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Impact of financial literacy on wealth management practices of middle-class households

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Abstract
The middle class seems to have trouble finding a balance between spending, saving, investing, and debt, this article looks at how financial literacy affects asset management for middle class families. In a world where financial market has become highly complex, it has become important to know how informed financial decisions can help in successful management of wealth. The study explores the connection between the levels of financial literacy such as finance knowledge of budgeting, saving, investments, risk diversification, and retirement planning and how efficiently middle-class families can manage wealth. Based on a structured questionnaire and on a sample of middle-income households, the study examines behavioral patterns, financial objectives and uses of the financial instruments. Findings show that having higher financial literacy is predictably positive with good welfare management practices by saving frequently, having appropriate investments, reduced dependence on high-interest debts, and a long-term wallet planning. The results indicate that although a significant number of middle-class families have the rudimentary knowledge regarding money, they still lack the ability to implement the same practically. To achieve the expectations of the middle-class in regard to financial abilities, it is necessary to implement laws and specific programs for financial education. With reasonable financial education of the households, economic sustainability and financial stability will increase, as well as the sustainability of wealth building in the long run. Policymakers and the many financial literacy initiatives that aim to include all citizens in economic growth may benefit from this study's findings.

Keyword: Financial literacy, wealth management, savings, households

1. Introduction

Financial literacy has turned out to be the basis of sound financial choices and wealth management among the middle-income families who usually struggle to balance their multiple financial priorities. Financial literacy is not only a good area to know in this ruthless economic world of inflation, volatile markets, and fluctuating employment yet a much-needed skill. Middle-income families will be specifically who most often have very limited disposable money, are susceptible to economic losses and who want to realize upward mobility of financial literacy can potentially have important implications on how they spend, save, invest and also plan their world for the future.

Financial literacy involves a broad mixture of capabilities and knowledge such as spending, debt choices, and sparing techniques, investment openings, insurance, retirement, and tax control. It enables people to take wise choices, prevent economic traps and pursue active measures to increase wealth and generate their wealthiness records. Research indicates, however, that considerable population of the middle classes is financially illiterate and unable to manage their wealth efficiently, thereby posing them to financial risks.

Low rates of savings, insufficient insurance coverage, poor use of investment opportunities and reliance on informal sources of credit are some of the common problems experienced by the middle-class households especially in non-developed economies such as India. These tendencies are usually predetermined by the fact that they have low financial literacy and do not have much contact with the system of formal financial institution. Financial literacy might help lessen the gap by empowering individuals to make better spending decisions, reduce unnecessary debt, save for emergencies, and invest in diversified portfolios. This will lead to increased financial resilience and the creation of wealth over the long run.

In addition to this, financial service digitization and growing use of online banking, mobile payment and even fintechs have made the financial scene even more challenging. These tools create incredible opportunities in the creation of wealth and convenience but have a minimal aspect of financial and digital literacy so that he/she can employ the tool comfortably and safely. Middle-class consumers without sufficient knowledge can become prey of financial scam or participate in thoughtless spending or inefficient investment decisions.

Governments, educational institutions, and financial service providers throughout the globe are launching a variety of programs and projects to raise financial literacy and awareness as more and more nations recognize the importance of this skill. Nevertheless, very little research has been done, in most areas, on whether such efforts actually influence the wealth management process of middle-class families. Getting the grasp of this connection is the basis of the development of the specific interventions that can bring the practical changes to the financial well-being.

This will investigate how financial literacy can influence the wealth management involving the middle-class households. Its aim would be to determine the extent of financial knowledge shapers on the budgeting behavior, saving and investing patterns, managing debts, and planning retirement. The study's secondary objective is to identify the most important socioeconomic and demographic factors that moderate this connection. Empirical findings of the study concerning the relationship between wealth management and financial literacy will also aid in crafting middle-class-appropriate policies and programs to promote financial education. Finally, improved economic stability and mobility for all members of society and all families may be attained via increased financial literacy.

The proposed study in this paper is to examine the correlation between being financially literate and the rise of wealth among the heads of households. Financial literacy seems to influence retirement planning and amount of total wealth positively, and this finding reflects long-term advantage of financial education provided by the authors [1]. This article refers to the subject of financial literacy of a person, the influence on this subject on the choice of portfolio and financial wellbeing in general. It has been shown that financially literate individuals have more grounds to diversify their investments or invest into various opportunities, and make informed decisions, thereby experiencing improved financial performance in general [2]. This study has only come up to point out how financial literacy can be tied together with strategic marketing and human resources towards sustainable development of wealth among households. It highlights the multilateral behavior needed to establish financial security over a long-term basis in the family [3]. The authors rely on a study on Dutch financial literacy, retirement planning and personal wealth. In the study, better financial literacy has been linked with better planning of retirement and incomes. [4]. in this comparative study, middle-aged and elderly Japanese and Americans are compared to their financial literacy levels. The significant differences in the cross-country level are seen in the findings and provide insight regarding the effect of cultures and systems on financial knowledge and behavior [5].

2. Methodology

This paper will use quantitative research design that will evaluate how financial literacy influences wealth management of the middle-income families. A structured questionnaire was used to gather primary data of few respondents that were chosen to carry out the research.

