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**FACTORS AFFECTING OLDER PEOPLE'S FINANCIAL
DECISIONS AND THEIR THE WELL-BEING**

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Abstract

In this article will be examined factors which impact on financial decisions of older people in later life. This topic raises important theoretical and empirical questions: How financial decisions of older people can influence on the welfare and overall well-being? What kind of financial behavior strategies adhere to the older people? Quantitative and qualitative evidence on financial perspectives shall be compared from Tomsk region and Russia. We also compared the data obtained during the sociological survey in the Tomsk region. The authors identify the results of the influence factors. For instance, uncertainty in the reliability of any kind of saving investment, low awareness of existing savings alternatives, and lack of habits of personal financial planning, the protection of the rights of Russian consumers in the financial services market, unfair practices of financial institutions. Consequently clarity, completeness and accuracy of disclosed information for consumers are necessary conditions for effective and stable operation of the financial system. The authors identified contradictions in the evaluation of the main parameters of quality of life and financial security of older people, both from the state and from the standpoint of individuals were revealed. Therefore, the authors propose to improve the mechanism which reduces the negative impact of factors on financial decisions of older people in later life and influence on the well-being. To do this, the authors propose the instruments. It will affect the loyalty of older people to financial institutions

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Keywords: Financial decision, later life, internal and external factors, well-being.



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1. Introduction

Sustainable socio-economic development of the region and countries that increase the quality of life of the population depends on many factors. Including financial behavior is an essential determinant of material well-being of the population. In modern society the well-being issues extend beyond science and be one of the most important and promising attractive to both individuals and society. Social and economic well-being is a key success factor in the society. Subjective self-assessment of well-being of older people depending on a variety of objective and subjective factors (welfare, physical and mental health, employment, social and marital status, etc.). For this reason, income is a moderately strong predictor of deliberate assessment of quality of life. Quality of life' is a concept that used as a "measure" of well-being. Older people inform that their own health, social activity, family relationships, standard of living are important aspects of their lives (Vincent et al., 2006). In understanding quality of life an important difference can be made between the objective measures of quality of life on the one hand and subjective accounts on the other. Thus, high income, its positive dynamics and subjective income satisfaction is an important sign of a high level of well-being.

Material wellbeing, firstly, income, is an important evidence of life perception and satisfaction (Verbic, Stanovnik, 2006; Ferrer-i-Carbonell, 2005). The correlation between income and well-being ratio is important for older people, which percentage is stably increasing in developed and in developing countries including Russia. The studies are usually conducted at the national level, but some data is collected on a regional basis (OECD Regional Well-Being: A User's Guide, 2014). In Russian Federation regional dimension is very important due to significant differences in living standards of older people in different regions of the country (Bekmurzaev and Shamilev, 2014).

Material and financial resources are a key element of well-being in later life. They include issues of income maintenance and measures of economic well-being. Recent research on well-being suggests that specific behaviors contribute to subjective well-being, which in turn contributes to an individual's overall satisfaction with life (Victor, 2005). The study considers characteristics of a man's financial behavior resulting from demographic changes and transformation of the market of financial services.

2. Problem Statement

Man's financial situation is greatly conditioned by his financial behavior. People's financial behavior is one of the most important indicators of social and economic well-being (Filippova et al., 2016). It is directly linked to investment activities and redistribution of monetary resources and is exhibited in different types of financial activity: consumption, savings, insurance, credit financing, and profit accumulation (including as it relates to pension formation). When studying financial behavior, special attention is paid to rationality when making financial decisions, value orientation of the individuals, risks and guarantees financial security, as well as the level of confidence in the government (Boretsky, Egorova, & Cherdanceva, 2017, Chicherina et al, 2017) and financial institutions. Man's financial behavior, in its turn, is influenced, on the one hand, by parameter variations of the market of financial services: expanding the assortment of financial products, increased number of organizations offering them (Kashapova et al., 2017), complicated consumption of financial products due to

implementation of informational technologies. It allowed keeping down the costs of financial products implementation, though, complicated the process of their consumption for those who do not have technical expertise and consider information technologies to be too complex (e.g., retirees). Meanwhile, combative advertising of financial services boosts consumption of financial products which might be of no use to people (Surkin, 2009).

On the other hand, man's financial behavior is influenced by socioeconomic and demographic changes: ageing of population; increase of personal disposable income of population, which expands opportunities for consuming financial services; increase of dependency ratio. Tomsk region also experiences an increase in the dependency ratio measuring the burden of retirees on working-age population. Increasing population pressures accompanied by an increase in the degree of personal responsibility of the subject for their retirement savings: the state shifts the costs of decision-making in the choice of pension plans, and, accordingly, the related risks on the individual.

3. Research Questions

The main questions this study addressed impact of objective and subjective factors on financial decisions of older people in later life and influence on the well-being.

4. Purpose of the Study

The purpose of this study is to determine the factors influencing the behavior of people in later life. Man's well-being is considered in terms of four key domains: material wealth, social environment, education and employment, physical and psychological well-being (man's health).

