



## THE FINANCIAL PRACTICES OF PROFESSIONAL SOLDIERS OF THE ARMED FORCES OF THE SLOVAK REPUBLIC IN THE AREA OF PERSONAL FINANCE MANAGEMENT

Eng. Soňa JIRÁSKOVÁ, Ph.D.

Armed Forces Academy of General Milan Rastislav Štefánik Liptovský Mikuláš

### Abstract

The article deals with the issue of the financial practices of professional soldiers in the Armed Forces of the Slovak Republic in the management of personal finances. The main aim of the author was to present information about the current state of consumer habits and behaviour of professional soldiers in the management of personal finances, *particularly* in planning finances, budgeting households, generating savings and financial reserves, the use of credit and methods for financial security in old age.

*The questionnaire surveys and controlled interviews were used to obtain data about the financial practices of professional soldiers in the survey.*

*Whereas, by conducting the survey of financial practices of professional soldiers, negative facts were also revealed, the paper introduces procedures that should help improve the situation in this area.*

**Key words:** professional soldiers, financial literacy, finance management

### Introduction

The daily life of an individual or organisation is connected and influenced by finances and the financial situation. Regardless of education, profession or social status, everybody needs money. In the context of the management of finances, it is possible to talk about financial intelligence, which refers to a person's ability to deal with financial problems in certain situations under certain conditions.

In order to successfully and efficiently manage personal finances, it is necessary to acquire the appropriate knowledge and to dispose of certain abilities and skills directly or indirectly linked with finances. To acquire a good orientation and take on administrative decisions in the financial area, a man must cover a wide range of information. The information necessary for decision-making is changing rapidly due to the growth of the financial markets and sharp development of information technologies.

In the context of the impact of the world economic crisis, the concept of raising the level of

the financial literacy of the population as a separate topic of interagency policy has been pushed forward in the European Union. In 2008, within the framework of the OECD, an international group for financial education (International Network on Financial Education – INFE) was created with the aim of intensifying financial education and support for Member States in developing national strategies on financial literacy. At the same time, the “Expert group on financial education” was established as an advisory and consultative body of the European Commission in this field.

The Slovak Republic adopted the “National standard of financial literacy (versions 1.0 and 1.1)”, which is defined as: “the ability to take advantage of financial literacy knowledge, skills and experience for the effective management of its own financial resources, in order to ensure a life-long financial security for oneself and one's home.”

An important role in increasing the level of the financial literacy of the population is played by educational institutions, including military universities.

## Theoretical definition of the issue

In the national economy, individual economic entities carry out cash operations consistently and in a large number. The following may act as economic entities<sup>1</sup>:

1. Physical entities – employees, retirees, entrepreneurs, students, etc.
2. Legal entities – private firms, state, municipal, cooperative enterprises, non-profit and contributory organisations, banks and insurance companies, funds, foundations, companies, etc.
3. The municipality, i.e., towns and villages.
4. Territorial and administrative units (districts and counties).
5. The State is represented by the State Treasury.

**Pension cash operations** are also part of cash operations in the economy, which are decisively applicable to the population, i.e. physical entities. Yet, the pension is to be understood as cash income of a work, capital, and social character. Pension cash operations are specific to a specific financial folder, which is referred to as **household finance** or **finance of the population**. These operations involve the payment of three types of pensions as follows<sup>2</sup>:

**1. Labour income**, i.e., wages and salaries, bonuses, benefits, grants, royalties, remunerations for a variety of opinions, expertise, rewards for living and working anniversaries, etc.

**2. Capital income** or interest on deposits to savings books and accounts in banks, dividends from shares, interest from bonds and certificates of deposit, profit-sharing, winning in lotteries, etc.

**3. Social pensions**, old-age, invalidity or widow's and widower's pensions, allowances for children and orphans' pensions, sickness, unemployment allowances, etc.

