International Journal of Engineering & Technology, 7 (4.28) (2018) 172-175

International Journal of Engineering & Technology

Website: www.sciencepubco.com/index.php/IJET

Research paper



Why Preparing An Emergency Fund Is Matter To Young Adults?

Nur Shuhada Kamarudin [1]*, Nur Ainna Ramli [1], Ahmad Fadly Nurullah Rasedee [1]

[1], Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia71800 Nilai, Negeri Sembilan,
**Corresponding author E-mail: drnurshuhada@usim.edu.my*

Abstract

Up to now, far too little attention has been paid to emergency fund preparation among young adults. This study provides an exciting opportunity to advance our understanding of why young adults prepare their emergency fund and what their perspective on that. Open-ended survey was used to answer the research objective. Interestingly, the purpose of emergency fund allocation among young in this study was not only to cover their necessity unexpected expenses and medical bills, but to help them to travel and paid for their leisure activities. Successful in preparing for emergency fund was found related to wise money management plan. The present study provides additional evidence with respect to study emergency fund from a behavioural perspective.

Keywords: *Emergency Fund; Young adults; Personal Financial Planning.*

1. Introduction

Preparing for emergency events by forming an emergency fund could be suggested to involve financial behaviour. Johnson & Widdows (1985) proposes that an emergency fund is purposely to allow an individual to survive during an emergency without affecting their normal standard of living. The authors further argue that individuals need to put aside some assets or make some investments specifically for this purpose. Supporting this, Huston & Chang (1997) also argued that it is important to prepare for future unforeseen emergencies.

Studies examining individual cohorts in preparing for emergency fund, especially among young adults, have been discussed since 1985. This research will focus on the young adults, ages of 18 to 30 years old. The first study by Johnson and Widdows (1985) has been suggested to increase the awareness of this group, since this group shows inadequate level of emergency fund holding. Most of the later studies on the theme of emergency funds addressed a similar issue. It has been argued that a complete understanding of the emergency fund issue could be achieved if it is studied from the behavioural perspective (Joo & Grable, 2006). However, previous studies are very much lacking in this aspect. Perhaps, this is due to limited data sources (Joo & Grable, 2006). Previous studies of emergency fund have not dealt with what young adults think about preparing for their future emergency expense and why they did have saved for their future emergency expenses. This paper, then, will address this issue.

2. Literature Review

Up to now, the research on savings behavior has tended to focus on the general saving motive rather than saving for emergency purpose alone. In relation, individuals could have more than one saving motive, such as retirement, leisure or education (Canova, Rattazzi & Webley, 2005; Fisher & Montalto, 2010), savings for major purchases (Xiao & Fan, 2002), or precautionary saving motives (Keynes, 1937); and it could be argued that not all individuals have mutually exclusive reasons for saving (Dynan, Skinner & Zeldes, 2004).

Fisher and Montalto (2010) pointed out that there is a need to examine the theoretical and empirical models that could best explain the saving behaviours. Factors such as individual attitude, subjective norms and perceived behavioural controls, alongside inherent propensity to plan have been reported to have some influence on an individual's financial behaviour. However, the effect of these factors on saving, consumption and investment behaviours for an emergency remains unclear among young adults. Previous studies on the theme of emergency fund have mainly adopted life-cycle hypotheses and the precautionary saving motive theories. Some factors, such as income and age, are becoming more important in determining the adequacy of emergency fund holding. As such, the behavioural perspective requires more focus in order to understand the actual financial behaviours (Xiao, Ford & Kim, 2011).

Given the Malaysian context of this study, other related behavioural factors can be considered, including culture and individual preference (Sami et al., 2016

0. It can be argued that institutional factors have shaped financial behaviours in this context. For instance, it has been shown that individuals in China have more savings for emergencies than those in America, when there is an uncertainty in the level of future income (Yao, Wang, Weagley & Liao, 2011). This is because of there is a lack of social insurance or social welfare programmes offered in China; whereas individuals are provided with unemployment insurance and various welfare programmes in the U.S. This finding indicates that the institutional setting of a country can drive financial behaviour. Therefore, this research focus on under-

Copyright © 2018 Authors. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

standing the reason of emergency fund formation behavior among young adults.

