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## **The importance of growing a pro-saving financial behaviour with an impact on the well-being of the individual. Achieving financial independence - ideas and tips**

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**Abstract.** Along the last years, it has been increasingly observed that a reduced understanding of a pro-saving financial behaviour, the lack of financial literacy, have led to bad decisions regarding the living of an individual, of a family and finally, by extension, the well-being of a nation. The lack of financial literacy is also confirmed by surveys of various organizations, measuring the awareness of the population about interest, inflation, loans, etc., knowledge that seems to be very poor. People's negative habits have consequences, such as: accumulating debts, many times not even realizing how quickly this happens. This article aims to present a theoretical approach and some tips & tricks for saving up and offers some practical solutions.

**Keywords.** financial literacy, saving up, financial planning, savings

### **Introduction**

In addition to statistics showing that people tend to become more and more indebted, this paper resulted from the observation of the growing interest of young individuals, especially among students for a "thoughtful" financial behaviour, sustained by a financial goal, in order to cover some needs that may appear, such as: an accident or a health problem. Also, the objectives can have positive connotations and then we will refer to a saving fund for holidays, for various happy events, etc. This article aims to present the benefits of saving up, regarded as a chance to gain financial freedom. We will address issues related to the existence of a financial background and personal financial planning.

There are also cases of banking institutions that speculate on all these objectives of the population, regardless of their nature and offer banking products and services that are apparently in support of the individual. Without solid knowledge in the field of financial planning, individuals are tempted to access various products, at hand, easily, such as credit cards, shopping cards, in order to achieve their goals in a short time and without too much hassle. These "solutions", however, prove to be misleading in most cases, and on a long term, bring even more financial discomfort and debt.

### **Literature review**

The literature presents various aspects of pro-saving financial behaviour, and much of the literature considers that this financial knowledge is important not only for professional managers, but for all individuals, especially for the management of both corporate life and personal level, which raises the issue of skills that individuals should have to cope better in both personal and professional life (Humberto Ribeiro et al., 2018).

We find opinions in the literature, which state that managerial skills allow both managers and individuals to adopt and acquire management positions, in order to perform better and to increase their ability to achieve the organizational goals (Katz, 1974; Whetten and Cameron, 2002; Bigelow, 1991; Analoui, 1998 and Peterson & Peterson, 2004).

O'Neal (1985) pointed out that without basic skills, one could not plan, coordinate, control or evaluate work activities effectively, as these skills are necessary to perform in management positions, which, and, on their turn, they are necessary for both the effective and efficient functioning of the organizations. To succeed and be successful, people need to know and understand their abilities. However, some authors, believe that it is not necessary to be born with such skills, but that they can be educated, cultivated, over time.

The authors Ribeiro and Kumpikaite (2012) emphasize the role of technical skills, that can be defined as primary skills, involving the understanding of specific activities through the use of tools, processes, methods, techniques or knowledge and procedures. In order to perform a specialized task these are the specific skills that an individual need.

Another type of skills are the human ones which involve the ability to work with other people, to understand them, to motivate, to communicate effectively, to understand behavioural principles, to work in groups, to resolve conflicts and to be like a team player (Katz, 1974, Analoui, 1998). Another type of skills are the conceptual ones that focus on ideas and concepts (Humberto Ribeiro, et. Al, 2018).

In addition to technical, human and financial skills, the financial education plays an important role in people's lives, motivating the desired financial behaviours and improving financial well-being among consumers (Lusardi and Mitchell, 2014).

Studies show that financial education has positive effects on the financial behaviour and consumer welfare (Ambuehl et al., 2014; Brown et al., 2014; Wagner, 2015; Xiao and O'Neill, 2016).

Researchers want to determine whether the financial education contributes directly or indirectly to the financial satisfaction through factors such as financial literacy, behaviour and ability.

Regarding the financial literacy, it is defined as the level of financial knowledge and the ability to apply knowledge in order to improve one's financial status (Lusardi and Mitchell, 2014; Huhmann, 2014).

In the profile literature, the financial literacy as well as the financial capacity are often used interchangeably, i.e., they refer to both the ability to apply certain levels of financial knowledge and to have desired financial behaviours to achieve the financial well-being (Atkinson and et al., 2006; Xiao, Chen and Chen, 2014).

Lusardi and Mitchell (2014) developed a life-saving model that addresses the role of the financial literacy. The model predicts that financial literacy is determined endogenously throughout the life cycle, and consumers invest in financial knowledge to the point where their time and costs to do so are equal to their benefits. Consumers with financial education will increase their ability to manage their money and achieve better financial performance than those who do not have financial education. Many studies have shown how such a life cycle optimization process can be shaped by preferences, by the economic environment and the benefits of the social safety network.

According to Lusardi and Mitchell (2014), the fundamental concepts underlying savings and investment decisions are:

- calculation and ability to make calculations;
- understanding inflation;
- understanding risk diversification.

