

Financial Management, Savings of the Life Cycles in Everyday Life

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1. INTRODUCTION

‘Money rules the world’ (BALYÓ, 2004, p. 3.) – it is an often used slogan which really determines our life. From the early ages we realize how essential money is for us. It accompanies all our life. The quality of our life depends on how we can deal with our budget to be able to put aside as well. We can buy all the necessary items for everyday life but we have to manage in order to reach our ambitions too. During our life our individual and the common goals are also determining. The right and appropriate decisions have a great share in using our money. There is an outstanding consequence of being conscious, sober-minded, and precise and to be up-to-date during planning. We have to take into consideration the opinion of all the family members. Decisions need to be made together if possible. In this study we would like to emphasize the role of self-care in different life cycles as well as show the result of our related primary research.

2. SELF-CARE

Self-care is indispensable nowadays. By planning our finances, our goal is to face the certain or uncertain future events with an appropriate efficiency. It is important to know how big amount of money can we set aside and how to do that. We need to find the most proper saving products: in case of certain events a bank deposit can be suitable; for unwaited events there are various insurances. Nowadays, it is not easy to retain savings, since people can get to different financial situations during their career. Our opinion is that financial self-care can be divided into three parts. The first one is earning, the second is spending – consuming, and then finally the investment of the unspent money. During consumption we have to differentiate between goods or services for everyday life (like foodstuff, housing), also some products which are considered average but not vital, and finally the luxury goods like gold jewellery or a world tour. However, these can be different in households or between people depending on the level of income and different needs. Decisions in connection with expenses can be made based on this. In evolving the process of self-care, the length of time is also determining: short (not longer than 1 year), middle-length or long period. It is important what kind of goal or goals are considered of if we have concrete goals at all. Besides this we have to care for the expected share: the sum I get for my money being used and also for the risk that is how uncertain the investment is for me and what is the rate of loss and profit.

Nowadays the importance of saving is not in question since we can find our place in the world by it: we can get a house, a car, we can finance our holiday, and we can prepare for unexpected events too. Moreover, we can ensure peaceful aging for us and our family members. For this we need to think over some questions: why we set aside, how long we plan to invest our money, in what conditions and how much we are able to mark out for it monthly (PSZÁF – 2014).

3. CHANGING OBJECTIVES OF DIFFERENT AGE CYCLES

However, it cannot be confined strictly since it differs individually when the person becomes employed or when he finishes his studies, what kind of employment he can establish, in other words where he takes place in the hierarchy of life. Except that it not an adaptable scheme for everyone, we need to have these steps in life.

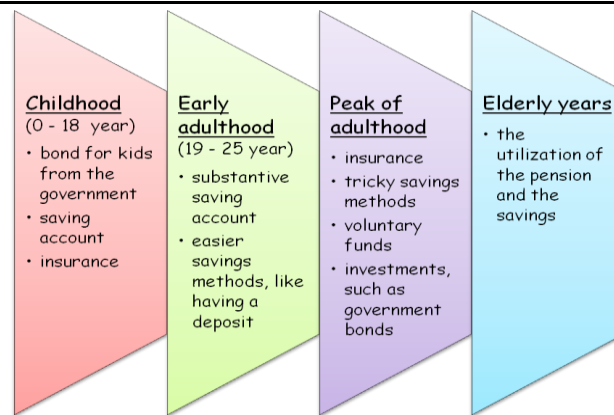


Fig1. The biggest stages of the human life (NEMZETKÖZI BANKÁRKÉPZŐ KÖZPONT – 2011, p. 7-8.)

4. SAVINGS IN CHILDHOOD

We can consider the saving possibilities of children being between the age of 0 and 18 from three different views, from the view of the state, the banks and the insurance companies.

