and save less than their male counterparts and were found to demonstrate less financial literacy when it came to making informed personal financial decisions. Interestingly, elevated usage of debt was conveyed by individuals with higher than average qualifications. Higher remunerated individuals also showed a tendency towards excessive debt, mainly because of the availability of credit to these individuals and a need to acquire goods without saving for it.

There is a definite inverse relationship between savings and debt, which leads consumers into saving less, while consuming more. In effect, the cost of debt becomes so high that consumers do not have enough money left to save. As a result of this, South Africans are reported to save an average of between 1% and 2% of their disposable income. This is alarmingly low when considered that provision for pension savings is included in this figure. Compared to countries such as the United Kingdom and the United States, South Africa's situation gives the impression of being in good shape. The United States of America shows a household debt to disposable income ratio of over 140%. The United Kingdom has a ratio of just below the same percentage. On average citizens of the United States of America and the United Kingdom commonly spend around 40% more on debt than they earn. In relation, the average South African has a ratio of between 50% and 70%. South Africans are therefore in a much better situation, but compared to incomes earned in developed countries, this is substantial. In reality this, although it is a better situation than the United States and the United Kingdom, could have a detrimental effect on South Africans' financial health.

6.2.1.2 Financial literacy

Financial illiteracy can have a tremendous effect on personal finances. The increased complexity of the economy and the market place, less accumulation of wealth and more spending, longer life-expectancy, decreased pension and other savings, as well as an absence of financial education, all contribute to the importance of financial literacy. As a result of this, individuals may possibly spend more than they earn, not keep financial records (budgeting), not plan or implement a regular investment programme and seldom make the correct financial decisions. The combination of a more complex financial environment with the typical financial illiteracy of most working individuals, could lead to devastating consequences for the economy of a country, as well as the working population.

Financial attitudes and behaviours were positioned next to topics such as personal debt and savings, personality, materialism, budgeting and financial management. The deduction was made that financial literacy provides evidence of positive financial attitudes and behaviours, which reinforce constructive personal financial management and effective control over personal financial issues.

6.2.2 General concluding outcomes

- Credit cards are the most popular source of debt, with 70,3% of the respondents making use of it.

- The average percentage of disposable income spent on the various sources of debt is:
  - Credit cards – 14,1%
  - Home loans – 14%
  - Vehicle finance – 11,3%
  - Clothing accounts – 10,1%
  - Bank loans – 8,2%
  - Furniture accounts – 4,4%

- The total average percentage paid each month on debt equals 62,1%. In general terms that means that 62,1% of all available disposable income goes to the repayment of debt, leaving only 37,9% of the disposable income for general monthly expenditures and savings. According to 2006-figures the household debt to disposable income ratio is 73%, with 28% of the salary not spent on debt repayment.

- High levels of dissatisfaction were collected from the respondents concerning their knowledge of personal finances, perceived control of personal finances, confidence in managing money and making investment decisions, debt concerns, savings, adequate retirement funds, pessimism towards their financial future and high levels of financial stress that interfere with daily responsibilities.

- There were also high levels of poor financial management in not setting money aside for savings or retirement, not budgeting and not repaying credit cards in full to avoid financial charges.

- The respondents will be able to live an average of 5-6 months on only their savings if they are not able to work. The main reason these individuals are not saving, is that they feel that they do not have enough money to save (74,3%), while a staggering 13,2% indicated that they have not considered saving as an option.

- 23% of all the respondents that have the option to make use of their employer provided retirement plan choose not to use it.

- 64,9% of all the respondents feel that they are in need of personal financial education.

6.2.3 Concluding outcomes on gender

- Males tend to make use of more financially accredited sources of debt, such as home loans, bank loans, vehicle finance and credit cards, while females show higher usage for less acceptable sources of debt such as micro lenders, clothing accounts and furniture accounts.

- While more men than women use home loans and vehicle finance, it is significant that men also spend significantly more of their disposable income on these two sources of debt than females. Alternatively, females indicated a higher usage, and noticeably more expenditure of their disposable income on clothing accounts.

- It was found statistically significant that more females tend to feel that they are not doing very well financially, in contrast to males. Females, on average also felt higher levels of dissatisfaction about their financial control, financial confidence, felt that they could not meet monthly expenses with their disposable income, felt significantly more pessimistic than males when confronted with their financial future and felt that they are spending more than they are earning.

- It was found statistically significant that the male group indicated higher levels of poor financial management concerning the management of personal finances by making use of a monthly or weekly budget. In essence, males tend to make use of budgets less frequently than their female counterparts.

