

The Financial Status, Financial Problems and Personal Well-Being of Urban Poor Youths

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Abstract

The fast growing economic of Malaysia has impacted more urbanization as the Malaysians migrate to cities to seek employment and education opportunities and resulted in rising living cost. Youth plays a big role in building the nation and rising living cost is one of the financial challenges as they are unable to practice saving behaviour due to their environmental and lead to the use of exploitative lenders and to financial instability and it may leads to financial stress. This study is to to assess their current financial status, financial problems and personal well-being. This study is conducted with 500 youths from 18-40 years old living in low-cost flats with income below RM3000. The respondents consist of 48.7% male and 51.3% female; 70.2% were Malays, 13.1% Chinese and 14.9% Indian and 1.4% consisting of other races. The youths' main saving and investment portfolio is Employee Provident Fund (EPF) with 69% and less diversification in investment. Urban youths (69%) mostly own motorcycle as asset followed by house (32%), and jewelleries (16.1%). In contrast, 54.3% of them are engaged with mortgage loans and 33.3% with personal loans; the asset to debt ratio revealed that 47% of the have debts more than asset and 34% youths are inadequate of income. The main financial problem is paying bills late (88.9%) and spirituality scores the highest ranking in personal well-being with mean 7.26. Enhancing financial literacy and molding good financial behavior need to be inculcated to the youths as a coping strategy.

Introduction

Malaysia is in its final stage to achieve its long time aspiration which is to be a developed nation by the year of 2020. Malaysia rose from the ranks of a low-income economy in the 1970s to a high middle-income economy in 1992 and moving towards a high income nation. The fast growing economic has impacted the nation into more urbanization as the Malaysians migrate to cities to seek employment and education opportunities. The cost of living in urban is much higher than the rural and difficult to keep up with the rising cost of living when the salary isn't growing at a similar rate. Rising cost of living affects the lower and the middle class income group in the urban area. Higher food, gasoline and utility costs mean less money

remains once these necessities are paid for, leaving little for savings or discretionary spending.

By 2020, youth aged 15-40 will make up 44.7% of our total population. Youth play an important role in nation building as they are not only the leaders of tomorrow, but also the partners of today (Economic Planning Unit, 2016). This is the age where the individuals often associated with realizing lifestyle goals such as starting their careers, buying their home, saving for their children's education, and saving for retirement. Managing money well and making sound financial decisions are essential life skills that must be learned over a lifetime to ensure financial fitness in the future by the youths. But, rising living cost in our country is of the key reason of the many financial challenges that are facing by the Malaysian Youths. Youths nowadays are facing many challenges such as the need to have savings for emergencies, children's education, management of credit and risks, plans for retirement and management of property (Idris, Krishnan & Azmi, 2013). Youths are struggling with high rates of indebtedness, diminished incomes, negligible savings (including retirement planning), and a financial services (McCormick, 2009). Most of the youths are engaged with PTPTN educational loans and some are even engaged with wedding loans which make them more indebted. The department of insolvency also reported that, there are 32,995 youths (26%) are not able to pay their car loans (17.8%) not paying house loans and (15.7%) not paying personal loan being declared bankrupt. Apparently, Central Bank of Malaysia (2013) also reported Malaysia's household debt demonstrate increasing percentage 86.8% of gross domestic product (GDP) in 2013 after 80.5% in 2012, which is highest among developing Asian countries. It can be said that youths have the inability to practice saving behaviour due to their environmental and leads to the use of exploitative lenders and to financial instability. Behaviour in the money management giving huge impact on personal well-being with good management and discipline will ensure a good well-being.

When they fail to fulfill their financial needs, it can lead them to financial stress and it can affect performance and motivation at work, as well as physical and mental health leading to stress and further bring about negative impact to performance at the workplace (Idris et al., 2013). Statistics issued by the Malaysian Department of Insolvency, reveals that a total of 122,169 Malaysians who have declared bankruptcy from 2007 to 2013, and almost 80% of them are youths (Zamzamin, Jaini, Zamanira & Zaib, 2015). Moreover, an average of almost 41 individual bankruptcies every day due to the failure to explain the burden of credit card payments, medical fees, hire purchase and debt along (Zamzamin et al., 2015). Bankruptcies are not usually the result of a sudden change in finances; rather they are preceded by a period of gradually increasing financial strain climaxed by a complete exhaustion of financial resources (Aldana & Liljenquist, 1998). Improper financial decisions among the public has caused various problems such as harassment from loan sharks, bankruptcy, and even suicide (Ahmad, Simun & Masuod, 2006). In accordance with that, a study was conducted among the youth (under 40 years) to assess their current financial status, financial problems and personal well-being.