4.1. Form of Savings Offered by the State

The BABY BONDS or life-starting support which is controlled by the Act CLXXIV. of 2005. It is a form of deposit which is handled by the Hungarian State Treasury. It can be opened anytime below the age of 18. The start securities account consists of two parts: there is a client account which is for the register of the invested amount and also there is the securities account which ensures the register of the securities stock coming from investments. The subsidy and the sum of the transferred payment is put on an account where it does not yield interest. To earn some interest, an order has to be given for buying or subscribing marketable securities dealt by the treasury. This is a subsidy by the state which consists of the personal payments and the yield. Initially it was allowed to be taken out for children born after 31 December 2005, who have Hungarian nationality and reported residence. Later it was changed and now an account can be opened for those who were born before the 1 January 2006 but they do not get the life-starting support given by the state. In the rate of the payment some state subsidy can be available but it is maximum 10 percent per year or 6000 forint except in case of regular child protection allowance when it can be 20 percent or 12000 forint. The sum of the subsidy and the yield can be kept in government security which ensures a long term possibility because of the state guarantee. Just because of the state guarantee it is a long term and safe investment. Keeping and using the account and also the payment is free of charge. There is no commitment to pay any tax, duty or contribution after the yield and savings. The amount of money collected on the account can be taken out by the account owner after reaching the age of 18 for some purposes defined by the law: studies, starting on a career, housing, creating the conditions of having a baby and some other defined goals.

4.2. Offers by Insurance Companies

Each parent has a dream to ensure his child a carefree adulthood without financial problems. To reach this, they can take advantage of the right insurance which can increase the invested sum of money with the help of regular savings and the acceptable yield. Several insurance companies offer many options. It is the parent's task to find the most appropriate one to his child.

4.3. The Role of Financial Institutions in Savings

Nowadays most of the banks offer services even for children. This can be a great opportunity for these financial institutions since there is a big probability that the adult children will stay at their chosen banks later as well. Establishing the first contact with the bank can be mentioned at that time. Young people can open a so called junior account (NEMZETKÖZI BANKÁRKÉPZŐ KÖZPONT – 2011), which is a current account. The current account is created by a bank account contract which deals with the contractor's cash flow. Besides this one can claim for a bank card with which the owner can dispose of his account. These accounts are excessively suitable for financing future goals since the sum on the account can be increased by regular payment any time and it also bears interest. On top of this, account management is free of charge at most of the banks. The main goal is to save and to introduce children to the world of finance. This is a liquid kind of savings, so it can be used freely any time.

5. SAVING POSSIBILITIES OF THE YOUTH

Part of those being between the age of 19 and 25 probably do not have regular payment but they can get some income from summer or student jobs, from jobs at weekends or nights as well as from student fees. However, their personal expenses are not typically higher than their earned income since most of them still live with their parents so they get some financial support from them. So they do not spend on overhead costs and food either. The spare money can be invested in smaller savings with which they can reach the smaller goals they have set on their own. Since the income of this age group does not represent a significant sum of money like in adulthood, they seek after freedom from risk and thereby smaller yield. That is the reason why the simple saving forms come into view more often at this age, for example opening a bank account, savings account management or deposit. These financial products are useful for objectives to be achieved in the near future like financing studies or housing (PSZÁF – 2003).

6. SAVINGS FROM ACTIVE ADULTS

With having a budget, we can make it clear what the family members’ income enough for or what to spend money on at all events. We have to measure what is not so necessary for daily living.

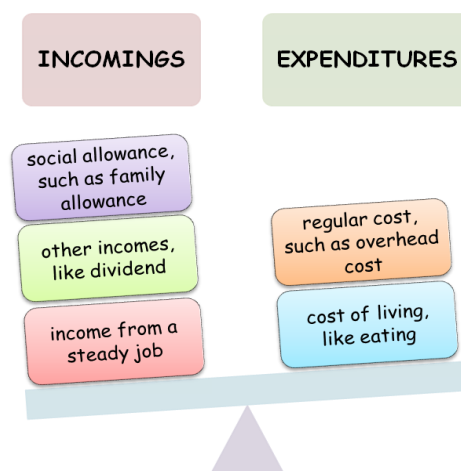


Fig2. Family budget (PSZÁF - 2012)

Later it also turns out how much is the sum that can be saved after consumption, or is there any left at all. It should be thought over in details and plan ahead since it can make our future goals easier to achieve. We can differentiate between daily, weekly or monthly as well as yearly planning depending on who is the person and how long he can plan ahead. We have to measure all our expenses and incomes for the planned period – for this we have to consider all the family members one by one – and we have to plan in a way that our incomes need to be more than our expenses. Finally with the help of the saved sum we can have different savings depending on our future plans (YOUR BUDGET – 2014). The rate of savings can be increased if we use the options and discounts offered by the laws (tax and contribution benefit).