2.1 Design of Research

Through the use of a descriptive study strategy, the connection between financial literacy and wealth management was comprehended. The design assists in explaining the nature of the population and establishing trends in the financial behaviour.

2.2 Method of sampling

Purposive sampling was used to identify households living in the middle level society in different urban and semi urban regions. Households with monthly incomes between 25, 000 to 100 000 were used as inclusion criteria.

2.3 Sample Size

The study was conducted on a sample of 50 respondents, representing different age groups, occupations, and educational backgrounds within the middle-class segment.

2.4 Data Collection Method

- A three-part structured questionnaire was used to gather primary data.
- Demographic Details.
- The Quota for Financial Literacy (knowledge of budgeting, saving, investment options, etc.)
- Wealth Management Practices (budgeting, saving habits, investment behavior, retirement planning, etc.)

Questions on the questionnaire were either open-ended or used a Likert scale.

2.5 Data Analysis

We used inferential statistics like correlation and regression analysis to look for patterns in the data, and descriptive statistics like percentages and to inspect frequencies to identify trends of the relationship between financial literacy and the practices of asset management.

2.6 Limitations

The research is restricted to a particular geographic area and level of income, which may not represent all middle-class households in the country. Self-reported data may also include some level of bias.

3. Results

As a way of providing a finer comprehension of the influence of financial literacy on ways of wealth management in middle-class families, we reviewed data acquired from 50 respondents. The findings are summarized below.

3.1 The Respondents' Demographic Profile

- **Gender:** 60% male, 40% female

a) Age Group

- **20-30 years:** 24%
- **31-40 years:** 36%.

- **41-50 years:** 28%.
- **Above 50 years:** 12%.

b) Education Level
- **Undergraduate:** 34%.
- **Postgraduate:** 46%.
- **Others:** 20%.

c) Monthly Income
- **₹25,000-₹50,000:** 38%.
- **₹51,000-₹75,000:** 42%.
- **₹76,000-₹1,00,000:** 20%.

3.2 Financial Literacy Level
Budgeting, savings, interest rates, inflation, and investment choices were some of the topics covered in the survey. The responses were scored and categorized:
- **High Financial Literacy:** 18%.
- **Moderate Financial Literacy:** 56%.
- **Low Financial Literacy:** 26%.

3.3. Wealth Management Practices
Key findings on financial behavior

a) **Budgeting:** 72% reported preparing a monthly household budget

b) **Saving Habits:** 64% saved a portion of their monthly income regularly

c) Investment Practices
- 40% invested in fixed deposits.
- 24% in mutual funds.
- 18% in stock market.
- 18% did not invest at all.

a) **Insurance Awareness:** 66% had life or health insurance.

b) **Retirement Planning:** Only 30% had a clear retirement plan in place.

3.4 Descriptive Statistics
The descriptive statistics summarize the key variables.

Table1: Descriptive Statistics

Variable	Mean	Std. Deviation	Min	Max
Financial Literacy Score	3.42	0.76	2.1	4.9
Wealth Management Score	3.25	0.69	2.0	4.8
Monthly Income (in ₹)	55,600	14,300	25,000	98,000

Note: Scores are based on Likert scale responses (1 to 5).

3.5 Reliability Analysis
The reliability of the questionnaire was checked by calculating Cronbach's Alpha

Table2: Cronbach's Alpha

Scale	Cronbach's Alpha
Financial Literacy	0.812
Wealth Management Practices	0.786

Both scales showed acceptable reliability (> 0.7).

3.6 Correlation Analysis
We used Pearson's correlation to see how strongly financial knowledge correlates with asset management strategies.

Table 3: Correlation Analysis

Variables	r	Sig. (2-tailed)
Financial Literacy & Wealth Management	0.681	0.000 (p<0.01)

Better money management techniques are correlated with higher levels of financial literacy, indicating a substantial positive link.

3.7 Regression Analysis
Financial literacy was used as an independent variable and wealth management techniques as a dependent variable in a simple linear regression analysis.

Model Summary

Table 4: Regression analysis

R	R^2	Adjusted R^2	Std. Error
0.681	0.464	0.452	0.509

ANOVA Table

Table 4: Shows ANOVA Table

Model	F	Sig.
Regression	41.285	0.000 (p<0.01)

Coefficients Table

Table 5: Coefficients Table

Model	Unstandardized B	Std. Error	Beta	T	Sig.
(Constant)	1.125	0.312	-	3.605	0.001
Financial Literacy	0.620	0.097	0.681	6.425	0.000

According to the regression findings, financial literacy is the robust predictor of the wealth management plans. An improvement of 0.62 points in wealth management is associated with an improvement of 1 point in financial literacy.

Conclusion: Middle-class families' wealth management practices are positively and statistically affected by financial literacy, according to the SPSS study. Consequently, a strategy for improved financial planning and long-term stability might be an increase in financial literacy.

4. Discussion

The major goal of this research was to find out how middle-class families handle their money when its members are financially literate. The analysis of responses using SPSS software reveals several important findings that align with existing literature and offer new insights into household financial behavior in the Indian middle-class segment.

