IARJSET ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

Impact Factor 8.066 ⪤ Peer-reviewed & Refereed journal ⪤ Vol. 12, Issue 5, May 2025

DOI: 10.17148/IARJSET.2025.125100

FINANCIAL LITERACY AND ITS IMPACT ON PERSONAL FINANCIAL PLANNING AMONG YOUNG ADULTS

KARTHIK. P [1], Ms. Vardhini V[2]

Department of MBA, VISTAS[1]

Assistant Professor, Department of MBA, VISTAS[2]

Abstract: In today's dynamic and increasingly digital financial environment, financial literacy has emerged as a crucial life skill, particularly for young adults navigating the transition into financial independence. This study investigates the relationship between financial literacy and personal financial planning among individuals aged 18–34, a demographic faced with key life decisions such as education, employment, debt management, and long-term savings. Despite growing awareness, many young adults still demonstrate limited financial knowledge and irregular financial planning practices, which can result in poor financial outcomes. The study explores how foundational knowledge in areas such as budgeting, saving, and investing influences goal-setting, spending behavior, and overall financial well-being. It also examines the role of demographic factors and psychological attitudes in shaping financial behavior. Data was collected using a standardized self-report questionnaire distributed via online platforms. Findings are expected to provide insights into the gaps in financial literacy and suggest strategies for educational interventions aimed at empowering young adults to make informed financial decisions. The study holds implications for policymakers, educators, and financial institutions seeking to promote responsible financial behavior and long-term financial stability.

Keywords: Financial Literacy , Personal Financial, Planning Personal, Financial Planning, Young Adults Budgeting.

I. INTRODUCTION

In an increasingly complex economic environment, the ability to effectively manage personal finances has become a critical life skill. For young adults transitioning into financial independence, financial literacy is not merely a desirable attribute—it is essential for building a secure future. Financial literacy encompasses a range of knowledge and skills, including budgeting, saving, investing, managing debt, and understanding financial products. It equips individuals with the tools to make informed decisions, avoid financial pitfalls, and plan for long-term financial goals. Despite its importance, many young adults face challenges in managing their finances due to limited financial education and exposure, leading to suboptimal financial behaviors and outcomes. Young adulthood, typically defined as the age range between 18 and 34, is a pivotal period marked by key life events such as pursuing higher education, entering the workforce, relocating, and possibly starting a family. These transitions require financial decision-making that can have long-lasting consequences. For example, taking on student loans, managing a first paycheck, or choosing between spending and saving are decisions that lay the foundation for one's financial health. Without adequate financial knowledge and planning skills, young adults are more susceptible to debt accumulation, poor credit scores, inadequate savings, and low investment participation—all of which can hinder their future financial security.

Research Problem

Despite increasing efforts to promote financial literacy among young adults, many individuals within the 18–34 age group continue to exhibit poor financial planning practices and decision-making behaviors. While previous studies confirm a positive association between financial literacy and responsible financial conduct, they often overlook the long-term impact of structured and experiential financial education programs on practical financial skills. Furthermore, there is limited understanding of how financial behavior mediates the relationship between financial knowledge and real-world financial decisions.

Need for the Study

1. **Importance of Financial Literacy Among Young Adults**
   - Essential for making informed decisions about budgeting, saving, investing, and debt management.
   - Critical for navigating financial independence during early adulthood.
2. **Low Levels of Financial Literacy**

DOI: 10.17148/IARJSET.2025.125100

- Many young adults lack understanding of key concepts like interest rates, credit scores, and inflation.
- Financial illiteracy impairs sound decision-making and leads to poor financial outcomes.

3. **Lack of Personal Financial Planning**

- Few young adults engage in planning for future financial needs or set financial goals.
- Absence of planning results in poor money management and unpreparedness for financial emergencies.

4. **Consequences of Financial Illiteracy**

- Leads to harmful behaviors such as overspending, poor debt management, and low saving rates.
- Can cause long-term effects like high debt, delayed homeownership, and financial insecurity.

Scope of the Study:
This study focuses specifically on examining the relationship between financial literacy and personal financial planning among young adults, typically aged 18 to 35. It investigates the extent of financial knowledge in critical areas such as budgeting, saving, debt management, investing, and retirement planning, and how this knowledge influences financial decision-making and planning behavior. The study targets young adults transitioning to financial independence, who often face complex financial challenges including student loan repayment, credit card debt, and long-term savings goals.

