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EMERGENCY FUND MANAGEMENT & HOUSEHOLD BUDGET- A STUDY OF RATIONAL HOUSEHOLD BEHAVIOR

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Abstract

Household financial management are essential for all the households, still these issues have received a little attention. With the changes in the global financial system, deregulation of the industry and changes in the social values; households are required to have effective financial planning for the survival and well-being of families. The study found that household budget is equally important in personal financial planning to achieve not only short term financial goals but also for long term financial goals. Demographic factors like age, marital status, occupation, education and household income have impact on financial behavior of household behavior. For emergency finance needs many of the respondents have faced and they generally rely on the sources like raised funds from existing sources followed by created sources, borrowings, taken credit from informal and formal sources and household income is important factor effecting the availability of the emergency funds.
Key Words: financial goals, financial planning, budget, financial emergency.

I. INTRODUCTION

Alan Greenspan, former Chairman of the Board of Governors of the Federal Reserve, "No matter who you are, making informed decisions about what to do with your money will help to build a more stable financial future for you and your family." Budgeting is not just about restricting spending and living a cheapskate life. It is about insights, wisdom, informed decisions, action and sustained discipline when it comes to household financials.

Budget is a sustainable plan of effectively using household finances. The purpose of a good budget is to make money help to reach life and financial goals, and for that need not to follow rigid rules. Deacon and Firebaugh (1975) noted that the expected outcome of financial management is to meet long-term goals or short-term goals by effective use of the resources available to each managerial unit. A major output is the achieved level of living and the related sense of fulfillment of goals and same applies to personal financial management. Households also engage themselves in such practices to be more effective to achieve formed objectives in getting the greatest possible satisfaction from their income.

A household budget can be as simple as a piece of paper with income and expenses written on it. Generally personal budgets are calculated monthly and budgeting is the best way to check the financially responsibilities. Financial planners and practitioners advice to include the recommended, or normative activities of: generation of income statements and balance sheets on a regular basis: goal setting; budgeting, monitoring and control of spending; recording income and expenses; routine and regular review; evaluation and control of accounts; keeping and storing records; tax planning; insurance planning; investing; retirement and estate planning; and cash management, including the use and control of all types of credit to be considered normative, and most of these recommended activities are to be done in writing.

Financial preparedness for emergencies is to be the important variable explain and enhance satisfaction with financial management. Households do hold a portion of their household savings as liquid reserves which can be used for small emergencies. The behaviour of the household towards emergency funds depends more on the education and the income level they possess and more over they are risk averse towards this variable of personal financial planning.

II. LITERATURE REVIEW

Money management is very essential component of personal financial management and consumer economics and households needs to utilize appropriate financial planning and control procedures regarding spending and saving (Beutler and Sahlberg, 1980). As per Matt (2009) in his paper justified that personal financial plan is the key for money management solutions. According to him a household/ personal financial plan gives a household an exact idea of, from where the money is coming and where it is going and what has been left. He has given some of the tools like bookkeeping, income statement, balance sheet and budgeting to have effective money management. Porter Sylvia (2009) conducted a survey of more than 2,000 individuals which states that households need to see all their accounts in one place in real time, track and analyze their spending, and achieve their financial goals. Mississippi State University Extension Service in their article titled "Manage Money Successfully" emphasized the need to understand the various types of expenses and keep a thorough tracking of the same. According to them, calculating one's expenses accurately is prerequisite for the development of workable financial plan. In one of the article, "Best Practices for Budgeting, Forecasting and Reporting" in 2005 stated that the budgeting is the essential and useful tool in household as well in changing financial environment. Household financial management in the form of budgeting is also important. A stable budget is positively correlated with more economic satisfaction (Walker, 1996).

A study was conducted by the Missouri Council on Economic Education, and results were presented in a document entitled 'Towards Economic and Financial Literacy: A Final Report'. The report concluded that one can build a more stable financial future for himself and his family by making budget. Money management is very essential component of personal

financial management and consumer economics and those households needs to utilize appropriate financial planning and control procedures regarding spending and saving (Beutler and Sahlberg 1980). Ferber (1973) reported some studies and generalized about how families handle financial tasks and decisions regarding budgets, bill payment, or saving. He divided the domain of family economic decision making into four segments: money management, saving behavior, asset management, and spending behavior.
Godwin and Carrol (1985, 1986) have suggested that financial difficulties are plainly a result of the lack of knowledge and skills in financial management among family members. Apart from standard economic events in households, one must consider the list of events that could have negative consequences for the family. Such events include employment loss or change, retirement, health problems and the possibility of income decreases, along with additional medical expenses, divorce, or death of earner of the family (Varcoe, 1990).