Huhmann (2014) developed a conceptual model to identify the determinants of the financial literacy and described the mechanism of its development. In this model, the financial literacy has three components:

- ability - the basic cognitive ability of a person;
- previous knowledge - existing financial knowledge;
- competence - skilful application of financial knowledge to achieve desired financial results.

The financial capacity is measured by researchers through different approaches, such as a set of financial behaviours (Atkinson et al., 2006, 2007; Lusardi, 2011), a combination of behaviours and financial outcomes (Taylor, 2011), and a combination of financial literacy, behaviour and perceived capacity (Xiao, Chen, & Chen, 2014; Xiao et al., 2015).

The basic component or the key component of the financial capacity is money management. A person who is financially capable could manage their money on a day-to-day basis, know how their finances stand at the moment, and could plan large expenses in advance, such as quarterly bills or taxes, and annual car insurance (Adele Atkinson et al., 2007). For most people, money management involves income monitoring, controlling financial resources, and keeping track of expenses.

Low financial capacity is conceptually different and involves: low incomes or deprivation of certain things. Financial capacity refers to making appropriate financial decisions, understanding how to manage money and debt, and identifying appropriate products and services (Mason and Wilson 2000; Noctor et al. 1992).

### **III. Reasons for saving up and methods of saving**

The profile literature has identified a number of reasons that repeat among individuals when they make the decision to save up, and the most common that involve immediate or intermediate objectives refer to: the need for security, retirement and vacation. We also have the category of abstract objectives, where we talk about self-esteem, self-improvement (Canova, Rattazi and Webley, 2005).

Keynes (1936) postulates 8 basic principles of saving, principles that have passed the test of time and have been frequently found in the saving up behaviour of individuals:

- Caution - saving part of the budget for unforeseen situations;
- Forecasting - anticipating future needs;
- Interest gain;
- Increasing the living standard over time;
- Financial independence / autonomy;
- Investing money in business;
- Bequeathing part of the legacy;
- Greed.

Once we understand the financial mechanisms and how they work, we can talk about saving money. In fact, the starting point that will help us not to divert is **SETTING A GOAL** (See Table 1). Once the goal is set, we will continually try to find solutions so that we do not stray from it. Thus, based on Keynes's principles and experience in the economic field, we propose a series of tips and tricks to support young people in order to save up and achieve goals:

1. Expenditure monitoring. We believe that this first step is a step in the right direction once we start on this path of balance and saving up. We propose that for a minimum of 2 months to draw up a table where expenses, purchases and their nature will be noted, and after this period of time a necessity assessment will be made, comparing it with the satisfaction brought by the final objective.

2. Establishing a budget. This step involves drawing up a list of fixed monthly expenses that cannot be excluded, and this usually includes the payment of utilities. A budget for any

emergency needs (car repair, renovations, medical costs) must be included here. Also, this chapter should comprise a budget for leisure and entertainment. It is very important that this budget is not exceeded. More than an amount of money, we are talking about a psychological limit that, once imposed, must be respected.

3. Giving up expenses that deviate from the target. Calculate your costs for small pleasures that are not absolutely necessary. Even if it does not seem like a serious amount, during one year, the amount can be considerable. Giving up small habits for a while is considered opportune.

4. Paying cash

It has been shown that it is much easier to have control over the disposable finances in the classic way, in which we use cash to pay for various. By paying cash you have a fixed budget - the one in the wallet, being harder to lose track of money.

5. Online shopping

Referring to the period we are going through, the context of the pandemic caused by COVID-19, we could not fail to mention the fact that the online shopping gained a lot of ground during this period and a large part of it was done under the momentum, the so-called impulsive shopping. One tip is to add the products to your online shopping cart and keep them there for at least 24 hours. You will be surprised that once this term expires, they will not seem as tempting and necessary.

6. Shopping at the supermarket. Don't deviate from the list and just go to the department where you know you can find the products you need. There are temptations at every step, but we must always keep in mind the goal set.

7. Regardless of the budget, save up. An important step in saving up is to put money aside, regardless of the period you are going through and regardless of the gain. Don't let a month go by without your savings budget growing.

8. Invest the money saved in a business

Make the money you saved work for you. Think about your hobbies and turn them into a business. From small plans, such as saving up money to spend a vacation on a yacht, make sure that in time you can buy your own yacht.

Of course, the tips and ideas for saving up can continue, these being just the beginning of a good saving up exercise. In addition to these purely theoretical tips, we propose the creation of a savings notebook, in order to always have it close to you, the goal to be achieved and the proposed notebook will be correlated with the tips & tricks mentioned above. (See Table 1 and Table 2).

**TABLE 1. SETTING OBJECTIVES**

	OBJECTIVE DESCRIPTION	DEADLINE	COSTS INVOLVED
Short-term goal			
Medium term objective			
Long-term goal			

Source: own processing

**TABLE 2. MONTHLY SAVING PLAN**

DAY 1	TOTAL INCOME COLLEC TED	COSTS WITH UTILITI ES	FOO D COSTS	UNEXPECT ED COSTS	OTHER EXPENS ES	REST- ECONOM IES
DAY 2						
...						
DAY 31						

Source: own processing

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