Objectives of the Study:
Primary objective:
To study about the Financial Literacy and its Impact on Personal Financial Planning among Young Adults.
Secondary Objectives:
• To Examine the Relationship Between Financial Literacy and Personal Financial Planning Assess how financial literacy (knowledge and skills in budgeting, saving, investing, and debt management) influences the ability of young adults to plan and manage their finances effectively.
• To Identify Key Financial Planning Behaviors Affected by Financial Literacy Investigate specific financial behaviors such as budgeting, emergency savings, retirement planning, and investment choices, and determine how financial literacy impacts each area.
• To Understand the Demographic Differences in Financial Literacy and Planning Analyze how factors like age, education, income, and region (urban vs. rural) affect both financial literacy and the effectiveness of personal financial planning among young adults.

II. REVIEW OF LITERATURE

Lusardi and Mitchell (2011) Financial literacy is increasingly recognized as a critical skill for young adults navigating complex financial landscapes. Lusardi and Mitchell (2011) define financial literacy as the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing. Numerous studies have demonstrated that financial literacy plays a crucial role in shaping responsible financial behavior.

Kolade, et. al., (2022) examined gender differences in FL and assessed its influence on students' choice of investment instrument in the University of Ibadan in Nigeria. Using a semi-structured questionnaire administered on 300 students across faculties. The findings shows that gender, faculty, level of study, and work experience are positive determinants of FL. Conversely, student status (whether full-time student, working student or self-employed), father's educational attainment, mother's educational attainment and family's average monthly income were not statistically significant drivers of FL. Moreover, FL averagely influenced the attitudes of undergraduates towards financial investment decision making. Generally, undergraduates exhibited low FL levels.

Birari and Patil (2014) state that individuals should practice and gain basic financial skills to manage their expenditures and acquire well-developed planning to avoid being in financial difficulties. Many factors may lead to irrational financial behaviours from individuals—for example, excess consumption, aggressive trading, lack of savings, and retirement planning. However, one of the major root causes that propels irrational financial behaviour as well as the many financial difficulties that people encounter is inarguably the lack of financial literacy (Organization for Economic Cooperation and Development 2020).

Sulaeman Rahman Nidar, Sandi Bestari. (2012), the research aims at assess the personal financial literacy level among Padjadjaran University students and factors influencing the financial knowledge through their study "Personal Financial Literacy Among University Students (Case study at Padjadjaran University students)." The data was collected through questionnaire among 400 students. The findings of the research revealed the various factors influencing personal financial literacy. Though the existence research acknowledges the importance of financial education but there is limited research related to identifying various methods and strategies that enhances students financial literacy and personal financial skills.

IARJSET ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

Impact Factor 8.066 ⅙ Peer-reviewed & Refereed journal ⅙ Vol. 12, Issue 5, May 2025

DOI: 10.17148/IARJSET.2025.125100

Mochammad Ridwan, Gugum Mukdas Sudarjha, Gunardhi A. (2017), the research highlights the level of financial literacy among undergraduate students to investigate the factors influencing financial literacy in their study “The use of Financial Literacy for Growing Personal Finance.”The data was collected through the use of questionnaire, descriptive analysis and multinominal logit tests. The study highlights the current low levels of financial literacy among students and identifies various influencing factors, it does not specifically address how structured and ongoing regular financial education could impact literacy levels and practical financial skills.

III. RESEARCH METHODOLOGY

Research methodology is the specific procedures or techniques used to identify, select, process, and analyze information about a topic. In a research paper, the methodology section allows the reader to critically evaluate a study's overall validity and reliability.

DATA ANALYSIS TOOLS:

Percentage analysis: Percentage analysis is a method used in financial analysis to evaluate the relative size of various financial statement items by expressing them as a percentage of a selected base amount. This approach helps in understanding the relationship between different components within a single financial statement or across multiple periods.
Chi-square :The Chi-square (χ^2) test is a statistical method used to determine whether there is a significant association between two categorical variables. It compares the observed frequencies in each category of a contingency table with the frequencies that would be expected if there were no relationship between the variables.
ANOVA: ANOVA (Analysis of Variance) is a statistical technique used to determine whether there are significant differences between the means of three or more independent groups. It analyzes the variation within each group and between the groups to assess if the observed differences in sample means are likely due to real effects or random chance.
Correlation :Correlation is a statistical measure that describes the strength and direction of a relationship between two variables. It indicates how changes in one variable are associated with changes in another. The value of correlation ranges from -1 to +1: a value of +1 indicates a perfect positive relationship, -1 indicates a perfect negative relationship, and 0 means no relationship. Correlation does not imply causation—it simply shows whether and how strongly variables are related.

DATA ANALYSIS AND INTERPRETATION:

Percentage Analysis:

How often do you save a portion of your income?