In addition to routine household transaction most people hold a portion of their assets for emergencies, that funds and reserves are considered as Emergency funds (Kapoor, Dlabay and Hughes, 2008, p.91). They suggested that emergency funds should be invested in highly liquid investments so that one can have easy access to funds and in low risky investments. If the investments are in too volatile investment it may erode the asset balances and one will not have enough balance when the emergency happens. Rothwell and Han (2010) emphasized on careful financial management that may lead to more disposable economic resources, and these resources can buffer unexpected financial events and reduce financial stresses.

Tahira K Hira (1992) notified the factors that affect the financial wellbeing of households like changing job market, high unemployment, cut-back in government assistance programs, high use of consumer credits, change in purchasing power, changing financial markets and that has led to complexity in financial decisions. Apart from these external factors she highlighted that there are some unpredictable personal risks like illness, property losses or death of household member which may cause the financial difficulties in the family. Households need to have enough financial resources on hand to handle such uncertainties in every life stage. For this the household must create emergency fund reserves to reduce the adverse consequences of these events. She also stated that personal risk management is one of the important components of personal financial management process and saving for emergency and creating fund is essential goal to achieve for all households. Jeries and Allen, 1986 cited in Tahira et al. (1992) surveyed 258 random families in Iowa to investigate satisfaction and dissatisfaction with financial management. Among the personal financial management factors, they used the following items: follow a written budget, record keeping of expenditures, record keeping of income, record keeping of canceled check, and financial preparedness. Using regression analysis, they found the financial preparedness for small emergencies to be the most important variable explaining satisfaction with financial management. Charles Hatcher (2010) investigated the need of holding emergency funds in personal finance. He stated the difference between the rate of return in highly volatile and illiquid assets and rate of return in emergency funds. By using cost benefit analysis, they concluded with the emergency funds one can avoid the high rate borrowings cost.

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III. RESEARCH METHODOLOGY

On the basis of review of literature and evidences from psychological studies, the present study has been planned with the following objectives:

1. To study households' attitude towards household budget and emergency fund requirements.
2. To analyse the effect of different demographic variables on attitude towards household budget and emergency funds.

The sample has been taken from the districts of Gujarat having urbanization rate higher than Gujarat's average urban ratio 42.58%. The study has been conducted in the seven districts based on their urbanisation rate, Ahmedabad (84%), Surat (79%), Rajkot (58%), Vadodara (49%), Porbandar (48%), Jamnagar (45%) and Gandhinagar (43%), all had higher urbanization rate than Gujarat as per Economic Census Survey- 2011. Proportionated stratified random sampling design was adopted for sample size of 562 respondents.

Table.1 District-wise number of responses obtained

S.No.	Districts	Urbanisation rate	Urban Population	No. of Responses Obtained
1	Gandhinagar	43.21	599529	18
2	Ahmedabad	84.05	6058764	214
3	Rajkot	58.12	2208582	65
4	Jamnagar	44.96	970645	28
5	Porbandar	48.77	285826	7
6	Vadodara	49.54	2059777	63
7	Surat	79.68	4843722	145
			17026845	**562**

IV. DATA ANALYSIS

4.1 Demographic Analysis of Respondents

Table 2 Demographic Analysis of Sample

Demographic Factors	Value	Count	Percent
Age	16-25	74	13.17%
	26-35	346	61.57%
	36-45	110	19.57%
	46-55	20	3.56%

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	56-65	12	2.14%
Gender	Male	394	70.11%
	Female	168	29.89%
Marital status	Single	138	24.56%
	Married	420	74.73%
	Divorced	2	0.36%
	Widow(er)	2	0.36%
Family type	Single person	18	3.20%
	Nuclear family	171	30.43%
	Joint family	341	60.68%
	Single parent family	32	5.69%
Occupation	Salaried	393	69.93%
	Self employed	68	12.10%
	Business	48	8.19%
	Housewife	48	8.54%
	Others	5	0.89%
Profession	Architect	2	0.36%
	Banker	46	8.19%
	Doctor	4	0.71%
	CA	48	8.54%
	Consultant	40	7.12%
	Engineer	26	4.63%
	Executive	212	37.72%
	Lawyer	10	1.78%
	Educator	53	9.43%
	Others	121	21.53%
Education	Undergraduate	45	8.01%
	Graduate	287	51.07%
	Postgraduate	217	38.61%
	Ph.d.	13	2.31%
No. of households	1-3	171	30.42%
	4-6	345	61.38%
	7 or more	46	8.18%
Household Income	Up to 100000	27	4.80%

