

## SAVING HABITS OF HUNGARIAN COLLEGE STUDENTS

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### Abstract

A series of long-term financial decisions characterizes the various households during their life cycle. The approach of self-care is present in every individual and family life, but not with equal intensity. There are many important financial decisions we need to make in our lives, which have an impact on our financial management for many years, even if we are talking about long-term self-care or loan application. First we analyzed the theoretical background of savings and we also performed a primary research. The paper examines the Hungarian College students' long-term saving habits and financial perspectives. The questionnaire has been filled out with 323 hungarian college students that we are dedicated to research. Development of the questionnaire was on an online interface. The goal was to inspect the financial knowledge of college students, and to get a deeper look at how can they manage their household's wealth. It seems obvious, that the individual's upbringing, parental and educational influences have an outstanding impact on subsequent financial perspective. Despite all age groups directly affected by this topic, our financial culture is still in sufficiently developed. Everyone should be aware that you can take care of your housing goals, retired years, the future of your children only in a long run. The sooner we start to self-care, the lower monthly saving is needed to achieve these goals (Luttenberger-Nemeth, 2005). This is encouraged by the government in the form of various tax breaks. We would like to have primary schools introduced into teaching financial literacy as soon as possible.

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**Keywords:** Households, savings, state influence, tax allowances, financial culture, students

## **Introduction**

The appropriate financial knowledge, financial responsibility and foresight in the household saving decisions than seek to minimize their taxes are paid. Many individuals, households have problems with the lack of financial literacy, even though you want to take care of yourself and your family (Bodie-Merton-Cleeton, 2011). In this paper we are inspecting on the long-term self-care habits of the population, especially the Hungarian College students. Giving up 10-20 % of our income can't be a notice able waiver in living standards, if we are living in welfare societies. As a little cliché is expressed: 10% of net wages can be saved without extra effort, except if it's for „bread”. Assuming that Hungary can be classified among the welfare states, it can be stated, that creating a small portion of saving is only a matter of intent. Thus, the financially conscious groups set aside a certain percentage of their income every year. This can determine how important financial security is for their own. This questionnaire was answered by 323 college students, in the third quarter of 2013. The main questions was: How do students benefit with their financial knowledge?

## **Literature review**

Today's theoretical economy system is operated by Say's Law, according to which the purchase price of every commodity entirely demands towards other goods. The neoclassical thinking is that, the individual is hedonistic, entirely spends their income, except if they can earn higher returns in the future with interest. In Keynes's vision, this attitude changes radically. In this theory, interest will appear as a reward, by the waiver of liquidity, so if the consumer groups it's income on the basis of usefulness between periods, this will not be the only determining incentive, other encouragement is needed in order to increase savings. Keynes goes further, he comprehends saving as wealth creation, and the future assets will be spent at some unspecified time. Thus, objective and subjective factors can be distinguished of the savings. Objective factors are: the size of real income, the difference between gross and net income, the individual time preference. Subjective factors are: reserve for unforeseen cases, independence, self-reliance, bequest intentions. In Keynes's theory of the consumer doesn't decide rationally in the sense that neoclassical thought: in their decision the motif of caution, foresight, avarice, pride plays a role. The life-cycle theory is one of the main objections to the Keynesian thoughts, ignores the fundamental human qualities, that we to try to smooth our consumption in time. This is Modigliani and Brumberg's life-cycle theory. They assume that the individual is actually planning for life with a "consumption path", so they try to smooth their consumption in time. This would be true if Gossen's 1st Law is prevailed, thus, the marginal utility of consumption in each period is

falling. They plan to spend their income and then distribute it to a stable standard of living, to secure a permanent consumption. The theory of permanent income hypothesis can be attached to Milton Friedman’s name. Friedman split the generated income into two component: permanent and temporary income. The permanent income the portion of the income from which people are thought to persist in the future. The temporary income is not permanently available. Friedman's view is that consumption depends on the permanent income, because consumers try to make consumption smooth, with borrowing loans and accumulate savings, to respond to transient changes in income (Mankiw, 1999). The permanent income hypothesis, therefore, reveals that consumption depends on the people's expectations.

