

Financial Planning in Albanian Family

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Abstract: Personal Financial Planning offers individuals and families the opportunity of knowing private banking, estate planning, legal resources, and investment management, to a constant, stable and long-term wealth. Family financial planning is a practice that has been and continues to gain popularity even further and draw the attention of people worldwide. Financial concerns plaguing many people, not always arise from a lack of money but mostly by the lack of planning how to use the money. Although the number of financial planners continues to grow every day, in Albania there are still too many families who do not know the significance of the impact of a proper financial planning in their financial security for the future. Through this paper we aim to shed light on the key concepts related to financial planning, the importance of its role in the economic life of individuals and families, as well as raising the opportunities in its application. The main purpose of this paper is the investigation of financial planning skills in Albanian families and more specifically on families in the city of Elbasan. We have also organized a survey in the city of Elbasan to determine how many people knew Financial Planning and its role in the economic life.

Keywords: planning; personal finance; economy; Albanian families;

JEL Classification: D14; D60; E21;

1. Introduction

Personal Financial Planning for individuals, families, and businesses owners is a profession that has been gaining in the number of practitioners and clients, and in acceptance since its formal inception on December 13, 1969 (Dunton, 1986). One of the reasons for this rapid expansion of personal financial planning is due to increasing complexity in managing personal financial matters in the past 40 years (Greenspan, 2003). Furthermore, since the primary consumers of personal financial planning are the affluent middle class (Warschauer, 2002), the social change from single wage – earner families with one partner full – time at home to dual – career families and single parent families has resulted in people having less personal time in which to manage their financial affairs (Townsend, 2002). As a result, individuals, families, and businesses owners turn to financial planners. Some do so to take advantage of the planner’s expertise beyond that of the average layperson in a variety of financial topics. For others, engaging a financial planners offers a way to outsource a task viewed as boring and onerous. All are looking for a professional who can help them reach their financial goals (Consumer Federation of America, 2002) and look to the financial planner to help them achieve financial security.

As the demand for financial planning services has grown, so has the profession. According to one source, (Miller & Montalto, 2001), approximately one in five Americans has consulted a financial planner. During this growth period, the financial planning profession also has become increasingly sophisticated. In addition, although it has roots in finance, and economics along with numerous other fields, it has become a separate discipline. There is a broad literature of financial planning, represented

by several journals and professional magazines that suggests that there is an assumed systematic body of theoretical knowledge agreed to by the profession. The result has been a flourishing profession with its basic theoretical foundation assumed but unsaid.

While the need for the profession has been growing and the profession itself expanding, there is some ambiguity among the general public and academicians as to who is a financial planner and what a financial planner does. Probably the most common misconception is that a financial planner is simply a portfolio manager. Financial planning is a process of developing an integrated financial strategy for the client, whether that client is an individual, a family or a business. It examines all aspects of the client's financial resources, goals, arrangements and attitudes as they relate to the current and projected economic and financial environment in terms of risks management, employee benefits, investments, taxation, retirement and asset transfer both during life, and through estate. A financial planner, is someone who uses the financial planning process to help you figure out how to meet your life goals. The purpose of financial planning is to optimize the financial situation for the client in the current and possible future environments in a manner consistent with the client's values.

Professional Personal Financial Planning has been defined variously by different authors, but one functional definition that appears to encompass important points in the other is:

Financial Planning is the process that takes into account client's personality, financial status and socio-economic and legal environments and leads to the adoption of strategies and use of financial tools that are expected to aid in achieving the client's financial goals. (Warschauer, 2002). The Securities and Exchange Commission (SEC) defines financial planning by outcome: "Financial planning can help assess every aspect of your financial life —including saving, investments, insurance, taxes, retirement, and estate planning.

Another important definition is: Financial planning is the process of meeting your life goals through proper management of your finances. (CFP Board of Standards, 2005a).

Article about theory that do appear in the financial planning literature, plus the topics tested on the examination for CFP certification and suggested topics for the curriculum for education programs registered with the CFP Board of Standards are a good starting point for discovering the basics of the fundamental body of theoretical knowledge of the profession. One reason for the absence of a theoretical body of knowledge in the scholarly literature, is because there has been limited academic interest in the profession as separate from finance in general, as evidenced by few degree programs and few scholarly publications dedicated to personal financial planning for corporations and other large organizations.

The main purpose of this study is the investigation of financial planning skills in Albanian families and more specifically on families in the city of Elbasan. Through this paper we aim to shed light on the key concepts related to financial planning, the importance of its role in the economic life of individuals and families, as well as raising the opportunities in its application. Thus it should contribute to the establishment of a recognized theoretical body of knowledge essential in the development of a profession.