	100001-500000	293	52.14%
	500001-1000000	161	28.65%
	1000001-1500000	45	8.01%
	1500001-2000000	16	2.85%
	2000001-5000000	20	3.56%

(Source: Sample Survey)

4.2 Financial Behavior of households

Financial behavior of the households towards routine money management is considered through setting short term financial goals of households consisting; preparation of household budget and implementation of it.

4.2.1 Respondents' preferences for household preparation

Table-3 Practice of Individuals and households to prepare household budget

		Count	Percentage
Household budget	Strongly Agree	248	44.13%
	Agree	115	20.46%
	Neutral	44	7.47%
	Disagree	128	22.76%
	Strongly Disagree	27	4.80%

(Source: Sample survey)

From the above table 3, it is evident that 44.13 percent of the total respondents strongly agree and 20.46 percent are agree (total of 64.59 percent of total respondents) to have household budget and need to be implemented for routine financial decisions and smooth household finance management. Out of rest of the sample consisting 27.58 percent (Disagree 22.76 percent and strongly disagree 4.80 percent) were of the opinion having budget is not essential for good financial planning whereas rest 7.47 percent respondents not even aware whether in their households someone prepares budget or not. From the responses obtained it can be inferred that mostly households believe to have household budget, prepare it and follow for smooth financial management.

It is indicated in many literature reviews, there is impact of different demographic factors on financial management practices of a household. In this study total nine important demographic factors Age, Level of Education, Gender, Household income and Occupation are considered to check relationship or impact of these demographic factors on preparation of household budget.

4.2.2 Impact of demographic factors on financial behaviour

Hypothesis -1

H0: There is no significant association between different demographic factors and preparation of household budget in the households of Gujarat.

H1: There is significant association between different demographic factors and preparation of household budget in the households of Gujarat.

- 1.1 H0: There is no significant association between age and preparation of household budget in the households of Gujarat.
- 1.2 H0: There is no significant association between gender and preparation of household budget in the households of Gujarat.
- 1.3 H0: There is no significant association between marital status and preparation of household budget in the households of Gujarat
- 1.4 H0: There is no significant association between family type and preparation of household budget in the households of Gujarat.
- 1.5 H0: There is no significant association between occupation and preparation of household budget in the households of Gujarat.
- 1.6 H0: There is no significant association between profession and preparation of household budget in the households of Gujarat
- 1.7 H0: There is no significant association between education and preparation of household budget in the households of Gujarat.
- 1.8 H0: There is no significant association between number of households and preparation of household budget in the households of Gujarat.
- 1.9 H0: There is no significant association between household income and preparation of household budget in the households of Gujarat

One Way ANOVA (Analysis of Variance) has been used to test the above mentioned hypotheses. Based on the results of Levene's test of Homogeneity, the F or the Welch statistic has been taken into consideration.

The below table (Table 3) sums up the results of running ANOVA/Welch test on demographics and financial behaviour of respondents towards household budget.

Table 3 Demographics and Household Budget

	ANOVA/WELCH			
Demographic Variable	**F Statistic**	**Sig.**	**Results**	**Post hoc result**
Age	10.607	.000	There is significant association between Age and preparation of household budget	A tukey post hoc reveals that age group 16-25 (2.07 ± 1.22) is significantly different from other age groups at $p<0.05$.
Gender	2.749	.098	There is no significant association between Gender and preparation of household budget	

Marital Status	1.713	.033	There is significant association between Marital Status and preparation of household budget	The Tukey post hoc tests indicates that category of single is significantly differing from other groups with significant value p<0.05
Family type	1.831	.151	There is no significant association between Family type and preparation of household budget	
Occupation	7.552	.000	There is significant association between Occupation and preparation of household budget	Post hoc reveals that salaried households (2.12 ± 1.24) are significantly differing from the other occupation group.
Profession	1.747	.126	There is no significant association between Professional and preparation of household budget	
Education	2.439	.044	There is significant association between Education and preparation of household budget	As per the post hoc results respondents with other education qualification are significantly differing with other classes of education qualifications with significant value p<0.05
No. of Households	1.308	.271	There is no significant association between no. of households and preparation of household budget	
Household Income	2.116	.031	There is significant association between household income and preparation of household budget	Post hoc reveals that all the Income categories marginally differing from each other.