Methodology

Sample Design

The sample is comprised of 500 youths aged from 18-40 years old from low-cost flats whose household income is below RM3000. The respondents were chosen from the list being obtained from Kuala Lumpur City Hall (DBKL) by using systematic random sampling method. This study was conducted in People Housing Project Kuala Lumpur City Hall (PHP/PPR) or low

cost flats in Kuala Lumpur which is under the supervision of DBKL. According to Kuala Lumpur City Hall, there are 40 low cost flats in Kuala Lumpur and for this research. Four flats have been selected for this study which is PPR Seri Semarak, PPR Desa Rejang, PPR Desa Tun Razak, and PPR Sri Sabah. Each flat was targeted 125 respondents and the data were collected using self-administered questionnaires. Data was coded and analysed by Statistical Package for Social Science for Windows (SPSS) version 22.

Profile of Urban Poor Youth

The data shows that 48.7% of them are male and 51.3% of them are female. Among them, majority of the respondents are Malay which marks the percentage of 70.2%, meanwhile Chinese and Indian respondents' records the percentage of 13.1% and 14.9% and 1.4% consist of other races. The mean age for the respondents is 29.5 years old. 50.2% of them are having a secondary level of education while 32.8% and 12.4% of them are in to the category of certificate /diploma and undergraduates respectively. It is noted that, 50.3% of them are married and 44.1% of them are single with below RM3000 household income which is 72.9% of the sample.

Financial Status of Urban Poor Youth

Saving and Investment

Saving and investing are incredibly important as it helps an individual to secure their financial well-being. While looking at the urban youths, 69% of them are keen into Employees Provident Fund (EPF) as their primary saving and investment and 31.3% of them have invested in Tabung Haji. Those who have invested in investment linked are only 18.2% and 17.5% of the youths have invested in Unit Trust based investments. This explains that the youths are financially insecure and there is less diversification of their savings and investment activities. Diversification helps to lower the risk of overall investment and savings as well as increasing the financial security.

Assets

Urban youths mostly own at least a motorcycle. Here in this study, 69% of the youth owns vehicle and 32.0% of them owns a house. This simply means that 68% of the youth did not own a house. The downward trend in home buying among young adults predates the rise in student loan debt, and may have more to do with structural shifts in the transition to adulthood rather than the rise of student loan (Houle & Berger, 2014). Only 19.8% of them have jewelries and 16.1% of them have rental houses. Property and financial assets had a positive association with financial satisfaction but debt had a negative impact on financial satisfaction (Garrett & James III, 2013).

Debts

On the other side, 54.3% of the youths are engaged with mortgage loans and 33.3% or more than a quarter of them are engaged with personal loans. About 30.2% of the youths have taken up housing loans and 13.1% of them are having credit card debts to pay off. This portrays that the youths will face income inadequacy as huge portion of their income is being spent on paying their debts and loans. With the balance left, they tend to struggle in managing their daily expenses and lead them to borrow from relatives or friends, to accommodate their monthly expenses like paying bills and basic needs expenses.

Table 1:

Financial Status of Urban Poor Youth

Categories					
Savings & Investment	%	Debts/Loan	%	Asset	%
EPF Contribution	61.7	Mortgage	54.3	Vehicle	69.0
Tabung Haji	31.3	Personal	33.3	House	32.0
Investment Linked	18.2	Housing	30.2	Jewelries	19.8
Unit Trust	17.5	Credit Card	13.1	Rental House	16.1

Asset to Debt Ratio

While accessing the asset to debt ratio of the urban youth, it is found that 47% of them have more debt than asset, 33 % of them have equal asset and debt and 20% of them have assets more than debt. In this study, it has been clearly seen that the youths are highly engaged with debts. Banks and mortgage lenders use the debt-to-income ratio to determine how much money that they should lend to an applicant. If the debt is higher than the assets, there will be obligations for the youths to take up loans in future. This is also will lead the youths to easily declared as bankrupt if the finance are not being managed well. As the Malaysian Bankruptcy Act 1967 a person can be declared bankrupt if he is unable to pay his debts of at least RM30,000.00.