The term **personal finance** is understood as the sum of all income and easily cashable value of the assets of a financial consumer (an individual or a family/household), whether regular or irregular, acquired for counter value (remuneration for work) or for a certain amount of financial expense (in the form of loans, where the consumer pays interest). The revenue from personal finance can be obtained without payment, for example, by inheritance or donation.

There are a number of ways the financial consumer can acquire the income:

- Operating income from work/service-remuneration (salary).
- Income from business.
- Income from rent of a property (a house, an apartment, land).
- Revenue from capital assets (stocks, bonds, shares).
- Additional income (gift acceptance, sale of assets).
- Occasional income (summer jobs, seasonal work, crops sales, etc.)
- Income from transfer benefits (social support, family and social benefits, unemployment benefits, support for disabled people, disability pensions, etc.).

The income of households is used to meet a variety of financial needs. Therefore, there are also expenses that occur. Expenses can be divided accordingly:

**1. Fixed (Basic, regular)–expenses** on housing (rent, energy, repair), on food, on transport, vehicle expenses (fuel, repairs, maintenance, insurance), on studies, communication expenses (telephone, Internet), expenses for medicines, licence fees (radio, television), expenses on instalment loans, savings and insurance, etc.

**2. Specific expenses** — expenses on clothes, cosmetics, a visit to the theatre, cinema and other social events, hobbies, sports, visits to sporting events, etc.

**3. Unexpected (disposable, sudden) expenses** – expenses due to illness, injury, medical expenses related to the refund/repair of broken appliances, expenses related to various accidents, fires, tragedies, damaged harvest, expenses related to loss and finding a new job, etc.

Payment of cash operations of the population can be also broken down based on their nature as follows<sup>3</sup>:

**1. Cash payment for goods and services** – for shopping in the commercial network, payment for services (repair, catering, tourism, cultural institutions, etc.).

**2. Cash operations among the population and financial institutions** — pension and property taxes, duties, fees, repayment of loans, interest, insurance payments, etc.

<sup>1</sup> Beňová et al., *Financie a mena*. 2007.

<sup>2</sup> Idem.

<sup>3</sup> Beňová et al., *Financie a mena*. 2007.

**3. Other cash expenses**—purchase of securities, the payment of membership fees, donations and support foundations, associations, schools, churches, payments among the population.

Total revenue reduced by the financial payments represents comprehensive availability of income with which the consumer market for goods and services is entered, and it is decided how much of these funds will be used for consumption and savings<sup>4</sup>.

### Aim and method

Professional soldiers constitute a specific professional group with regard to the tasks in society that are met. Due to their special status, they are remunerated on the basis of Act No 281/2015 Coll. on the State service of professional soldiers. A crucial part of the income of professional soldiers is formed by their staff's salary due to a ban on business and engagement in any other gainful employment. In addition to the salary, professional soldiers receive income related to their social security, which is regulated by Act No 328/2002 Coll. on social security for policemen and soldiers, as amended later.

With regard to the topicality of the issue and the negative findings of several surveys that explored the level of financial literacy and financial practices of Slovak households in the last period, the Department of management at the Academy of Armed Forces specified the topic of the master's thesis to solve: "The financial literacy of professional soldiers as one of the requirements of the current practice".

By conducting the questionnaire surveys and controlled interviews, the partial aim of the work was to map the current state of consumer habits and behaviour of professional soldiers in the field of management of personal finances, specifically in the areas of planning, finance, budgeting, savings and financial reserves, the use of household loans and ways of securing financial security in old age.

The survey was carried out in 2015. The objects of the survey were professional soldiers operating in 6 internal organisational units (units, offices and military facilities) of the Defence Department.

<sup>4</sup> Pauhofová, I., Páleník, M. *Metodológia skúmania potrieb a správania sa starších (domácností dôchodcov) v krajinách EÚ*. 2011.

A total of 154 respondents participated in the survey questionnaire, consisting of 21% of officers, 50% of warrant officers and non-commissioned officers, and 29% consisted of a squadron. When it comes to education, 8% of respondents obtained a secondary education without a leaving certificate, 58% secondary education with a leaving certificate and 34% of the respondents were college educated. On the basis of the evaluation of the survey results, it is possible to formulate the conclusion set out in the following section of this article.

