International Journal of Innovative Research in Management Studies (IJIRMS)
Volume 8, Issue 3, March 2026. pp.1-4.

BEHAVIORAL DETERMINANTS OF PERSONAL FINANCIAL PLANNING: AN EMPIRICAL STUDY

Aleena David[1], Aleena Alice Johnson[2], Felice Joy[3]

[1]*Student, Department of Commerce (Travel & Tourism), Bharata Mata College (Autonomous), Thrikkakkara. Email ID: aleenadavid005@gmail.com*

[2]*Assistant Professor, Department of Commerce (Travel & Tourism), Bharata Mata College (Autonomous), Thrikkakkara. Email ID: aleenaalice8089@gmail.com*

[3]*Student, Department of Commerce (Travel & Tourism), Bharata Mata College (Autonomous), Thrikkakkara. Email ID: felicejoy@bharatamatacollege.in*

Abstract—*Behavioral finance challenges the traditional assumption that individuals make purely rational financial decisions. This study examines whether key behavioral biases—overconfidence, loss aversion, mental accounting, herding behaviorand anchoring bias—significantly influence personal financial planning. Primary data were collected from 100 respondents using a structured questionnaire. Non-parametric statistical techniques, particularly the Mann–Whitney U test, were employed to analyze differences in behavioral biases between individuals with and without a personal financial plan. The findings reveal that none of the behavioral biases show statistically significant differences between planners and non-planners at the 5% level. Although minor variations in mean ranks were observed, the results suggest that behavioral determinants exert limited influence on the presence of a financial plan. The study contributes to behavioral finance literature by providing empirical evidence that psychological biases may not always translate into significant differences in financial planning behaviour.*

Keywords: *Behavioral Finance, Personal Financial Planning, Anchoring Bias, Overconfidence, Loss Aversion, Mann–Whitney U Test.*

Introduction

Personal financial planning is essential for achieving long-term financial security and stability. Traditional financial theory assumes that individuals act rationally, making decisions based on objective evaluation of risk and return. However, behavioral finance suggests that psychological biases and emotional tendencies influence financial decision-making.

Behavioral biases such as overconfidence, loss aversion, mental accounting, herding behaviorand anchoring bias can affect savings, investmentand budgeting decisions. Understanding whether these biases significantly differentiate individuals who actively engage in financial planning from those who do not is crucial for designing effective financial education and advisory strategies.

This study empirically investigates whether behavioral determinants significantly influence the presence of a personal financial plan.

Literature Review

Behavioral finance emerged as a response to the limitations of traditional financial theories that assume rational and utility-maximizing individuals. Prospect Theory, developed by Kahneman and Tversky (1979), fundamentally challenged Expected Utility Theory by demonstrating that individuals evaluate outcomes relative to a reference point rather than in absolute terms. A key implication of this theory is loss aversion, which suggests that losses are psychologically more impactful than gains of equal magnitude. Empirical studies have shown that loss-averse individuals tend to avoid risky investments and hold onto losing assets in the hope of recovery (Benartzi & Thaler, 1995).

This behavioral tendency directly affects personal financial planning, as individuals may adopt overly conservative strategies or fail to rebalance portfolios effectively during market fluctuations.

Overconfidence bias represents another significant psychological determinant in financial decision-making. Overconfident individuals tend to overestimate their knowledge, predictive accuracyand ability to control outcomes (Gervais & Odean, 2001). Barber and Odean (2001) found that overconfident investors trade more frequently, often resulting in lower net returns due to increased transaction costs. This bias can lead to inadequate diversification, excessive risk-takingand neglect of professional advice. However, some scholars argue that moderate confidence may positively influence financial participation and proactive planning behavior. Thus, the effect of overconfidence on financial planning may depend on the degree to which it manifests.

Mental accounting theory, introduced by Thaler (1985), explains how individuals categorize money into separate mental compartments based on its source or intended use. Instead of viewing money as perfectly fungible, individuals assign subjective value to different income streams. For instance, windfall gains may be treated differently from regular income, influencing saving and spending decisions. Shefrin and Thaler (1988) further extended this concept through the Behavioral Life-Cycle Hypothesis, which explains how self-control problems and mental categorization affect long-term savings behavior. Although mental accounting can promote disciplined budgeting, it may also result in inefficient allocation of resources, such as maintaining savings while carrying high-interest debt.

Herding behavior has been extensively examined in the context of financial markets. Investors often mimic the actions of others due to informational uncertainty or social pressure. Bikhchandani et al. (1998) introduced the concept of informational cascades, where individuals disregard their own information in favor of collective behavior. Similarly, Barberis, Shleiferand Vishny (1998) highlighted how investor sentiment and social dynamics contribute to market anomalies. Herding may increase market participation but can also lead to asset bubbles and abrupt corrections. In the context of personal financial planning, herding may manifest in adopting popular investment products without adequate evaluation. However, structured planning processes may reduce the intensity of such bias.

Anchoring bias, first conceptualized by Tversky and Kahneman (1974), refers to the tendency to rely excessively on initial information when making decisions. In financial contexts, investors often anchor to purchase prices, historical returns, or previous market highs when evaluating investments. Daniel, Hirshleiferand Subrahmanyam (1998) suggest that anchoring can cause mispricing and delayed reaction to new information. In personal financial planning, anchoring may limit flexibility and hinder timely adjustments to changing economic conditions. Individuals may continue to rely on outdated financial benchmarks, thereby affecting investment performance and goal attainment.