The results of the descriptive statistics show that the respondents had a modest level of knowledge about financial ideas and practices, as shown by their mean scores of financial literacy and wealth management. Nonetheless, there is a variation between the two scores and this suggests that there are households which are yet to acquire much needed knowledge that would help them in wealth planning.

Those who are well-versed in personal finance tend to have a more level-headed approach to managing their money, that is confirmed with the high positive correlation of the two variables (r=0.681). It is with this in mind that it becomes apparent that financial literacy is very crucial in the process of making better financial decisions, as earlier predicted by Behrman *et al.* (2012) [1] and Lusardi & Mitchell (2011) [4].

The regression analysis reveals that financial literacy plays an important role in wealth management behavior (R^2=0.464, p<0.01). Therefore, financial literacy is able to explain the greatest part of the difference in the prevalence of wealth management practice almost 46 percent. Financial literacy is tightly connected either with financial behavior and financial behavior shaping, which implies that it is both significant to the financial behavior and to the financial behavior shaping. This finding supports the significance of specific financial education courses that could particularly be needed by households that belong to lower and middle-income families that are more susceptible to their financial insecurity caused by ineffective management of money.

Furthermore, even though most of the respondents were cognizant about budgeting and saving, a comparatively a smaller number of them invested in more complicated ones such as mutual funds or stocks. This indicates that there exists a distance between the financial knowledge and effective application, and this could be because of perceived risk, distrust or the barriers of accessing financial services. Also, significantly low levels of retirement planning were reported, with 30 per cent of the respondents claiming to have a structured retirement plan, a possible policy intervention area and financial counselling.

The findings have also raised concerns about the over-reliance on fixed deposits and other conventional saving methods and the under-utilization of diversified portfolios. Greater wealth and security for middle-class families may be achieved via raising financial literacy levels across the board, from the most fundamental skill of saving to more advanced concepts like risk diversification, insurance, and long-term planning.

5. Conclusion

Financial literacy has proved to be an essential element in ensuring good personal financial management as well as sustained economic prosperity particularly to middle-income families. The current research has tried to analyze the influence of financial literacy in the behaviors of wealth management among participants in the middle-income bracket. This research offers a mountain of empirical evidence linking financial literacy to wealth management habits, based on the results of a primary data analysis of fifty respondents using SPSS. The evidence is positive and very significant.

Findings of the investigation speak clearly in favor of the importance of middle-class households being highly financially literate in regards to their willingness to commit to a structured financial activity of maintaining monthly budget, regular savings, investment to a number of financial products, purchase of life and health insurances, and opening up retirement plans. Such behaviours are also important to guarantee the short-term financial health but also the long-term economic prosperity and wealth creation.

Descriptive statistics showed that although a good number of respondents had moderate financial literacy, the proportion which had a gap in knowledge of complex financial products and how to manage risk was also high. To exemplify, even though most of them recorded habits of saving and budgeting, it is evident that fewer people felt comfortable enough to invest in something tangible including a mutual fund or the stock market. This points at a general trend in emerging economies whereby literacy over finance may not lead to an active financial involvement as risks, lack of trust, and easy access to valid financial counsel may act as obstacles.

The correlation result provided a high positive relation between financial literacy and wealth management practices (r=0.681), meaning that those who are financially literate make wiser and more responsible decisions concerning managing finances. This finding was also supported through regression analysis as financial literacy was able to explain 46 percent (R_2=0.464) of the variation in the behavior managing wealth. This high percentage indicates that an attempt to increase the criteria of financial literacy among the population through the official education process may have a great influence on the capability of the family to manage their own money.

The other significant knowledge collected during the research is the fact that retirement planning remains a relatively low activity although its essence is known. The respondents were only 30 percent with structured retirement plan. This might be an indication of a cultural aspect in Indian families to focus on short-term financial demands or rely on the family when reaching old age. But with family relationships shifting and living costs rising, it's more important than ever to make retirement planning a required part of financial literacy classes.

In order to avoid the gap between knowledge and action in the personal finance arena, the study reveals requirements of specific educational and legislative programs. Educators, the government and the financial sector ought to work together to address the needs of the middle population through the development of a well-developed, convenient, and sustainable financial literacy programming. The programs must not only give theoretical information but they must also concentrate on practical usage of information like the utilization of financial planning tools, the comparison of the investment alternatives, and the idea of financial risks.

In addition, the results indicate that greater significance should be attached to financial education in the mainstream school system and work place education. Financial literacy has to be taught early in life and reinforced throughout adult years especially when people are about to go through some of the biggest financial transitions such as, employment, marriage, home ownership, and retirement.

Ultimately, the study has established that financial literacy is an important element of competent and successful asset management for middle-income families. Providing people with appropriate financial literacy and financial instruments would positively affect their capacity to make good judgments, decrease economic fragility, and accomplish long-term financial planning. The outcomes of the studies are promising, however, in the future larger and more diverse samples are required to come to a more profound understanding of behavioural and socio-economic mediators of this relationship. But the truth is that improving one's financial literacy is good for one's own well-being and is necessary to the development and economy of society.

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