2. Data and Methodology

This study investigate all them through personal interviews and a review of the literature, including, in addition to professional journals, trade publications, text books, and other historical papers that were available. To view the knowledge of Financial Planning in our concrete case, the city of Elbasan, we ran a survey to 150 local families. The survey conducted in urban areas was addressed to individuals / families selected randomly. The purpose of the survey to these individuals / families is gaining a greater information regarding to the part of Financial Planning. The methodology used consists in distributing a questionnaire for individuals / families including each layer of the population. For this reason direct interviews were conducted by the surveyors, through a questionnaire, which included 9

open questions and 9 closed in connection with educational social status of individuals, but in this paper we focused on the analysis of some of the main questions.

In the same questionnaire including questions were related to the average monthly income, expenditure and income, consumption that will serve us for analysis of typology of families. The survey data were processed through a statistical program SPSS Statistics 17. SPSS also known as Statistical Package for Social Sciences is a software package for statistical analysis of data, such as descriptive statistics (averages, frequencies), bivariate statistics (ANOVA, t - test), regression analysis and graphing of data which is mainly appropriate for the analysis of data obtained through the survey. But, in this paper we focused on the analysis of some of the main questions.

3. Results and Discussion

3.1 Profile of Respondents

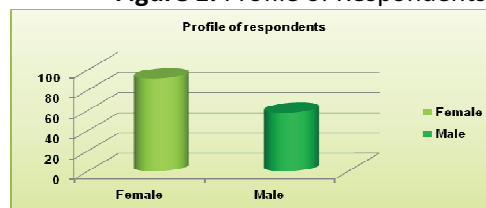
Of the 150 respondents, with data processing showed that 61.3 % of respondents were female and 38.7 % were male with an age which ranged from 20 years to 85 years with an average 42 years. As seen from Table 1 we see that 42 individual respondents are unmarried and it takes a load 28 %, 88 individuals were married, 6.7 % of respondents are divorced, 6.7 % are widowed.

Table 1. Profile of Respondents

	Frequency	Percentage
Unmarried	42	28%
Married	88	58.70%
Divorced	10	6.70%
Widow	10	6.70%
Total	150	100%

Source: Survey

Figure 1. Profile of Respondents

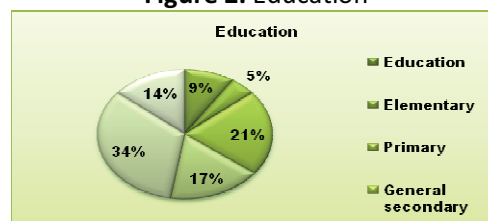


Source: Survey

3.2 Education

Percentage of individuals with higher education is higher compared with other items and it takes a load 33.3 %, after 21.3 % more individuals come with general secondary education with 17.3 coming individuals with vocational education, with 14% of individuals with master / doctorate in education, elementary 9.3 % and 4.7 % of respondents with primary education.

Figure 2. Education

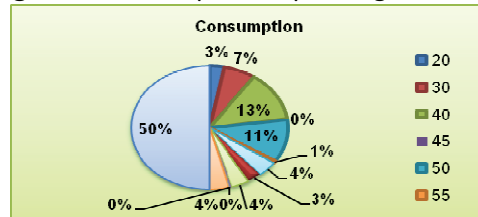


Source: Survey

3.3 Consumption depending on the income

Chart 3 shows the result of the average monthly income from the survey. Where the average monthly income ranging from 3, 000 lek and the minimum wage is up to us to constitute 250, 000 and maximum income resulting from the survey. From the statistical results shown in the following table we notice that the average income of the respondents is between 59585. 33 ALL (Table 2). Among 150 respondents 16. 7 % individual / family have average monthly income in the amount, 33. 3 % of average income have 50000 and 50 % of respondents who are individuals / families have average incomes extent 75000.

Figure 3. Consumption depending on the income



Source: Survey

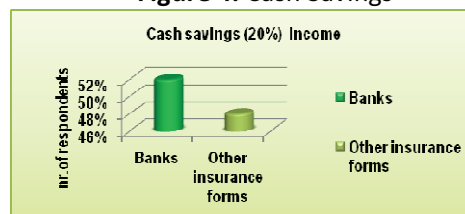
Table 2. Consumption as a percentage of average monthly income

Statistics		
Income	Available	150
Average		59585. 33
Median		50000. 00
Mode		50000
Minimum		3000
Maximum		250000
Percentage	16. 7%	34500. 00
	33. 3%	50000. 00
	50%	75000. 00

Source: Survey

And the following chart 4 presents the results of the survey in the city of Elbasan associated with saving cash individuals / families with insurance forms that they prefer may be a bank or other forms of insurance, it is clear that people like to save more cash in the banks nearly 20 % of their income level and constitutes 52 % of survey respondents while the rest of the respondents prefer other forms of insurance and it covers almost 48 % of respondents.