Table 1: Participants Details in the Survey Interview

Participant No	Gender	Age Category	Level of Education	Job	Dependency on monthly expenses
P1	Male	22-25	Degree	Student	Independent
P2	Female	18-21	Degree	Student	Dependent
P3	Male	18-21	Degree	Student	Dependent
P4	Male	18-21	Degree	Student	Independent
P5	Male	22-25	Degree	Student	Dependent
P6	Male	26-30	Degree	Part-time student/full-time worker	Independent
P7	Male	18-21	Degree	Student	Dependent
P8	Female	18-21	Degree	Student	Dependent
P9	Female	18-21	Diploma/ certificate	Student	Independent
P10	Female	26-30	Postgraduate	Part-time student/full-time worker	Dependent

3. Methodology/Materials

This study was conducted in the form of an open-ended survey. The student management departments from public universities in Malaysia were contacted to share the survey interview links in the official student portal. Ultimately, only ten students participated in the survey interview. At the end of each survey interview, participants were asked to provide some personal details that were treated confidentially. Table 1 shows the participants' information. The above illustrates that the participants were almost equally balanced in terms of gender: 40% were female and 60% were male. Most of participants (80%) were studying at degree level and were between 18 and 21 years old. The fact that this research only counted those that had an emergency fund, shows that individuals who were either dependent or independent of monthly expenses were able to perform an emergency fund. Therefore, the participants were asked if they are independent or dependent in term of their monthly expenses. Dependent here define as that the participant's monthly expenses are sponsored by their family/friends or both.

4. Results and Findings

This Paper focused on behavioural action that contribute to emergency fund formation behaviour. The question of why do young adults prepare for emergency fund or for future emergencies will discuss in two main findings: 1) The perspective of among young adults and 2) Factors Contributing to emergency fund formation behaviour. The conclusions on these themes are drawn from the open-ended survey interview results.

4.1. Emergency Expenses: Perspective of Young Adults

The emergency event in this paper is accordance with the extant literature. This defines an emergency event as sudden unemployment, payments of medical bills or a shortage of money or income to cover other unexpected events (Bi & Montalto, 2004; Johnson & Widdows, 1985). However, this definition can be seen as failing to demonstrate an emergency situation that pertains to young

adults. Therefore, it is interesting to first explore the emergency situations from the young adult's perspective; that may place the situations at a different priority to other age groups.

Table 2: Perspective of Emergency Fund Among Young Adults

Responses	Keywords
P1: (Q1) *"Accident…."* (Q2) *"help me to manage my money properly"*	Accident
P2: (Q1) *"1. Charity programmes 2. Tournaments"* (Q2) *"it is where we need cash during emergency, such as for medical or help someone who is needy"*	Medical, Charity
P3: (Q1) *"Joint as a facilitator at consultant training…"* (Q2) *"to cover our expenses for medical"*	Job, Medical
P4: (Q1) *"Ceremony of someone death, education (student life in university)…."* (Q2) *"to save others life, make someone smile at their face"*	Death, Education, Charity
P5: (Q1)*"reunion or gathering"* (Q2)*"prepare for unexpected expenses"*	Leisure, Unexpected
P6: (Q1) *"Car maintenance, house maintenance, unexpected bills and tolls, fuels for car."* (Q2) *"In my case, emergency expenses mean medical ….. Especially for my wife to deliver baby. Emergency happen when unexpected event happen like car breakdown/need some maintenance (tyre punctured-need for replacement which cause hundreds RM)."*	Maintenance, Travel, Bills, Medical
P7: (Q1) *"emergency… such as sick"* (Q2) *" prepare budget for any case of emergency"*	Medical, Budgeting unexpected
P8: (Q1) *"1.charity events 2.university events such as clubs and society"* (Q2) *"we can use… when there is any emergency.. ,such medical problem"*	Charity, Leisure, Medical
P9: (Q1) "canteen day, food bazaar, fair,…" (Q2) *"we save some money for our future"*	Leisure, Saving
P10: (Q1)*"1.Urgency operation (children or myself) 2. Parents operations or emergency hospitalization 3. House on fire 4. Robbing 5. Loosing cars (need new cars) 6. Friends or Family need some money for education 7. Urgent outstation 8. Sudden family member or relatives pass-away"* (Q2) *"somebody need money (want to borrow), urgent holiday/vacation (need to go overseas meeting, living expenses after get slash from job, we have big family."*	Medical, Unexpected accidents, Education, Death, Charity, Travel, Unemployed (job loss)

From the survey, interviewed participants were asked two separate questions on the theme of defining an emergency situation. The following two open-ended questions were asked to participants: Q1. What events do you think may require you to access some quick cash? Q2. What do you understand by preparing for emergency expenses? As this indicates, there are various factors that define an emergency situation from the perspective of a young adult. Table 2 shows the participant's answers. What proves interesting is that emergency events in this context can also include charity and leisure expenses, as mentioned by P5, P8 and P9:

P5: (Q1) "*Reunion or gathering"*
P8: (Q1)*"1.charity events 2.university events such as clubs and society"*

P9: (Q1) "*canteen day, food bazaar, fair,…"*

The finding on leisure expenses is consistent with Heckman, Lim & Montalto (2014), who argued that one of the biggest financial stresses among young is when they do not have enough money to participate in the same activities as their peers. Equally, based on the responses of P2, P4, P8 and P10, there is a need to prepare some money in order to help others who need money or who might need to borrow from them.