### Research Results

The preparation of the questionnaire was made on an online interface. For processing and illustrating the data, Microsoft Excel and SPSS 14.0 For Windows was used. On the basis of the completed and processed questionnaires, that the majority of surveyed college students, 46 percent believe that there is a need to improve the financial literacy and only 2 percent thinks the opposite.

In an other research of saving habits of turkish families resulted, that more than half of their participants did not discuss finance with their parents when they were growing up. Majority of the families reported that over the past year their family’s spending exceeded their income and the current economic situation significantly impacted more than half of the families’ saving behavior and attitudes. Most of the families indicated that their parents were savers while they were growing up. Interestingly, families who reported both parents were savers while they were growing up were less likely to be saving than those who reported neither were savers. As expected, having experience of negative financial events in the last two years was significantly related to the likelihood of saving (Copur-Gutter-Erkak, 2010).

"Please, determine how much you agree with the following statement!"

My own financial security is important.

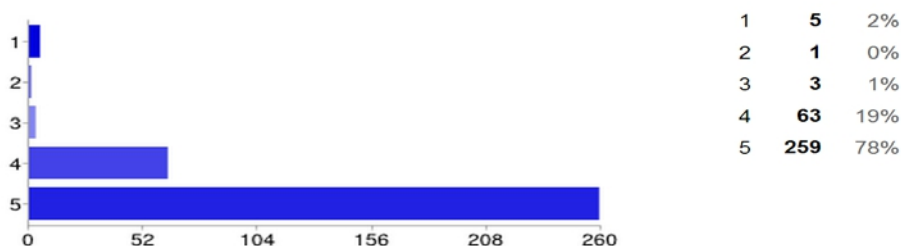


Figure 1

First, let's look at their image of their own financial security. Most of them thinks, their financial security is really important, although it is only important as they think about it on a theoretical level, as the students' propensity to save is negligible. But we have to ask ourselves the question: What is financial security? Basically, financial security is having money in our pocket before the salary comes, so the total monthly income is not spent. In an other view, it can mean, that I can pay my obligations in time, (apartment, utilities, loan repayment) but we can only expect our savings to increase, if we obtain more regular income.

A portion of salary shall be set aside.

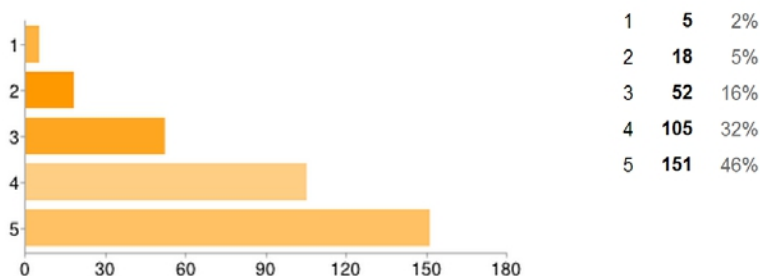


Figure 2

Vehicle, real estate, travel, renovations, wedding. Without credit or a greater amount of savings, it's impossible to invest in these „products”. The saving rate of households is affected by not only their ability to save, but also their willingness to save (Kasilingham-Jayabal, 2011).

If I want to buy a house, I have to save some money first.

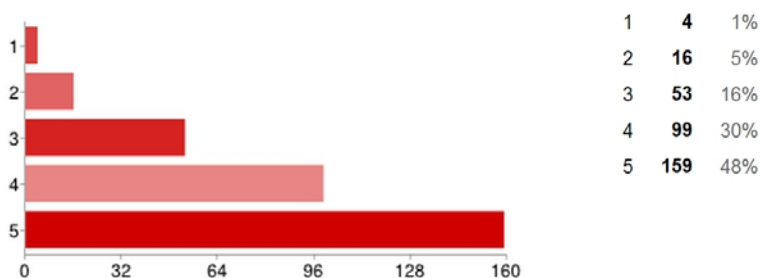


Figure 3

Nearly half of the respondents agree that if you are going to invest in real estate, you will need start-up capital, what they can achieve by savings, so the claimed home loan rate will be lower in the future. Of course, it is also true that without private funds, you can not borrow money to purchase properties. Only 6 percent of the respondents thinks that it is not worth to

save for housing. Parents in a better financial position solve their children’s access to housing. For others, the inheritance plays a role. More and more people live with their parents, up to 30 years of age or over as well.