5. Research Methods

Cost planning is the basis of financial security at any age, especially at pension qualification age, because after retiring man's income usually reduces. The main source of income of the older people is a pension. The analysis shows that the current pension system in Russia at the level of regions of Russia can be characterized as egalitarian. Basic indicators of pension provision in the Russian Federation are shown in Table 1. It should be noted that pensions account for only one third of the average salary.

Table 01. Key indicators of pension provision in the Russian Federation, 2010-2016

Indicator/Year	2010	2011	2012	2013	2014	2015	2016
The number of employed in the economy per pensioner, persons	1.68	1.61	1.60	1.58	1.56	1.54	...
The average size of pensions, rubles	7476.3	8202.9	9040.5	9917.5	10786.0	11986.0	12391,1
The subsistence minimum of a	4521	5032	5123	5998	6617	7965	8081

pensioner, rubles							
The ratio of the average size of pensions with, per cent:							
the subsistence minimum of pensioner	165.4	163.0	176.5	165.4	163.0	150.5	153.3
the average salary	35.7	35.1	33.9	33.3	33.2	35.3	33.7

Source: GKS, 2017

Though the average granted pension in Tomsk region has increased in recent years (in 2015 – 13 242 rubles as compared to 8304.3 rubles in 2010), it amounts to only 39 % of the average gross payroll (Table 2). Therefore, senior citizens have to save part of their income for a rainy day, practicing self-denial (Tomskstat, 2016).

Table 02. The ratio of the average pensions with the subsistence minimum and salary in the Tomsk region, per cent, 2010-2015

Indicator/Year	2010	2011	2012	2013	2014	2015
The average size of pensions, rubles	8304.3	9051.6	10024.1	10981.9	11930.0	13242.0
The ratio of the average pensions with the subsistence minimum of pensioner	170.4	174.4	178.6	185.4	178.6	159
The ratio of the average pensions with the average salary	28.5	38.1	38.2	39.3	39.9	38.9

Source: Tomskstat, 2016

Among the regions of Siberian Federal district Tomsk region by the average value of pensions is in the first place, the absolute size of the pension and the dynamics of its growth are higher than the average for the district (Tomskstat, 2016). The study of retirement income based on panel data of Tomsk region shows a statistically significant difference in average income levels across the territory (Ryzhkova et al., 2016). In particular, significantly higher amount of retirement payments in the territories where large volume of industrial production was located. At the same time, analysis of incomes and pensions on rayons' level does not show urban / rural differences, which are observed at the level of Russia (Ryzhkova et al., 2016). The differences in income between the urban and rural population in the Tomsk region may influence factors such as salary level, mining of oil and gas, northern regional coefficient and wage rise for arduous working conditions.

To maintain the same consumption level many retirees keep working after retiring. For instance, about 40 % of retirees in Tomsk region keep working denial (Tomskstat, 2016), as confirmed by the sociological polls data held in Tomsk region under the project plan. So, 53 % of respondents would not have worked if they had enough money; 33 % of respondents continue to operate, including 84 % - in order to obtain additional income and 42 % of respondents rated their financial situation as “all money goes to food” (survey "The problems of the older generation of people" (Tomsk region, 2015). The poll

found that the primary source of revenue for senior citizens in Tomsk region in the order of decreasing is: pension, salary and social securities. Retirees could get an extra revenue in the form of savings (bank deposits), rental income from renting out real properties, supplementary pension from non-state pension funds (Vershkova et al., 2016). The above results have some limitations. Though pension is a significant part of cash income of a pensioner, but it does not fully reflect the available sources of their income. Many of the options for the purchase of consumer assets are not perceived by pensioners as an income, e. g. the food planted in their garden or subsidiary farm.

Researchers of financial behavior (Belehova, 2015) is also noted that the important factors in financial behavior, influencing motives savings: forms of accumulation, the choice of a credit institution, and payment discipline, financial strategies are gender differences, age, level of education. So, the average monthly pension for men in Russia is slightly higher than in women (GKS, 2017).

Such an attempt of segmentation of consumers by types of financial behavior aimed at the development of financial institutions special programs and ways to attract specific population groups with similar set of priorities for implementation of the financial behaviour.

6. Findings

Older adults face with many situations that need financial decisions. Understanding how older people make financial decisions is very important for social policy (Filer, Kenny and Morton, 1993). But the cognition declines with age could influence on the older people's' decision-making ability and their well-being. In the investigation of Agarwal et al. (2009, pp. 19) was proved that "financial mistakes follow a U-shaped pattern, with the cost-minimizing performance occurring around age 53".

Every man can make mistakes when taking decisions, he cannot allow for all possibilities, weigh expenses and income in all situations. His psychological and psycho-physical characteristics do not always correspond to the level of complexity of the tasks and problems under study. Mistakes, considered to be a human element, are usually unintentional. A man does wrong actions regarding them as correct or the most suitable.