Figure 4. Cash Savings

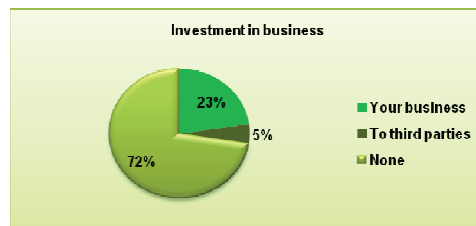


Source: Survey

3.4 Investing in business

From the graph it is clear that 15 people do not prefer to invest their earnings in their business and among 150 respondents 72.6% did not invest their earnings in the business. 22.7% of respondents invest their earnings in business and above all in their business, and this is clearly seen from the table where individuals / families surveyed depending on income investing in their business where the largest share of occupied individuals / families to invest 20% of their income. In addition, among respondents were individuals / families who like to invest, the third category with 10% of their monthly income.

Figure 5. Investment in business

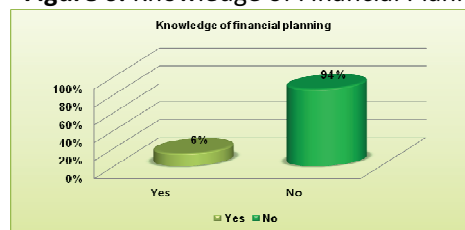


Source: Survey

3.5 Informing on the Financial Planning

The result of the survey in terms of recognition of the role of financial planning; 21 individuals / families or 14% knew the role of Financial Planners and 129 individuals / families or 86% did not know his role, where only 9 individuals / families or 6% had consulted a financial planner and 141 individuals / families or 94% have never consulted a financial planner (Chart 6).

Figure 6. Knowledge of Financial Planning

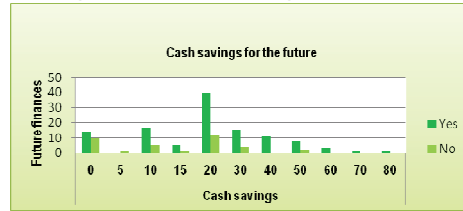


Source: Survey

Results of recognition of financial planning concluded to such a result that 129 respondents did not recognize the role of financial planning and there are families who have never consulted one while there are those individuals who recognize its role and have ever consult with one. As there are those individuals and recognize but consulted one such in terms of their finances (Chart 6). Among respondents who recognize the role of financial planning are primarily individuals belonging mainly higher education manager / economist. Among 150, 5 respondents recognize his role while the largest number of individuals who do not recognize the role of financial planning are those individuals who are in private businesses against 19 respondents who have this profession 18 individuals don't recognize and 1 individual knows his role.

3.6 Cash savings for the future

Figure 7. Cash savings for the future



Source: Survey

From chart 7, we note that among respondents 115 individuals / families think about their finances for the future while 35 respondents don't believe in financial planning for the future. Among them there are individuals in dependence of the average monthly income they think for saving certain percentage about the future financial section or private pension in the future.

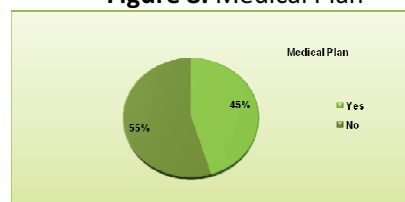
3.7 Saving cash for private pension plans in the future

Individuals interviewed who think about private pension in the future are female where 92 women among 6.7% of respondents believe their private pension in the future as well as 4.7% of men felt the same form. Also the majority of individuals who do not think about private pension are female 54.7% and 34% are male, these category is less likely to think about retirement planning in the future. Individuals who think of private pension plans in the future belong from age 23 and 45 years old.

3.8 Medical plan for the future

Among the respondents 45.3% of individuals thought to medical planning in the future, while 54.7% of respondents do not think about future medical plan (Chart 8). From the panel data on private medical plan, it appears that individuals with a monthly income of up to 32000 to 75000 think more for a private medical plan. The average age that thinks more about private medical plan is the age 45. While the age who does not think for a private medical plan is age 22.

Figure 8. Medical Plan



Source: Survey

4. Conclusion

The main purpose of this survey in the city of Elbasan was to investigate how people knew the Financial Planning and its role in their economic life. By processing data were pulled these basic results:

- 86% of people surveyed did not know the role of Financial Planning
- 6% of surveyed individuals were consulted with a Financial Planner
- 76.7% of individuals surveyed think for their finances for the future
- 88.7% of individuals surveyed did not think to private pension plans than the state one
- 43.8% of people surveyed thought to have private medical plan

- 53.3 % of people surveyed thought the educational plan for children.