I know the benefits of home savings fund account.

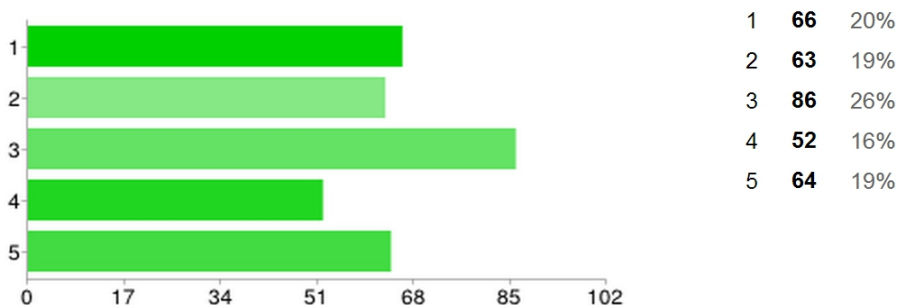


Figure 4

One-third of respondents recognize the benefits of home savings fund account, but there are some, who have never heard of it. This is a problem, because when purchasing a house, the private funds accumulated in the home savings account, which has been combined with government support can be a significant part of our financial assets. But it could play a major role in home renovations, since housing reconstruction can be a serious financial burden for families.

Can you put aside 2.000 HUF per month for housing purposes?

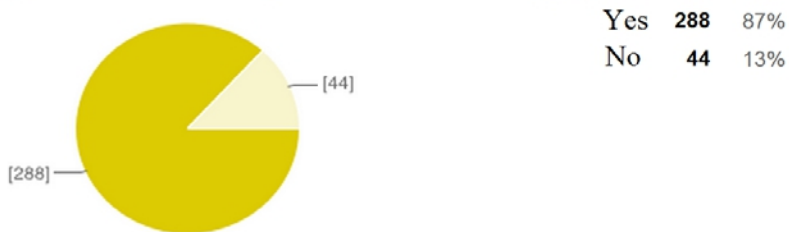
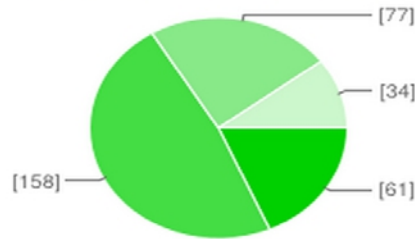


Figure 5

Could you put aside 2.000 HUF (approximately 6.5 EUR) per month for housing purposes? 87% of respondents answered 'yes'. I know this amount is not significant in the case of buying a home or building, but it highlights the potential for young people. The questionnaire was not filled out by only full-time students, but also correspondence students. This is significant in terms of the research, because when the students are asked about their savings, more than 60 percent of them said their savings are under 100.000 HUF. So they could put money aside, but they do not actually save for this purpose.

Do you have a house savings fund contract?



Yes	<b>61</b>	18%
No	<b>158</b>	48%
No, but I'm planning it in the future	<b>77</b>	23%
I don't know what that is	<b>34</b>	10%

Figure 6

Do you have a house savings fund contract? 18 percent of respondents do, almost half do not have it. This result is not surprising. The students often work, even during the summer holidays. However, the earned income is spent on entertainment, tours, books, rather than for renovating our currently non-existent future home.

The next question related to the willingness to save.