- Females designated that they save 3% more of their disposable income each month in contrast to males.

- More females than males indicated that they do not feel that they are in need of personal financial education, even though a significantly higher percentage of females indicated that they do not make use of the employer provided retirement plan at work (which could be regarded as a poor financial management decision).

6.2.4 Concluding outcomes on age

- Individuals between the ages of 30 and 49 showed higher usage of more acceptable sources of debt such as home loans, bank loans and vehicle finance.

- It is significant that individuals older than 50 made more use of micro lenders as a source of debt than any of the other younger age groups. The youngest age group reported the highest usage of clothing accounts compared to the other age groups.

- The youngest individuals (younger than 30) also spend the lowest amount of disposable income of all the age groups on sources such as home loans and vehicle finance in contrast to the other age groups, while the oldest age group (older than 50) spends less on clothing accounts than the younger individuals.

- It was found to be statistically significant that individuals older than 50 feel more confident in making investment decisions than the younger individuals. It was also found that the oldest age group feel more confident about their financial knowledge, feel that they have more financial control, feel more confident in managing their money, feel more satisfied about their financial situation, feel more satisfied that their monthly income is enough to meet their expenses, and feel less concerned about their personal finances that could interfere with their responsibilities and thus cause stress.

- Individuals between the age of 40 and 49 reported the highest level of dissatisfaction concerning the amount of money they owe and the youngest individuals felt the highest level of dissatisfaction about the amount of money they are saving and investing for retirement.

- It was found statistically significant that individuals older than 50 (pre-retirement age) showed lower levels of poor financial management, where they had to cut their living expenses because of high expenditures in comparison to the younger age groups.

- Individuals younger than 40 can survive on their savings for an average of 3-4 months, individuals between the ages of 40 and 49 for an average of 5-6 months and individuals older than 50 can survive an average of 7-12 months. It is therefore conclusive that the older an individual, the more savings he or she has available.

- Individuals older than 50 save on average 3% more each month than the youngest individuals (younger than 30).

- As expected, a significant percentage of individuals younger than 30 choose not to make use of their employer provided retirement plan at work in contrast to the older groups, while more of the older individuals feel that they are not in need of financial education compared to the other age groups.

6.2.5 Concluding outcomes on income

- It was found statistically significant that the lowest income individuals (less than R40 000) and the highest income individuals (more than R100 000) felt less dissatisfied than the other income groups with regards to meeting their monthly expenses. These two groups also reported feeling more knowledgeable and in control of their personal finances than the other income groups.

- It was found statistically significant that the frequency to put money aside for savings and retirement increase with an increase in income. This finding suggests that as individuals earn more money, they tend to save more regularly and invests more money for retirement.

- It was found statistically significant that individuals earning more than R100 000 annually (higher income groups), tend to show lower levels of poor financial management by repaying their credit cards in full more frequently to avoid financial charges than the other income groups. In contrast, the lowest income individuals (less than R40 000 annually) indicated the highest level of poor financial management by not repaying their credit cards in full to avoid financial charges.

- It was also found statistically significant that individuals earning between R40 001 and R60 000 indicated higher levels of poor financial behaviour than the other income groups, by reaching the limit on their credit cards more frequently and spending more than they are earning.

- Individuals earning more than R100 000 annually reported using micro lenders more than the other less affluent income groups. This finding is very surprising as these higher earning individuals are expected to make use of more financially accredited sources of debt because of the accessibility of these sources.

- Higher earning individuals can live an average of 5-6 months on only their savings, in comparison to the lower earning individuals that can only live an average of 3-4 months on their savings.

- Individuals earning more than R100 000 annually save on average 3% more than the lowest earning individuals. A higher percentage of this group choose not to make use of employer provided retirement plans at work. It was also conclusive that less individuals of the highest income group feel that they are in need of financial education compared to the other less affluent groups.

6.2.6 Concluding outcomes on qualifications

- The lowest educated individuals (grade 12) make more use of all of the sources of debt, except for credit cards, which are used more by highly educated individuals.

- It is significant that these lower educated individuals also spend more of their monthly disposable income on home loans, clothing accounts, furniture accounts and credit cards in comparison to individuals with either a university or technicon degree or diploma.

- It was found statistically significant that the lowest educated individuals feel more dissatisfied with their knowledge of personal finances. This group also felt less in control of their personal finances, less confident in managing their money or making investment decisions, less satisfied with their present financial situation, more concerned about the amount of money they owe, more concerned that they would not be able to live throughout retirement and they also feel more financial stress than the higher educated group.