### Discussion on the results of the survey

Human needs are unlimited and changeable in the course of life. They are individual, though they are influenced by the environment, upbringing, education, and many other factors. In order to meet the needs of an individual/household nowadays and in the future in an optimal manner, it is necessary to make financial planning. Financial planning can be perceived as the planning of resources in order to ensure some resources at a time when needs change. The first step in financial planning is to record all revenues and expenses in the household and to build a personal/family budget. The following steps represent the determination of personal/family needs and goals, making them possible according to the financial possibilities and the determination to obtain the necessary resources<sup>5</sup>.

In conducting the survey<sup>6</sup>, it was found out that 31% of respondents plan the family finances on a long-term basis, 46% of respondents plan only greater expenditure and 23% of the respondents do not plan finances.

When it comes to the monitoring of income and expenses, 60% of households of professional soldiers have a precise overview of all earnings and expenses, 37% of them know precisely the amount of their income, but they only glance at expenses, and 3% of households of professional soldiers do not have an overview of the amount of earnings and expenses. In comparison with the rest of the Slovak population, there is a better situation among

<sup>5</sup> Kovalčíková, Z., Svoron, L., Strenk, R. *Základy finančnej gramotnosti*. 2011.

<sup>6</sup> Bezoušková, N. *Finančná gramotnosť profesionálnych vojakov ako jedna z požiadaviek súčasnej praxe: diplomová práca*. 2015.

professional soldiers in the area of monitoring of income and expenditure, because the survey, which was carried out by the Agency Factum Invention in 2011, proved that 28% of Slovak households do not plan or track their income and expenses. As a consequence, a household can get into financial difficulties, which is confirmed by the increase in foreclosures in practice.

The situation where monthly expenses exceed income occurs in 6% of cases, in 36% of cases this situation occurs rarely, and in 58% of military households this situation does not occur, which probably corresponds with the finding that 60% of households plan their finances accurately. Consumers who have their budget under control can manage their income better and they go into the red (overdraft) less often.

In the case of a single lack of cash, borrowing from the family (34%), or spending of savings (38%) take place; 6% of professional soldiers solve the situation of exceeded expenses by using a credit card, 18% use the overdraft of a current account, 3% of the respondents take a loan from a bank, and 1% do not solve the situation. None of the respondents mentioned the option of borrowing money from a non-banking institution, which is very positive in view of the increased risks associated with such a way of acquiring foreign financial resources.

An important area of the financial management of personal finance is the creation of an adequate financial reserve. The results of the survey, in comparison with the situation in the Slovak households (survey carried out by the Agency Focus in 2013), are given in Table 1.

Table 1

The creation of financial reserve

	Slovak households [%]	Households of professional soldiers [%]
Not stated	6	0
No financial reserve	23	14
Reserve in the amount of 1-2 monthly salaries	35	47
Reserve in the amount of 3-5 monthly salaries	21	13
Reserve in the amount of 6 and more monthly salaries	15	26

Source: own work.

Sufficient financial reserve should consist of the amount that ensures the functioning of the household for at least six months; this means that the optimum should be created in the amount of six monthly salaries. The financial reserve is used to protect the home in case of unexpected expenses in different types of situations (for example, loss of job, long-term inability to work due to an accident, unexpected expenses in the household, etc.). Production and the amount of the reserve is influenced by the household income, length of time of its creation, management of the household, the type of employment and income, etc. The results of the survey have proved that only 26% of households of professional soldiers have created the optimal amount of financial reserves and 14% of professional soldiers have not even created any financial reserve, which means a considerable risk if there is an unexpected and economically demanding household situation. This negative phenomenon should be actively dealt with in the future.