I have to save some money for the financial security of my retired years

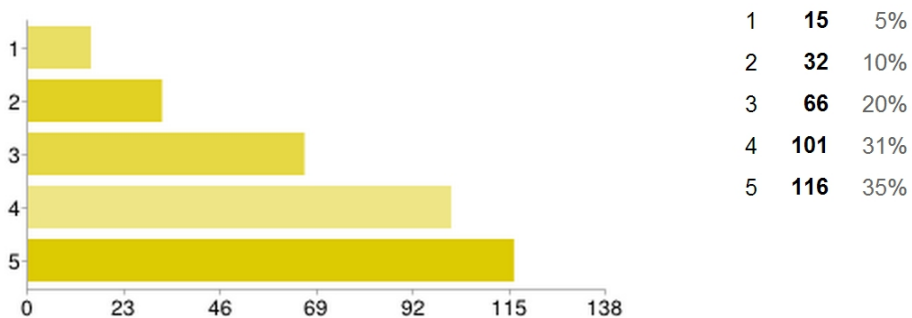


Figure 7

Saving, investment, and pensions are avenues by which households build up claims to future income and consumption. Such claims are important in a number of respects: they broaden people’s options, reduce their insecurities about material living standards, and enhance their ability to live with dignity in old age. As such, understanding the multiplicity of

factors that shape how people save, invest and acquire pension rights is important for understanding their access to well-being and the ways in which social arrangements improve or undercut that access (Starr, 2006).

The propensity to save seems to be divided when it comes to retirement. Why? The answer is simple. Nearly 40 years from now, this generation will enter retirement age, so they tend to invest into a product that is more within a reasonable timeframe. Yet it is conspicuous that almost 70 percent of the respondents believe that they must think for retirement about at young age as well.

Retirement savings accounts are less familiar with the youth. This is reflected in the fact that almost 70 percent of those who surveyed did not know what it is, or they had an uncertain perception.

Could you put aside 2.000 HUF per month for retired years?

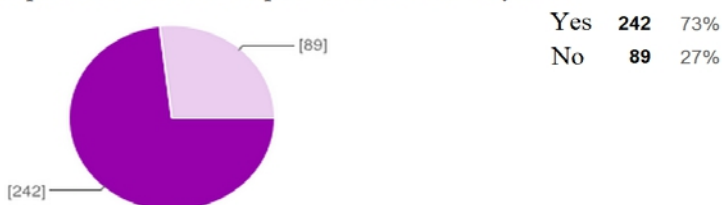
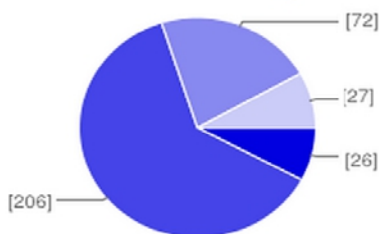


Figure 8

Could you put aside 2.000 HUF per month for retired years? Nearly three-quarter sais yes, the rest sais no.

Do you have a retirement saving account?



Yes	<b>26</b>	8%
No	<b>206</b>	62%
No, but I'm planning it in the future	<b>72</b>	22%
I don't know what that is	<b>27</b>	8%

Figure 9

Do you have a retirement saving account? 8 percent of the respondents has. Same proportion of people are not even aware of this

potential. 20 percent are planning to open an account in the future, what is very positive.

Improving the financial literacy is needed among the adult population.

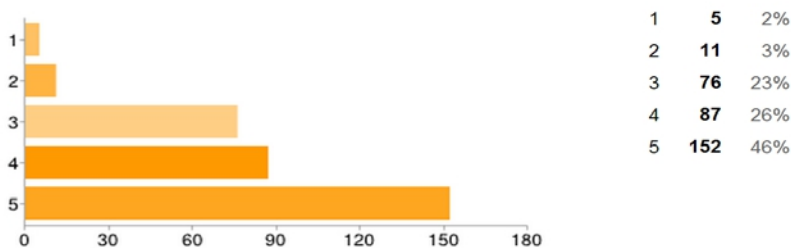


Figure 10

Vast majority of respondents agreed with the development of financial literacy. The opinion of those, who thinks it is not necessary to develop the financial literacy of the adult population is negligible. In fact, financial literacy should be introduced in early childhood. Although school-based education still seems to be an illusion, the next generation will have a vested interest in the needs and financial knowledge to learn. But families can't be entrusted to teach their children, because of their financial knowledge is mostly superficial. Bernheim and Garrett's research has shown that workplace education programs have an impact on the development of financial literacy. This will affect the households' financial behavior. Education is changing the thinking of individuals in relation to financial matters, so it is suggested to achieve wider range of financial education (Bernheim-Garrett, 1996).