P2: (Q1) *"1. Charity programmes 2. Tournaments,* (Q2) *it is where we need cash during emergency, such as for medical or help someone who is needy"*
P4: (Q2) "*to save others life, make someone smile at their face"*
P8: (Q1) "*1.charity events 2.university events such as clubs and society"*

The results also found that most participants (six out of ten) stated that the reason they had emergency funds was to help them cover their medical expenses. For instance, P3 and P6 stated:

P3: (Q2) *"to cover our expenses for medical"*
P6: (Q2) *"In my case, emergency expenses mean medical ….. Especially for my wife to deliver baby"*

This finding is unsurprising given that better health services are provided by the private sector, in which the cost of the service usually outstrips that of the public sector (Manaf, 2012). This is because public healthcare service in Malaysia is still chargeable. For example, for Malaysian citizens, a sum of RM30.00 (£5) is charged for medical or surgical cases (gynaecology) and a sum of RM15.00 (£3) is charged per treatment (Ministry of Health, Malaysia, 2013). This amount may increase according to the treatments. Not all individuals are able to get exemption on the service charged. This indicates that individuals are still required to pay an amount in order to access public health service. On a related note, issues such as shortage of staff in charge and overcrowded wards mean that there tends to be a long waiting list for public health (Manaf, 2012). This prompts access to private healthcare and also the provision of emergency fund.

Although individuals may choose private health services, they are more financially prepared. This is related to the new amount of medical charges from private healthcare. The increase of medical bills in the private healthcare is found in Section 106(2) of the Private Healthcare Facilities and Services Act. This Act also grants the Health Minister the power to amend prices (Malaysia Government, 2013). The price hike has been raised being between 14% and 18% (Manaf, 2012), placing further emphasis on the need for emergency fund.

4.2. Factors Contributing to Emergency Fund Formation Behaviour

Participants were asked about their perspective on emergency fund formation behaviour. The question is: what do you think are the advantages of preparing for future emergency needs? Most participants as in Table 3 indicated that among the main benefits of possessing an emergency fund is that it reduces stress and helps them to avoid future problems:

P5: *"We will have enough money when needed and will not cause trouble to others"*
P6: *"Advantages will help you to not stress during that critical event. And it will help you and your family. It is part of your financial security. Need savings and asset."*

Table 3: Factors Contributing to Emergency Fund Formation Behaviour

Responses	Keywords
P1: *"help me to ease my financial burden"*	Less financial burden
P2: *"1. No stress, 2. Healthy lifestyle"*	Avoid stress and contribute to healthier life
P3: *"can cover our financial during emergency"*	Manage the financial need during emergency
P4: *"can be prepare at all time, and no need to beg/rely on the others"*	Be prepared and independent during emergency
P5: *"we will have enough money when needed and will not cause trouble to others"*	Independent during emergency
P6: *"Advantages will help you to not stress during that critical event. And it will help you and your family. It is part of your financial security. need savings and asset"*	Avoid stress if there emergency
P7: *"The advantage is it motivates to save more and more money…."*	Motivation to save more money
P8: *"1. Less stress 2.Reduce our headache"*	Reduce stress
P9: *"we will not panic when facing the problem when we need to use money"*	Be prepared for emergency
P10: *"1. Helps my family (sisters, mom…) 2. Help to prepare for future family development (try to avoid problems if Allah Bless) "*	Avoid problem in future

A small number of participants suggest that having an emergency fund would contribute to a better and healthier life. Thus, it could be concluded that preparing for an emergency helps to avoid and reduce the risks associated with pressure during an emergency event. The findings agreed emergency fund could contribute to more happiness and less stress. This could suggest related to their attitude of savings for emergency. As previous studies found that attitude has a directly significant contribution towards motives for general saving (Garcia et al., 2011; Soyeon Shim et al., 2012). However, Lim (2011) argues that attitude did not significantly contribute to general savings motives among Malaysian savers.

Next, participants were asked about the potential reasons contributing to the success in preparing an emergency fund. The question is: How are you able to prepare your emergency financial needs? The results in Table 4 show that most participants agree that planning and managing their money wisely helps them to allocate their emergency fund. Only one participant (P4) has suggested that help from family and friends makes him able to have an emergency fund; other reasons, including self-motivation (P8) and the understanding of priority (P9), make them able to have an emergency fund.