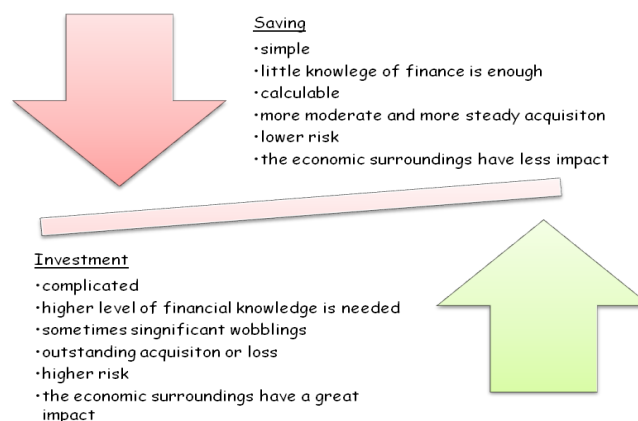


Fig3. Contrasting of savings and investments

Source: Pestiest különszám (2010)

To encourage the self-care of households a program called „Családi Kasszasikerek” was created by the Provident Ltd. Its goal is to raise the tendency for self-care with joining families. This program came to being in June 2008 and it has had several members so far. It was thought that a program like this is needed to be created since the saving ability of Hungarian people is quite low according to some recent studies. The basic principles of this campaign are responsibility, prevision, growth, safety and problem solving (CSALÁDI KASSZASIKEREK PROGRAM – 2008).

However, it is important to understand that investments and savings are not the same in meaning, apart from using them as synonyms in everyday life.

6.1. The Thought of Making Home

Among adults, advance-saving for housing has a great emphasis nowadays. Buying a flat or a house has an extremely big importance since this is the basis of family formation. This process requires high costs, so a solid financial background is needed for it. So it can be a great help if the family has any kinds of savings. Building and Loan Associations appearing at different financial institutions are specifically intended for this purpose (Act CLXXXVII. of 2005). This form of service can be dissolved into four parts: it contains all the bank deposits, the monthly savings, the support from the state, the credited interest for the state support and also the joined mortgage. Consequently, collecting bank deposits and granting of credit are considered the main activity. Its advantage is that there is no need for capital to start with. This is a construction supported by the government. Besides we can personally choose the period of savings depending on how much can be saved monthly. However, it is not compulsory to have a mortgage, but the state provides the possibility for it. It can be used for many purposes: building, modernizing, renovating, enlarging, reconstructing a house/flat, or buying a site, etc., according to Act CXIII., paragraph 8. Taking advantage of it can offer a great possibility to satisfy the housing needs in the future.

6.2. The Importance of Developing Security

From the view of founding the future, many people choose the possibilities offered by the insurance companies, since such events can occur any time which will have high costs that one may not be able to finance in that moment. Different insurances can help with it. Generally, we can make a difference between life- or not life insurances (for flats, cars, travelling, etc.) from which everybody can choose the best one considering their needs since many kinds of insurance products have appeared till this time: life-, accident-, and illness insurances which can make easier to finance the cost of death or illness; property management – in case of damage it is paid by it; insurances that should finance the damages we made. Some advantages are that the risk is taken by the insurance company; so when such an event occurs on which the signed contract refers to, the insurance company is bound to pay for it. The insurance itself can be considered as a kind of savings, however, the insurance has a regular fee which needs to be paid carefully to be allowed to use for damages in the future. Besides this, choosing an insurance company can happen in different ways considering the contract details, fees and responsibilities, as well. The main point is that we need to think over thoroughly for what it is (not) worth signing an insurance. It is important that the value of the insurance be proportional to the extent of the arising risks. (CSALÁDI KASSZASIKEREK PROGRAM – 2008).

7. THE FINANCIAL BACKGROUND OF THE OLD

From the moment of retirement, the depletion of the previous savings start to emerge and to keep the previous life standard, more savings are needed. There are several options to the old for saving in case there is some money to save. Bank accounts have already been created for this age group, besides this making a deposit or some other forms of investment is also available for anyone, and in addition, the insurance companies offer a wide range of constructions. The main point in this case is that everybody should find the best way of savings for himself. It is necessary to be up-to-date even when we are pensioners since these decisions in connection with savings demand profound planning.