Considering psychological characteristics of a man's behavior, it is difficult for a man to meet the requirements of homo economicus. In economic reality there are hardly any situations, when all participants on the market have exact information about the subject of transaction. Man's cognitive abilities are limited, moreover, his reasoning is subject to systematic bias.

People often make decisions on the basis of a working rule, not always logical one. They can make mistakes or have biases of the same kind. It can explain why most people react to the same signal (e.g., analytic's opinion) or have similar biases. Generally speaking, cognitive distortions, as a whole, can significantly influence a man's behavior in case of "social contagion" with ideas and emotions (sparked euphoria or fear), resulting in herding mentality or group thinking. These mistakes can lead to making inefficient decisions, influence prices and profit on the market. On the market, in this case, there can emerge players trying to gain from inefficiency.

By contrast, Ciumara (2014) considered the internal factors and explored external factors affecting the financial decision-making of the individuals. Table 3 shows the main factors considered by the author.

Table 03. Internal and external factors influencing financial decision-making

External factors	Internal factors
Economic environment	Financial education and financial literacy
Financial system development	Age
Culture	Focus and attention on financial matters
Religion	Cognitive functioning
Stereotypes threats	Family dynamics or the choice of who makes the financial decisions
Uncertainty	Psychological factors
Access to financial advice	Gender and involvement of women in financial decisions in married couples
Demographics	The impact of health

Source: Ciumara, 2014

All these factors play an important role in the financial decision making of older people. It is worth noting that researchers consider these factors comprehensively. One of the advantages is that researchers pay much attention to the psychological characteristics of the decision-making, gender and ages differences. As it allows to more accurately identify features of decision-making by individuals. So, the educational program associated with the improvement of financial outcome. In the study Gamble et al. (2015) conducted a comparative analysis of financial literacy and decision-making ability of individuals of different ages. The findings confirm that declining cognition of older people is associated with a significant decline in financial literacy. Older people in Russia have lower self-esteem of financial literacy in relation to other age groups. This is confirmed by data obtained by the National Agency of Financial Studies (fig.1).

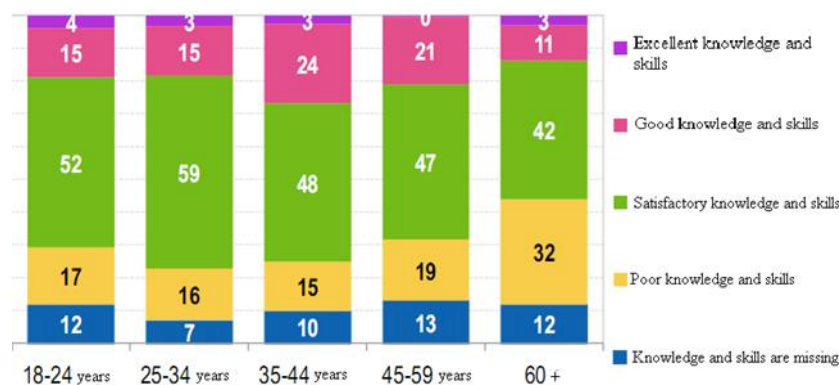


Figure 01. Self-estimation of financial literacy in different age groups

Source: NAFS, 2015

So, 32% of respondents aged 60+ rated their financial literacy as “poor knowledge and skills” in comparison to the other groups this evaluation does not exceed 20 %. The majority of older people in Russia adhere to conservative financial strategies of behavior that are time tested, and wary of any innovation in connection with the fear of losing money.

7. Conclusion

The evidence from Tomsk region showed that the dynamics of the statistical indicators of socio-economic position of older people do not fully correspond to their representations about the level and quality of life. The contradictions in the evaluation of the main parameters of quality of life and financial security of older people, both from the state and from the standpoint of individuals were revealed. The results of study and prediction made are the focus of interest not only of scientists (sociologists, economists, psychologists etc.) but also of policy makers (consultants on pension insurance, long-term strategists, officials in state social policy).

Uncertainty in the reliability of any kind of saving investment, low awareness of existing savings alternatives, and lack of habits of personal financial planning are the key problems of low financial activity. Improving the protection of the rights of Russian consumers in the financial services market, as well as improving the financial literacy of individuals is an important task to solve these problems. It should also take measures to prevent unfair practices of financial institutions. Clarity, completeness and accuracy of disclosed information for consumers are necessary conditions for effective and stable operation of the financial system.

Thus, the development of programs to enhance financial and computer literacy would be very useful for the older people. Its expand opportunities in this segment to use modern technology in the financial sector, increase the confidence of the older generation to the financial market. Such programs will be useful for those who have not yet retired. Moreover, it is worth paying attention to the development of policies that would help individuals avoid making financial mistakes.

In this regard, of particular importance is the improvement of the mechanism which reduces the negative influence of factors on financial decisions of older people in later life and influence on the well-being. It necessary to incorporate a number of instruments in this mechanism. Firstly, measures to eliminate the unfair provision of services by financial institutions. Second, educational programs to aimed at improving the financial literacy of seniors. In the aggregate the instruments will increase older people's loyalty to financial institutions.

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