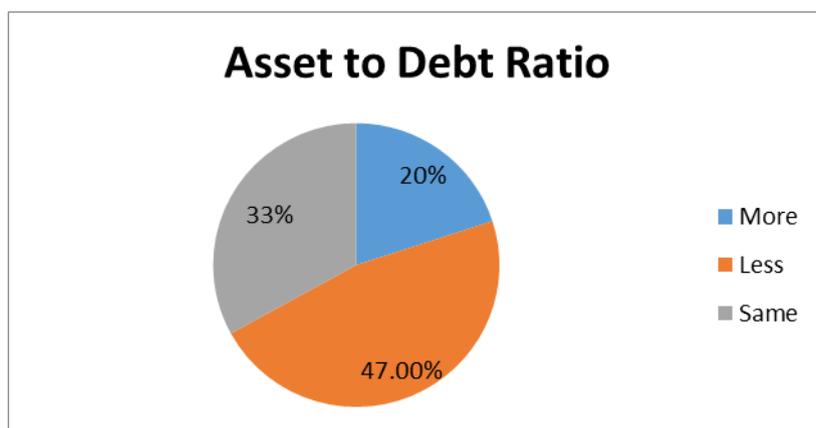


Figure 1: Debt to Asset Ratio

Income Adequacy

Among the urban poor youth, it can be clearly seen that 50% or half of the people are have a low adequacy of income as they claim their income enough for most of the things and 16% of them claims that their income enough for basic things only. Only 34% of them actually have insufficient income. Income adequacy is a marker of one's degree of access to health-enhancing social, material and behavioral resources (Lynch & Kaplan, 2000). Once there is inadequacy of income, it means that majority of the youths will limited access to most of the social and financial resources.

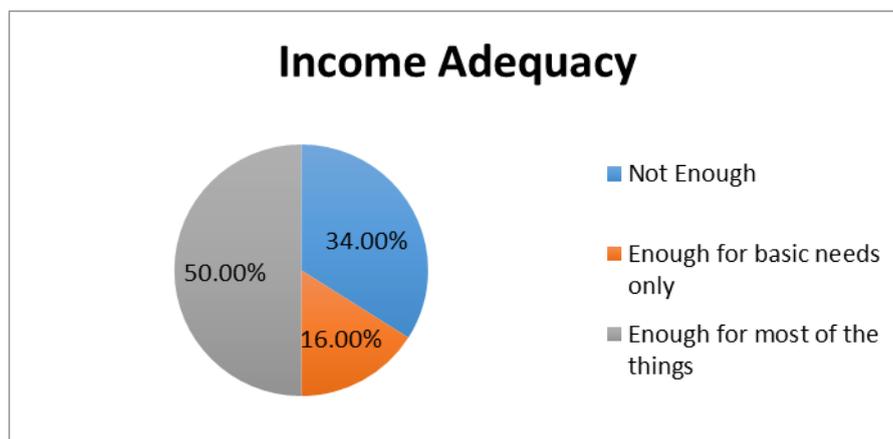


Figure 2: Income Adequacy of Urban Poor Youths

Financial Problems of Urban Poor Youths

Majority of the respondents (88.9%) is paying their bills late and 72.5% of them are worried of delay in paying their monthly bills. Another problem is that, the youths are spending more than the income earned which marks 69.8% of respondents and 66.1% of them are not able to afford insurance or Takaful. Despite of all, 63.5% or more than half of the urban poor youths are in a situation of doing part time job, overtime and depending on commission for extra income. In case of emergency, 58.1% of them don't have the cash to afford or handle it and 61.1% does not have cash for medical purposes. There is still 22.3% that has been borrowing money from loan sharks and 19.4% of them have been declared insolvent or bankrupt. According to Huang, Nam & Lee (2014), people who experienced economic hardship had difficulties in meeting their needs even basic needs. The youths are exposed to many financial strains and it will definitely affect their personal well-being.