The importance of financial literacy appreciated after the 2008 economic crisis. The increasing currency exchange rates and the depreciation of the forint put many families, individuals, businesses in a difficult situation. In particular, the conscious use of income was appreciated.

How big is your total saving?

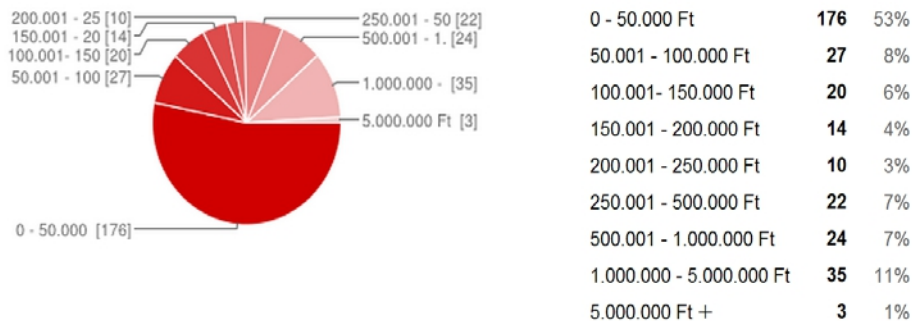


Figure 11



How big is your total saving? More than half of the respondents barely have savings.

Which category of money can you spend monthly?

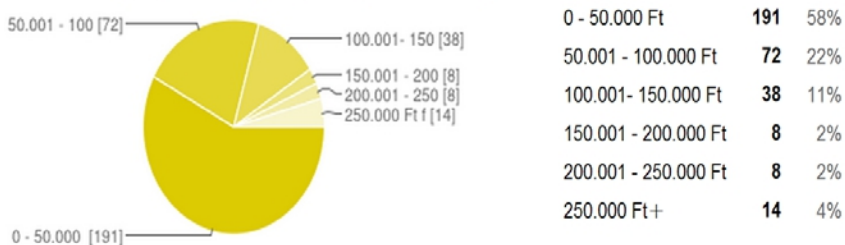
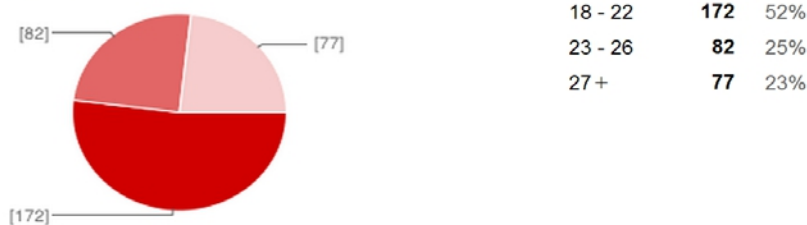


Figure 12

Which categories of money can you spend monthly? Nearly 60 percent said that less than 50.000.

How old are you?



What is your gender?



Figure 13, 14

The last two questions related to personal data. 70 percent were female respondents, 30 percent were men. More than half belong to 18-22 age group.

### Conclusion

Primary schools should already be introduced into teaching financial literacy, as it is in great need of every household to know this, but unfortunately, even in adulthood - graduates as well - very few people have

the basic knowledge, and that knowledge is on a sufficient level. Thus, in spite of developing appropriate systems in the government to encourage long-term savings, adult members of each households are not familiar with them, but even if they are, they don't recognize their benefits and they are not able to apply them, as it is considered too complex and they can not see through the benefits efficiently. Therefore, the priority target is to describe the incentive plans as widely as possible in the field of education, because experience shows that very few people know about these, and mostly those are few, who use the support of the government. The direction of a further research is to perform a cluster test representative of Hungarian households. The test's goal is to analyse, how can examined household groups be divided, what are their saving habits, what is their typical way of thinking regarding savings? As the results show, -on the basis of their thinking- Hungarian households are classified into several typical groups of finance. Those households are expected to be influenced by the government incentives, who have more financial knowledge. Therefore it is really important to consider the question, how surveyed households take account of the important practical uses of financial literacy in education, primary schools, middle schools, high schools, and adult population. The majority of the respondents believe this is especially important, since the current survey also substantiate this.

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