Table 3: Factors Contributing to Emergency Fund Formation Behaviour

Responses	Keywords
P1: *"has to project the needs for the future or in other words, has own plan "*	Planning
P2: *"it can be archive if plan…"*	Planning
P3: *"depends on how you manage your money"*	Manage/ planning
P4: *"support from family and friends"*	Family and friends
P5: *"Success to prepare when there is an emergency that need us to spend some money, then the money is there for us.. "*	planning
P6: *"It depends on how I spend my income and manage the financial and control them. Save 5% from income, reduce 1% expenses or increase 1% income.."*	Manage/planning
P7: *"make sure I have discipline towards saving the money in the financial instrument"*	Planning/ discipline
P8: *"by motivating yourself"*	Motivation/intention
P9: "*we have to know what we need and what unneeded*"	Understand the priority
P10: *"make sure have more left in account before next salary… "*	Planning/consult budget

Planning for saving specifically for emergency fund may related to the money management. Propensity to plan was found to increase an individual's wealth (Ameriks, Caplin & Leahy, 2002) and to make young adults able diversify their portfolio (Fessler, Schürz, Wagner & Weber, 2007). Therefore, this paper argued

that young adults able to allocate their emergency fund if they manage and plan for their money.

5. Conclusion

All in all, interesting is that emergency events in young adults context can also include charity and leisure. Most of them also suggest that they need emergency fund to help them to cover their medical bill. The findings from survey interview analysis also suggested that the main reason to have an emergency fund was to have a less stressful and happier life. The ability to allocate an emergency fund depended mainly on planning and managing resources or money. Very little evidence indicates that the effect of other factors, such as family, friends, income or government policies, contributed to the success of emergency fund formation behaviour among young adults. In general, this research provides a useful insight into the personal financial planning area and future emergency fund studies.

The implications of this research are pertinent to several parties. The implications to the financial market in Malaysia, for example, banks and financial institutions could possibly introduce some short-term emergency savings programmes to increase the emergency saving awareness among young student adults. Such programmes (i.e. MyPath Savings) were successful in the U.S. in helping this cohort to increase their interest, ability and desire to have savings, despite possessing limited income (Loke et al., 2015). In addition, it may prompt the design of other product features that also probably fit this low-income group to save for emergencies (Abbi, 2012). Instead of focusing on general wide saving motives, specialisation in emergency preparation could reduce the large total amount that usually needs to be allocated, making it seem more possible and practical for young student adults to fulfil. Additionally, future studies could be done across different sampling backgrounds. The first-generation college students mainly come from low-income families and are financially independent, which were found to better understand the importance of emergency savings (Kabaci & Cude, 2015) and this therefore might affect their approaches to allocating an emergency fund.

Acknowledgement

This research was supported in part of Usim short term grant and “Kursi Akademik Yayasan Tun Islmail Mohamed Ali”.

References

[1] Bi L & Montalto C (2004), Emergency funds and alternative forms of saving. Financial Services Review, 13(2), 93–110.

[2] Government, MF (2013), Private Healthcare Facilities and Services (Private Hospitals and Other Private Healthcare Facilities) (Amendment) Order 2013. Retrieved from http://www.federalgazette.agc.gov.my/outputp/pua_20131216_P.U. %28A%29 358 - PERINTAH KEMUDAHAN DAN JAGAAN KESIHATAN %28PINDAAN JADUAL KETIGA BELAS%29 2013 %28disahkan oleh kementerian%29.pdf.

[3] Haron SN, Hamida MY & Talib A (2012), Towards healthcare service quality: An understanding of the usability concept in healthcare design. Procedia - Social and Behavioral Sciences, 42, 63–73. https://doi.org/10.1016/j.sbspro.2012.04.167.

[4] Hassali MA, Alrasheedy AA, Ab Razak BA, Al-Tamimi SK, Saleem F, Ul Haq N, & Aljadhey H (2014), Assessment of general public satisfaction with public healthcare services in Kedah, Malaysia. The Australasian Medical Journal, 7(1), 35–44. https://doi.org/10.4066/AMJ.2014.1936.

[5] Heckman S, Lim H, & Montalto C (2014), Factors related to financial stress among college students. Journal of Financial Therapy, 5(1), 3. Retrieved from http://newprairiepress.org/jft/vol5/iss1/3/.

[6] Johnson D & Widdows R (1985), Emergency fund levels of households. In The Proceedings of the American Council on Consumer Interests 31th Annual Conference (pp. 235–241).

[7] Malaysia M of H (2013), Frequently Asked Questions. Retrieved from http://www.moh.gov.my/english.php/pages/view/160.

[8] Manaf NHA (2012), Inpatient satisfaction: an analysis of Malaysian public hospitals. International Journal of Public Sector Management, 25(1), 6–16. https://doi.org/10.1108/09513551211200258

[9] Manaf NHA & Nooi PS (2009), Patient satisfaction as an indicator of service quality in Malaysian public hospitals. Asian Journal on Quality, 10(1), 77–87. https://doi.org/10.1108/15982680980000628

[10] Sami, A., Jusoh, A., Mahfar, M., Qureshi, M. I., & Khan, M. M. (2016). Role of Ethical Culture in Creating Public Value. International Review of Management and Marketing, 6(4S).