- It was found statistically significant that higher educated individuals (university or technicon degree or diploma group) indicated a higher frequency to setting money aside for savings than the individuals with a grade 12 qualification.

- The grade 12 group showed higher tendencies to spend more money than they have available and they also have to cut their living expenses more frequently than the other higher educated group.

- It is important to note that more highly educated individuals choose not to make use of employer provided retirement plans in comparison to the individuals with only a grade 12 certificate.

6.2.7 Concluding outcomes on hypotheses

- The following hypotheses were found to be statistically significant and conclusive:
  1) Individuals who do not feel in control of their personal finances, are of the opinion that they will not have enough money to live throughout retirement.
  2) Individuals who do not feel in control of their personal finances, feel pessimistic about the future.
  3) Individuals who do not feel in control of their personal finances, experience extreme financial stress.
  4) Individuals who do not feel in control of their personal finances, do not follow a weekly or monthly budget.

- There is therefore no doubt that individuals that do not feel in control of their personal finances, display signs of a lower standard of living because of negativity and feelings of stress. These factors influence not only their personal lives in a destructive manner, but also penetrate their work lives. Negative conduct by the individual at work, can affect productivity in the workplace and as a result have an impact on the employer.

6.3 RECOMMENDATIONS

Recommendations with regard to this research study are as follow:

- Personal financial education is essential from a young age to obtain knowledge that would assist the individual in managing his/her financial affairs effectively.
- As individuals' personal financial management has a remarkable impact on their personal lives, in the workplace and on the employer, it is recommended that employers educate their employees in personal financial management to reduce and diminish the effects and consequences of the mismanagement of personal finances and negligent use of debt.
- It is suggested that the government put certain measures in place to control the availability of credit to individuals.
- Services should be provided to individuals to assist them in consolidating loans, as well as getting totally out of debt.
- Employees should be encouraged to save more for retirement through retirement plans and annuities.

6.4 LIMITATIONS OF THE RESEARCH STUDY

This section's intention is to highlight certain problems that were not adequately covered in this study.

There was a definite limitation in the respondents' ability to give objective information. Ratios such as the debt-to-income ratio and savings ratio are difficult to measure, because the individuals may not want to give the correct information, or they might not know the precise figures. Also, even though respondents were asked to indicate their income after tax, disposable income could be interpreted differently by the respondents.

There is a limitation in the use of the target population, as the population was not a representative sample of the whole South African populace. The respondents that took part in this study were all enrolled students attending management programmes at the University of the Free State School of Management during 2005. These individuals could be regarded as having more financial knowledge because of their participation in business related programmes. A possible deduction could therefore be that the typical white collar worker without business related tertiary qualifications could experience more problems concerning the management of personal finances.

There is a definite need to initiate this study on a national basis. There could be a limitation in the generalized uniqueness of the geographical region. Individuals in other parts of South Africa could have different opinions and particulars.

6.5 FURTHER RESEARCH

This research study endeavoured to obtain an indication of debt management practices of individuals and the management of personal finances. This subject or research topic has not been covered extensively and there are not many enquiries been done in this field. The following are ideas on how researchers can extend this field:

- Further research is necessary to determine spending and saving behaviours of different groups of people, such as blue collar workers, white collar workers, professionals, business owners, etc.

- In-depth research needs to be done on determining the consequences of poor financial behaviours on worker-productivity and the effects on the economy.
- Research on employee financial education and the outcomes resulting from this education on personal finances and debt management.
- Investigations into the different demographic groups (age, gender, qualifications and income), money spending and saving tendencies.

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APPENDIX A

SOURCES OF DEBT

The main objective of this section is to distinguish between the different kinds of credit available in the marketplace that South Africans generally make use of. Home loans, personal bank loans, vehicle finance, micro lenders, furniture store accounts and credit cards will be reviewed.

1. Home Loans

During September 2005, mortgages accounted for R13 billion of the total amount spent on credit and are seen as the chief force behind the sharp increase in household debt (Sunday Times Business Times 2 October 2005:1). A home loan or mortgage is a loan made to an individual or individuals that are in need of funds to buy a property or home. The loan amount is usually determined according to the annual income of the borrower. The loan is usually repaid over a period of 20 – 30 years (Prinsloo, 2002:64). Mortgage rates usually have the lowest interest rates of all the debts available.

2. Personal bank loans

Overdraft facilities made available to clients of banks or financial institutions are known as personal loans (Prinsloo, 2002:64). These loans are usually obtained in small amounts and for non-business purposes. Personal loans necessitate certain requirements that the debtor need to obtain, such as a satisfactory record at the credit bureau, as well as proof of the means of repaying the loan and the necessary confirmation of collateral to offer security to the loan (First National Bank 2006:1 of 1).