Table 2:

Financial Problems of Urban Poor Youths

Financial Problems	%
Paying bill late	88.9
Delay in paying monthly bills always makes me worried	72.5
Spending more than income earned	69.8
Not able to afford an insurance/takaful	66.1
Depending on the part time work, overtime, commission / bonus to finance the cost of living	63.5
I'm sick worrying about personal / family expenses	61.8
I don't have sufficient money for medical expenses	61.1
Do not have the cash for emergency purposes	58.1
Having conflicts with the spouse to understand regarding financial matters	57.5

Unable to concentrate on work due to financial problems	56.6
Not knowing how the money is being spent.	56.3
Inability to pay debt instalments	55.7
Borrowing money from family or friends to pay debt	55.4
Owing before salary being credited	52.3
Borrows money to buy household necessities	48.9
Borrowing money from loan sharks	22.3
Declared insolvent or bankrupt	19.4

Personal Well-Being of Urban Poor Youths

Spirituality has the highest mean score which is 7.26, followed by personal health with mean score of 6.78, and personal relationship with 6.78. The least satisfaction is on the financial situation which scores 5.62 mean score. It is noticeable that the lowest mean score for the well-being aspect is financial situation. This proves that that the youths are feeling insecure about their financial situation. This can be associated with the second lowest score which is standard of life which is 6.09. Financial problem was also related to well-being which lowers the life satisfaction due to economizing behaviour and other ways to cope the financial problem (Watson, Barber & Dziurawiec, 2014).

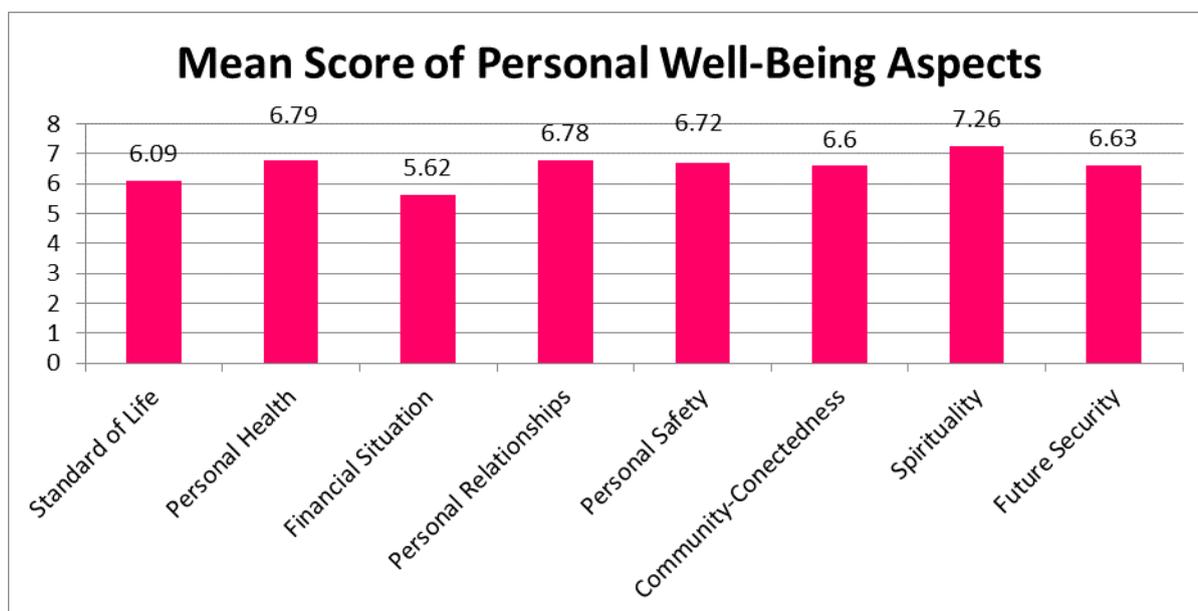


Figure 3: Personal Well-Being Aspects

Conclusion and Implication

Inability to pay bill on time, having less amount of savings, lower liquidity of money, depending on part time job and engaged to a higher level of debts are the pivotal problems that are faced by most of the youths in the urban area. This has created a situation of a lower adequacy of income where the income is only enough for basic things and the urban poor youth are unable to have access to a better life as whole. Coping strategies become important in dealing with these externally driven strains.

The data from this study will be very useful for the Ministry and agencies under the Malaysian government such as the Ministry of Finance, Central Bank of Malaysia, Economic Planning Unit of Malaysia, and Ministry of Youth and Sports to provide more plans, policies and laws on enhancing the economic status of the Malaysian urban youths in order for them to achieve a good financial and personal well-being. According to Ali, Rahman and Bakar (2014), financial literacy is positively related to financial planning in order to affect positively the financial satisfaction. This is because financial literacy is able to reduce pressure and increasing welfare of families or individuals. Therefore, it is very vital to the mentioned organizations to emphasize on enhancing the financial literacy and molding good financial behavior to the youth as they can manage the finance well as well as able to cope with the current situation of economic.

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