OPTIONS	Frequency	Percent
Always	23	26.4
Often	15	17.2
Sometimes	25	28.7
Never	24	27.6
Total	87	100.0

Interpretation:
Often Sometimes Frequency Percent Never Total Out of 87 respondents, 23 individuals (26.4%) selected "Always", 15 (17.2%) chose "Often", 25 (28.7%) said "Sometimes", and 24 (27.6%) answered "Never." The data shows a fairly even distribution across the response options, with "Sometimes" being the most selected, closely followed by "Never" and "Always." This suggests that participants have mixed habits or behaviors regarding the topic in question, with no single response dominating. Overall, the results reflect varied engagement levels, indicating a lack of consistency among respondents.

IARJSET ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

Impact Factor 8.066 ⁜ Peer-reviewed & Refereed journal ⁜ Vol. 12, Issue 5, May 2025

DOI: 10.17148/IARJSET.2025.125100

Chi-Square Tests:

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.815a	9	.656
Likelihood Ratio	6.897	9	.648
Linear-by-Linear Association	.005	1	.942
N of Valid Cases	87		
a. 8 cells (50.0%) have expected count less than 5. The minimum expected count is 3.68.			

Interpretation:
The Chi-Square test results show no statistically significant relationship between age and the setting of short-term or long-term financial goals (Pearson Chi-Square = 6.815, p = 0.656). The p-value exceeds the typical significance level of 0.05, indicating that age does not have a meaningful impact on whether individuals focus on short-term goals, long-term goals, both, or neither. The crosstabulation data reveals some variation in goal-setting behavior across age groups, but the differences are not statistically significant. Therefore, we can conclude that age does not influence whether people set short-term or long-term financial goals.

ANOVA

ANOVA					
You understand how to create and manage a personal budget.					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.990	2	.495	.755	.473
Within Groups	55.079	84	.656		
Total	56.069	86			

Interpretation: The ANOVA results show no significant difference in understanding personal budgeting across education levels ($F(2, 84) = 0.755$, $p = 0.473$). Tukey HSD confirms all group differences are statistically insignificant ($p > 0.05$). Although high school graduates had a slightly higher mean score (2.24) than those with bachelor's (2.00) or master's degrees (2.04), the differences are not meaningful. Thus, educational qualification does not significantly impact budgeting understanding.

FINDINGS:
The study shows a nearly equal gender split and diverse age and education levels among respondents. Most were students or unemployed, with fewer employed participants. One-third reported not setting any financial goals, and long-term goals were slightly more common than short-term ones. Financial behaviors like budgeting and saving showed mixed responses, with no clear patterns. Statistical tests (Chi-square, ANOVA) and correlation analysis found no significant links between demographics and financial habits, indicating these behaviors occur independently rather than as connected patterns.

SUGGESTION:
Several recommendations can be made to enhance the surveyed group's financial behavior and comprehension in light of the findings. First, the data suggests that more financial literacy initiatives are needed, especially for the majority of the sample, which consists of students and jobless people. These courses ought to emphasize useful skills like goal-setting, budgeting, and financial awareness. It is crucial to create individualized financial planning tools or mobile applications that can assist users in managing both short-term and long-term financial objectives, especially considering the significant percentage of respondents who do not set financial goals and the irregular budgeting practices noted.

DOI: 10.17148/IARJSET.2025.125100

IV. CONCLUSION

This research explored the intricate relationship between financial literacy and personal financial planning among young adults. The findings highlight the essential role of financial knowledge and skills—particularly in budgeting, saving, investing, and debt management—in fostering responsible financial behaviors. Higher levels of financial literacy were consistently associated with improved financial planning practices, including disciplined budgeting, maintaining emergency funds, early retirement planning, and informed investment decisions.

REFERENCES

[1]. Aminu Bello, M. (2020). Sources of financial literacy among university students: A survey based approach.
[2]. Birari, A., & Patil, U. (2014). Driving factors of financial literacy among individuals.
[3]. Chawla, D., Bhatia, P., & Singh, R. (2022). Impact of parental financial behavior on financial literacy and investment decisions of young adults
[4]. Chen, H., & Volpe, R. P. (1998). An analysis of personal financial literacy among college students. Financial Services Review, 7(2), 107–128. https://doi.org/10.1016/S1057 0810(99)80006-7
[5]. Danes, S. M., & Hira, T. K. (1987). Money management knowledge of college students. Journal of Student Financial Aid, 17(1), 4–16.
[6]. Dhaliwal, A. (2024). Financial literacy and rational decision-making among Indian youth investors. Discover Sustainability. (2024). Financial literacy and youth well-being: A study from Jordan.
[7]. Garg, N., & Singh, S. (2018). Financial literacy among youth. International Journal oSf Social Economics,