3. Vehicle finance

When purchasing a car, vehicle finance is used. It is often the second most expensive purchase after buying a home. This loan also requires certain requirement similar to a personal loan. Usually a deposit is paid that is separate from the actual finance amount (WesBank 2005:1 of 1).

4. Micro lenders

Micro lenders fill a gap, because personal loans are only awarded to individuals with a sound credit profile, as well as above a certain amount. Low-income earners are occasionally in need of funds at short notice and below a specific amount and micro-lenders provide a service that banks do not, even though it is more expensive (Personal Finance 21 May 2005:1 of 1). Micro lenders sometimes targets workers through trade union structures. This results in the lenders gaining access to the workers' pay packets through payroll-deductions. Workers are therefore left with little or no income after all the deductions are made (Lorgat, 2003:6).

5. Clothing accounts

Although a number of the clothing stores in South Africa offer six months interest free purchases to their customers, interest rates charged after this period can be as high as in excess of 14.5% of the current prime lending rate and 4% higher than credit card interest rates. Stores such as Edgars increased their lending rate twice in 2006, from 28% to 30% in June and then to 32% in July (Sunday Times Business Times 16 September 2006:1 of 4).

6. Furniture store accounts

Furniture stores offer consumers the option to pay for the goods that they obtain over a period of up to 2 years. The interest rates are high in comparison with personal loans, but are easier to acquire. Furniture store retailers operate at a much lower risk than normal credit providers, because they are able to reposes the furniture if payments are not made, because of the specific contracts they enter into. The Financial Mail (28 August 1998:14) refers to a specific incident where an individual was sold R5000 worth of furniture on a R800 salary. The monthly instalments came to R360 a month. The furniture was sold to this individual because they knew that they could repossess the furniture before long and make a profit. The ethical implications for the public when making use of furniture store credit are dismal.

7. Credit cards

Credit card facilities are a convenient method of buying on credit and deferring the payment of the purchase price (Prinsloo, 2002:65). A credit card does not differ much from a bank loan, and is therefore a form of negative saving. The individual making use of a credit card does not have to justify the purchase as in the case of a bank loan. The purchase does not need to be rationalised and no other person is involved such as an approver or ‘gatekeeper’. A credit card differs substantially from other forms of debt from a sociological viewpoint (Redmond, 2000:192).

These seven sources of debt available to individuals in South Africa provide an indication of credit that is currently accessible to consumers.

APPENDIX B

PERSONAL FINANCIAL MANAGEMENT QUESTIONANNAIRE

QUESTION 1: Attitudes, satisfaction and perceptions regarding financial matters. Please select the number that is the most appropriate for your situation. Please read the phrases carefully.

A) I feel I have adequate knowledge to manage my personal finances	1	2	3	4	5	**A)** I feel I do **NOT** have adequate knowledge to manage my personal finances	
B) I feel that I have control over my personal finances	1	2	3	4	5	**B)** I do **NOT** feel in control of my personal finances	
C) I am confident in managing money to achieve financial goals	1	2	3	4	5	**C)** I am **NOT** confident in managing money to achieve financial goals	
D) I feel confident in making investment decisions	1	2	3	4	5	**D)** I do **NOT** feel confident in making investment decisions	
E) I am satisfied with my present financial situation	1	2	3	4	5	**E)** I am **NOT** satisfied with my present financial situation	
F) My income is enough to meet my monthly living expenses	1	2	3	4	5	**F)** My income is **NOT** enough to meet my monthly living expenses	
G) I am concerned about how much money I owe	1	2	3	4	5	**G)** I am **NOT** concerned about how much money I owe	
H) I am satisfied with the amount of money I am saving and investing for retirement	1	2	3	4	5	**H)** I am **NOT** satisfied with the amount of money I am saving and investing for retirement	
I) I think I will have enough money to live throughout retirement	1	2	3	4	5	**I)** I think I will **NOT** have enough money to live throughout retirement	
J) When I think of my financial situation, I am **OPTIMISTIC** about the future	1	2	3	4	5	**J)** When I think of my financial situation, I am **PESSIMISTIC** about the future	
K) I feel I am doing exceptionally well financially	1	2	3	4	5	**K)** I feel like I am always in financial trouble	
L) I earn more than I spend	1	2	3	4	5	**L)** I find it hard to pay bills	
M) Concerns over personal finances do interfere with responsibilities and cause stress	1	2	3	4	5	**M)** Concerns over personal finances do **NOT** interfere with responsibilities and cause stress	
N) I do not feel any financial stress	1	2	3	4	5	**N)** I experience extreme financial stress	

QUESTION 2: Please select the most appropriate answer from the following actions (during the past 12 months).