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4.3 Financial Attitude towards Emergency needs and funds

4.3.1 Emergency fund need

Emergency funds are funds set aside money for unexpected expenses as well as future financial security. Generally financial advisors suggest that an emergency fund representing three to six months of living expenses be established for use in periods of unexpected financial difficulties (Personal Finance, Jack Kapoor, p.91).

Table 4 Emergency fund needs

	Counts	Percentage
Yes	302	53%
No	260	40%
Don't know	40	7%
Total	562	

(Source: Sample survey)

Table 4, shows 53 percent of the respondent households have found some emergency needs of funds in last twelve months and their income was not sufficient to meet these requirements some 40 percent have not faced these financial difficulties and rest 7 percent were not aware about this situation in household.

4.3.2 Sources used in emergency needs

Table 5 Sources used for Emergency fund needs

Sources	No. households
Existing resource	127
Create resource	95
Access credit	31
Borrowing	40
Additional credit	14
Beyond Amount	11
Others	22

(Source: Sample survey)

Table 5 shows the summary of the resources respondent have used to fulfill the emergency fund requirements. Multiple choice question was asked to respondents and they were asked to tick the sources they availed. The preferable option was existing sources they used to fulfill emergency requirements followed by some had created sources and many respondents even availed credits and borrowings from formal financial organisations.

4.3.3 Funds availablability for time duration to cover emergency funds needs

Table 6 Funds available for time duration to cover emergency funds needs

Time Duration	No. of households	Percentage (%)
One week	10	2
One month	39	7

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Three months	119	21
Six months	107	19
More than six months	143	25
Don't know	144	26
Total	562	100

(Source: Sample survey)

From table 6 it can be concluded that 26 percent were not aware what amount or liquidity available in case of emergency needs and maximum households (25 percent) having funds available which covers their more than six month's household expense if they will not have any income available; followed by three months (21 percent), six months (19 percent), a month and a week very few household are having low liquidity available. It is evident that people are aware and cautious about risk financial of uncertainties.

4.3.4 Association between emergency funds availability and household income

As emergency fund is related with the availability of liquidity it is associated with the household income so have tried to find association between household income and emergency funds availability and One way Analysis of Variance (ANOVA) has been applied.

Hypothesis: 2

H0: There is no significant association between Emergency fund availability and household income.

H1: There is significant association between Emergency fund availability and household income.

As the assumption of Levene's equality is violated, Welch ANOVA test has been applied to check association.

Table 7 Welch ANOVA

Robust Tests of Equality of Means				
	Statistica	df1	df2	Sig.
Welch	10.269	5	67.063	.000

As per Welch's Robust ANOVA indicated that there is association between income and availability of emergency funds (F (5, 67.063) = 10.269, p= 0.005) at 5 percent level of significance. Furthermore, the Gomes-Howell Post hoc testing revealed that emergency fund availability significantly associated with income slab 100000-500000 (0.86 ± 0.345, p=0.441) and has lowest association with income group 1500000-2000000.

V. CONCLUSION

To adopt a process of household financial planning formally, an individual not only needs to have numerical abilities but also need to develop an attitude and behaviour towards the financial decisions. In financial planning day to day financial decisions play important role, as achieving short term financial goals only can lead to the achieving the long term financial goals.

As a part of financial behaviour writing and maintaining budget is primary step for financial planning and a person should be proficient in core competencies like basics of money, saving, spending, borrowing and investment. Household's financial behaviour revealed that 65 percent of the total respondents believe that preparing household budget and to follow that is important for household financial decisions and demographic factors like age, marital status, education, occupation and household income have impact on preparing household budget. Household's financial attitude for emergency funds revealed that Out of 562 respondents, only 53 percent households have faced emergency fund needs and they raised funds from existing sources followed by created sources, borrowings, taken credit from informal and formal sources. It is found that 25 percent households hold more than six months' and 19 percent hold for six months' emergency funds and demographic factor household income has significant impact on availability of emergency funds.

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