The question "How is the financial reserve created?" was answered as follows: 4% of respondents replied that they only save up in the event of unforeseen extra funds, in one lump sum, 27% of respondents save up irregularly from the monthly income if anything is left, 61% of respondents save up on a regular basis from each monthly income, and 8% of respondents do not intentionally save up. The creation of financial reserves is one of the key principles of correct money management. It has been recommended that 10% of the monthly income should be saved in order to create financial reserves. The savings are used not only to cover unexpected expenses, but also to use them for potential opportunities in the field of financial investment.

When it comes to financial security in old age, 35% of professional soldiers rely on retirement rent and, gratifyingly, 45% of them have life insurance and 20% save for retirement in the 3rd pension pillar. The field of finance planning for the period related to the termination of work activity is an important part of the financial management of an individual. Owing to development in the demographic situation, it is wrong to rely solely on the state system of security in old age. Voluntary private pension programmes/life insurance have been closed by 33% of households in the euro area, and only by 15% of households in Slovakia. In

comparison with the results of a survey undertaken by the National Bank of Slovakia, as far as the professional soldiers are concerned, the situation has been significantly better.

### Conclusion

Financial resources are necessary to meet the different needs of the household. During life, one's needs, income, expenses, and overall financial situation are changing. Managing personal finances is, therefore, a very important area of life for each individual. In order to successfully master this task, it is necessary to have some knowledge of the financial sector. Whereas, by conducting the survey of financial practices of professional soldiers, negative facts were also revealed, and it will be necessary to take certain steps in the future that would lead to an increase in the level of the financial literacy of professional soldiers and, consequently, to the improvement of their financial habits.

One of the measures is the processing of theoretical procedures and practical recommendations for improving the management of personal finances and their publication in the journal *Vojenská osveta*, with consequent discussions within socio-scientific seminars in military units of the Armed Forces.

Another option is attending the forthcoming short vocational course oriented to increasing financial literacy, which will be organised this year by the Department of Management at the Academy of the Armed Forces in Liptovský Mikuláš.

### Bibliography

- Beňová, E. a kol. 2007. *Financie a mena*. Bratislava, Iura edition, 2007. 392 s. ISBN 8080 - 780315.
- Bezoušková, N. 2015. *Finančná gramotnosť profesionálnych vojakov ako jedna z požiadaviek súčasnej praxe: diplomová práca*. Liptovský Mikuláš, Akadémia ozbrojených síl gen. M.R. Štefánika, 2015. 95 s.
- Kovalčíková, Z., Svoroch, L., Strenk, R. 2011. *Základy finančnej gramotnosti*. 1. vyd. Bratislava: Metodicko-pedagogické centrum v Bratislave, 2011. 68 s. ISBN 978-80-8052-375-6.
- Mrázová, R. 2011. *Finančná vzdelanosť - ako sa Slováci starajú o svoje financie?* [online] [cit. 2015.11.25] Dostupné na internete: <[https://tlacovespravy.files.wordpress.com/2011/10/ing-poistovna\\_prieskumfq\\_final.pdf](https://tlacovespravy.files.wordpress.com/2011/10/ing-poistovna_prieskumfq_final.pdf)>.
- Pauhofová, I., Páleník, M. 2011. *Metodológia skúmania potrieb a správania sa starších (domácností dôchodcov) v krajinách EÚ*. Bratislava, Ekonomický ústav SAV, 2011. 20 s. ISSN 1337-5598.
- Prieskum finančnej situácie a spotreby domácností eurosystému – výsledky z prvej vlny*. Bratislava, Národná banka Slovenska, 2013. 126 s. ISSN 1337-5830.
- Tlačová správa: *Prieskum finančných zvyklostí: 7% slovenských domácností žije konštantne na dlh!* [online] [cit. 2015.11.25] Dostupné na internete: <<http://www.finance.sk/spravy/finance/56844-prieskum-financnych-zvyklosti-7-slovenskych-domacnosti-zije-konstantne-na-dlh/>>.
- [www.nbs.sk](http://www.nbs.sk).
- [www.finfo.sk](http://www.finfo.sk).
- [www.partnersgroup.sk](http://www.partnersgroup.sk).