A) I set money aside for savings	NEVER	SOMETIMES	USUALLY	ALWAYS	
B) I set money aside for retirement	NEVER	SOMETIMES	USUALLY	ALWAYS	
C) I had a weekly or monthly budget that I followed	NEVER	SOMETIMES	USUALLY	ALWAYS	
D) I paid credit card bills in full and avoided financial charges	NEVER	SOMETIMES	USUALLY	ALWAYS	
E) I reached the maximum limit on my credit card	NEVER	SOMETIMES	USUALLY	ALWAYS	
F) I spend more money than I have	NEVER	SOMETIMES	USUALLY	ALWAYS	
G) I had to cut living expenses	NEVER	SOMETIMES	USUALLY	ALWAYS	

QUESTION 3: The following questions concern your personal information. The information obtained will remain strictly confidential. Please select the appropriate number or answer for your particular situation.

A) What sources of debt are you currently making use of?

Home loan	1	Credit card	5	
Personal bank loan	2	Vehicle finance	6	
Micro lender (loan shark)	3	Furniture account	7	
Clothing account	4	Other (specify)	8	

B) If you lost your job today, how many months could you live using your savings?

0 Months	1	7-12 Months	5	
1-2 Months	2	13-24 Months	6	
3-4 Months	3	Over 24 Months	7	
5-6 Months	4			

C) Approximately what percentage of your disposable income (if any), do you pay towards your credit card each month?

0%	10%	20%	30%	40%	50%	60+%	

D) Approximately what percentage of your disposable income (if any), do you pay towards your vehicle finance each month?

0%	10%	20%	30%	40%	50%	60+%	

E) Approximately what percentage of your disposable income (if any), do you pay towards your clothing account each month?

0%	10%	20%	30%	40%	50%	60+%	

F) Approximately what percentage of your disposable income (if any), do you pay towards your personal bank loan each month?

0%	10%	20%	30%	40%	50%	60+%	

G) Approximately what percentage of your disposable income (if any), do you pay towards your furniture account each month?

0%	10%	20%	30%	40%	50%	60+%	

H) Approximately what percentage of your disposable income (if any), do you pay towards your home mortgage each month?

0%	10%	20%	30%	40%	50%	60+%	

I) Approximately what percentage of your disposable income (if any), do you put towards savings each month?

0%	10%	20%	30%	40%	50%	60+%	

J) Approximately what percentage of your disposable income (if any), do you spend on **interest alone** each month?

I don't know	0%	10%	20%	30%	40%	50%	60+%	

K) If you are NOT contributing to savings (excluding the retirement plan), what is the primary reason? (If you do contribute, skip the question).

I do not have enough money	1	
I do not need to save money	2	
I do not know how much money to save	3	
I have not thought about it	4	
I do not think it is important	5	
Another reason (specify)	6	

L) Have you made use of a micro lender in the past 2 months?

YES	NO	

M) If yes, do you know, how much interest does the micro lender charge **per month**?

I don't know	15-20%	21-25%	26-30%	31-35%	36-40%	41-45%	46+%	

N) Do you feel that you need financial education regarding personal financial management?

YES	NO	

O) Would you participate if a financial education workshop were given at work?

YES	NO	

P) Sex?

MALE	FEMALE	

Q) What is the highest level of education that you have completed?

Grade 1-7	1	
Grade 8-12	2	
University/technicon degree	3	
Other qualification	4	

R) Age?

18-29	30-39	40-49	50-59	60-69	

S) Do you have a retirement plan provided by your employer at work?

YES	NO	

T) If yes, do you make use of this retirement plan? (If no, skip this question).

YES	NO	

U) What is your approximate **ANNUAL disposable income,** after taxes?

Less than R20 000	1	
R20 001 - R40 000	2	
R40 001 - R60 000	3	
R60 001 - R80 000	4	
R80 001 - R100 000	5	
R100 001 - R150 000	6	
R150 001 - R200 000	7	
R200 001 - R250 000	8	
R250 001 - R300 000	9	
R300 001 - R400 000	10	
More than R400 001	11	

V) Do you?

Own your own property	1	
Rent a place	2	
Live with a relative or friend	3	

W) How many people are you supporting financially? ________________________