Having carefully reviewed the above findings we can conclude that some of the causes of the results achieved are:

Low standard of living

The standard of living in Albania is among the lowest in the region with 25.4 % of the population living below the national poverty line and 50 % of the population living on less than \$ 4.00 per day. Given that the majority of individuals think about their financial future are those individuals that have a satisfactory source of financial assets, and is understandable why we say that in our country these individuals are in minority.

And from surveys carried out in this paper, in 150 individual / family was the low standard of life that influences the way people think about their future. We saw that in the majority of interviewees the average families income was 59585.33 All. Where rising prices for everyday consumer makes it impossible for citizens to think about the future plans for example for private pension plans in addition to that of the state in the future or savings for children's educational plan for the future.

Lack of proper education

Another reason leading to this result is not having a financial education. Financial literacy is the ability of consumers and investors to understand financial concepts and products, is the ability to understand how to protect themselves from unwanted developments, is the ability of people to make sound decisions about their money accordingly that life offers is important and contributes to the financial well being of Albanians. For most people, having a job and a salary, or an asset, is the key to personal financial well being. However, the fact of having a job, or the realization of an income does not automatically guarantee the ability to make wise decisions about the effective use of the available money. The discontinuation of many financial institutions, the use of cash just before the '90s and disintegration of a large portion of women in the labor market (ages 40-60 years) has become a major part of population to not be able to use and minimal facilities that offers financial market such as today, the bank savings deposit, investment in Treasury Bills etc.

These individual behavior, seemingly irrelevant bring great benefits to the national perspective. Among respondents in Elbasan individuals / families generally had a low level of understanding of financial issues connected with the economy. Educating citizens about the financial issues have become increasingly important to the government and authorities should act in this case as regards the financial education of the citizens of Albania.

Lack of professional financial planners to consolidate

In our country the profession of financial planners is not consolidated. Some of the reasons are the following:

- Lower demands by individuals / families
- The existence of a somewhat problematic relation between wealth and its origin

In Albania a good piece of property of some individuals has an dubious origin. Although there is a law on declaration of assets and its origin that its implementation is not yet at the levels that it has in other countries, especially Western ones. Given that there is a broad caste of individuals who have their property placed in informal street, this latest investment through the help of a financial planner is somewhat difficult and consequently a part of individuals who should seek help from planning professionals do not do so for fear of discovering the source of their income.

If we refer to the case of the Albanian economy has to recognize that the presence of the informal economy is at a worrying level. Estimates show that a significant proportion of economic activity is ' secret ' or unregistered. They vary from INSTAT (about 20 percent of GDP), the one published in the (

Financial Times, World Report), where the latter turns out to be about 30 percent of GDP. Albania, compared with countries in the region, even with neighbors like Bulgaria, Romania, Macedonia and Moldova lies below in terms of reducing the informal aspect of the economy. Along with the booming of cash economy.

The lack of developed financial institutions, scholarships or other secondary markets and large companies and shareholders in our country.

Financial intermediation or financial Institutions stimulates economic activity in general plan according P. Drejk, and this happens in three ways:

1. Financial intermediation increased savings and investments here that are financed by them and the basis of economic growth. This stimulates the growth of savings and keeping them in a form that is more profitable for both savers and borrowers of funds from mediation.
2. Financial intermediation mechanism improves distributor(allocative) in the movement of cash in the economy.
3. The more developed financial intermediation is more savings can be drawn from outside the country.

The need for financial institutions arises because direct financing information and transaction cost and is possible only for large firms. Financial intermediaries are specialized in certain operations as for example bank have lower costs and transaction information for their clients. Financial intermediaries are knowledgeable, had experience with large and deep knowledge in the area where the operation works. Even why this scholarship is a great help in achieving financial planners profession we can say that its development is not at the levels of western countries.

5. Suggestions

From the above conclusions is seen that the financial planning is barely known in Albania, especially in Elbasan. Just as EU conventions suggests the importance of Financial Planning and financial education would be much more valuable for our country that these initiatives to be taken by the central government not only from the local. According to EU individuals should see Financial Planning as a public good that brings positive externalities for society. Financially educated individuals are able to make sound financial plans, which in the early stages of their careers.

- a) The financial education should be available and actively continued in all stages of life, financial education should be available to enable young people as well as retirees to address the financial challenges associated with real events in their lives.
- b) Can therefore be developed and programs that can help the understanding of the most important moments in this field.
- c) Financial education programs should be tailored to the specific needs of the customer and must be addressed those entering for the first time in the world of work, the unemployed, those who want to start a family, young people, people in debt, etc. .
- d) In this context, national and local authorities should consider ways in which economic and financial education be included in school curricula.
- e) Through the creation and further specialization of professionals in this field.
- f) Developing an cycles of lectures on Family Financial Planning would be a first step which can be extended further with the creation of specialization in advanced stages of study.

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