8. THE RESULT OF OUR STUDY

We had a primer study with the help of a questionnaire which was filled out by 620 people from Hungary. We analysed the opinion of children (0-18), young adults (19-25), active adults (26-62) as well as the old (63 or older) about the possible savings in Hungary. The most answers were given by young adults (312) and by active adults (274). Only 24 children and 10 old people filled in our form.

The questioned households consist of 3 or more members. 10 percent of households consist of only one person, 26 percent consist of 2 members. Most households get their main income by their regular payment, however, many of them undertake some extra or temporary jobs besides their full-time jobs. On the basis of questions asked from the households about their finance it turned out that most people think it totally important to save, although 12 out of 620 said that it is not important at all. The majority of families living today – 71 percent – plan their finances in advance, some even make a family budget (39 percent). Usually it is not common to ask a financial expert for help.

Among those who filled in the form there were some who had no savings at all, so they lived from one day to another. Besides this an order can be set depending on the aims people start saving their money they has not been spent yet. Many people mostly collect money to maintain the financial security of their families. However, there are several things we should put some money aside for and I would like to highlight some of these with the help of figure 4.

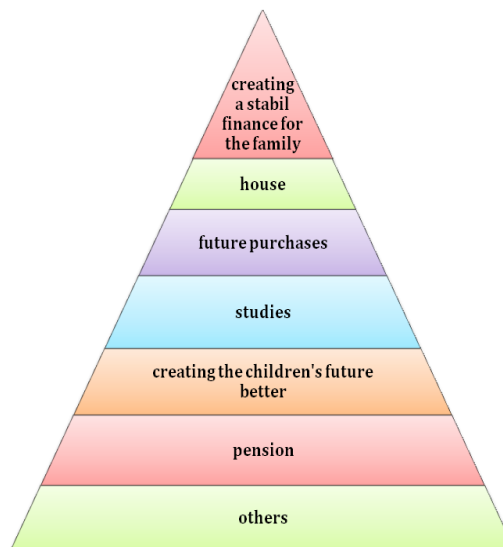


Fig4. The distribution of objectives in savings

Source: my own study, $N = 620$

Those who want to save for their children or grandchildren mostly choose from the options offered by financial institutions, 33 percent choose from the offers of insurance companies, however, the assistance offered by the state – the baby bond – is chosen only by few people. (only 16 percent).

Unfortunately, sometimes problems can occur because the amount and quality of information is not suitable. Only 57 percent of the responders think that they have enough information. According to our view, this big lack of information can be noticed on the habits of savings since a lot of people are puzzled in connection with their finances. We think that the financial literacy of Hungarian residents is quite underdeveloped so this field is needed to be improved. Plentiful understandable and useful information is needed even for everyday people to be able to deal with the finances of their families more consciously for easy living.

9. SUMMARY

As the saying goes, 'Everyone is the blacksmith of his own fortune.' – Although nowadays fortune is not enough any longer to gain your subsistence and create financial stability for you and your family. It is important to shape your mind to be able to make a conscious plan in advance. If you are prepared for your own and your children's future, your life will be better.

It is useful to examine the savings and insurance methods in the different life cycles. It is the parent's duty and obligation to smooth the way of their children's future and to create a secure financial status for them. The government as well as different financial institutions and insurance companies are available to provide some kind of help so that parents can fulfil these tasks. As you are growing up and getting older, there are more and more opportunities provided to have savings and make investments. When you are in your early adulthood, you may receive your first income. If you manage your finance wisely – revenues are higher than expenses – you will have a good chance to reach your desires like a car or a high-tech machine. When you are at the peak of your adulthood, you should

think about having children and, on the other hand, you have to create a solid financial status to be able to purchase a house of your own beforehand. Because of this, you should be aware of the methods of savings: how much income you have, and how much of this is available to invest with no risk and with the highest possible yield. Of course, there are a lot of factors influencing your decisions, especially the economic situation and social conditions. You should be prepared for your own retirement as well. You should look for a form of savings method which will maintain your standard of living and support you when you have retired. The purpose is to find less risky financial solutions to achieve these goals. There are a lot of possibilities to choose from e.g.: government bonds, shares, deposit accounts etc. Everybody should decide - on their own or with the help of a financial advisor – which product i.e. savings method would be the most suitable for them.

To summarize all of this, it can be established that it is a must to prepare a good financial plan and start saving from your early childhood. In addition to this, it is important for the family to set a good example. This is the way how young people can become conscious and deliberate adults who are able to take care of their finance.

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