Financial literacy has been identified as a critical moderating factor in behavioral finance. Lusardi and Mitchell (2007) found that individuals with higher financial literacy are better equipped to plan for retirement and manage financial risks. However, financial knowledge does not completely eliminate behavioral biases. Even well-informed individuals may fall prey to cognitive distortions and emotional influences. Therefore, financial literacy may reduce but not entirely remove the impact of psychological biases on personal financial planning. Time preference and present bias also play an important role in financial decision-making. Hyperbolic discounting theory suggests that individuals prefer immediate rewards over larger future benefits (Laibson, 1997). This tendency leads to procrastination in savings and underinvestment in long-term financial goals. Thaler and Benartzi (2004) demonstrated that behavioral interventions such as automatic enrollment and commitment devices can significantly improve savings rates. These findings highlight the importance of integrating behavioral insights into financial planning frameworks. Recent developments in financial technology (FinTech) have introduced new dimensions to behavioral finance. Digital platforms, algorithm-driven recommendationsand real-time trading applications may amplify behavioral biases through gamification and instant feedback mechanisms. Research suggests that easy access to trading platforms may increase impulsive behavior and short-term decision-making tendencies (Barber & Odean, 2001). While technology enhances accessibility and convenience, it may simultaneously reinforce cognitive biases if not accompanied by adequate financial literacy and regulatory oversight.

Overall, the literature indicates that behavioral biases significantly influence financial decisions. However, empirical findings vary across demographic groups and socio-economic contexts. Some studies report strong psychological effects, while others observe moderate or limited influence. This study contributes to the literature by empirically examining whether behavioral determinants significantly differentiate individuals who maintain a personal financial plan from those who do not.

Methodology

The study adopts a descriptive research design with a quantitative approach. Primary data were collected from 100 respondents through a structured questionnaire using Likert-scale statements to measure behavioral biases. To examine differences between individuals with and without a personal financial plan, the Mann–Whitney U test was employed.

Results and Analysis

Demographic Profile of Respondents

The demographic analysis of the 100 respondents indicates a balanced gender representation, with 51% male and 49% female participants. The age distribution shows that 15% of respondents belong to the 55 years and above category, followed by 20% each in the below 25 years and 45–54 years groups. The remaining respondents fall within the 25–34 years (32%) and 35–44 years (13%) categories. This wide age range ensures diverse perspectives from young earners, mid-career professionalsand senior individuals, thereby enhancing the representativeness of financial behavior patterns in the study.

In terms of educational qualification, the majority of respondents (56%) are undergraduates, while 21% have completed Plus Two or below and another 21% hold postgraduate degrees. Only 2% possess a PhD qualification. The educational distribution reflects a moderately educated sample, which is significant because education is often associated with financial awareness and informed decision-making. Occupationally, 54% of respondents are private employees, 33% are self-employed, 8% are government employeesand 5% are pensioners. This occupational diversity provides varied financial perspectives and experiences.

Regarding economic characteristics, 52% of respondents fall within the monthly income range of ₹20,000–₹50,000, indicating a predominance of middle-income earners. About 22% earn between ₹50,001 and ₹1,00,000, while 17% earn below ₹20,000 and 9% earn above ₹1,00,000. In terms of savings behavior, 61% of respondents save less than 25% of their incomeand 28% save between 25% and 50%. These findings suggest moderate income and savings levels among the respondents, which provide an important contextual basis for analyzing their personal financial planning behavior.

Overconfidence Bias

Respondents with a financial plan (Mean Rank = 51.90) showed slightly higher overconfidence than those without a plan (Mean Rank = 44.55). However, the difference was not statistically significant ($U = 656.500$, $Z = -1.003$, $p = 0.316$). This indicates that overconfidence does not significantly differentiate planners from non-planners.

Loss Aversion

Individuals without a financial plan exhibited higher mean rank (58.71) compared to planners (48.57). Although this suggests greater loss aversion among non-planners, the result was not statistically significant ($U = 613.500$, $Z = -1.387$, $p = 0.165$). Thus, loss aversion does not significantly determine whether an individual maintains a financial plan.

Mental Accounting

Respondents with a financial plan had a slightly higher mean rank (51.63) than those without (45.68). However, the Mann–Whitney test indicated no significant difference ($U = 678.000$, $Z = -0.810$, $p = 0.418$). Therefore, mental accounting behavior does not significantly influence financial planning status.

Herding Behavior

The mean rank for planners (51.33) was marginally higher than for non-planners (46.95). The result was statistically insignificant ($U = 702.000$, $Z = -0.601$, $p = 0.548$). This suggests that herding behavior does not significantly affect personal financial planning.

Anchoring Bias

Individuals without a financial plan showed slightly higher anchoring tendencies (Mean Rank = 54.89) compared to planners (48.84). However, this difference was not statistically significant ($U = 667.000$, $Z = -0.836$, $p = 0.403$). Anchoring bias therefore does not significantly influence financial planning behavior.

Discussions

The findings indicate that none of the behavioral biases show statistically significant differences between individuals who have a financial plan and those who do not. Although minor differences in mean ranks were observed, these variations are not strong enough to establish behavioral determinants as significant predictors of financial planning status.

The results suggest that respondents demonstrate moderate rationality in financial decision-making. Behavioral biases may exist, but they do not significantly differentiate planners from non-planners in this sample.

This finding contrasts with some behavioral finance studies that emphasize strong psychological influence but aligns with research suggesting that demographic and contextual factors may moderate behavioral effects.

Conclusion

This empirical study examined whether behavioral determinants significantly influence personal financial planning. Using the Mann–Whitney U test, the analysis revealed no statistically significant differences in behavioral biases between individuals with and without a financial plan. The findings suggest that while behavioral biases are present, they may not be the primary determinants of financial planning behavior within the studied sample. Financial planning decisions may instead be influenced by other factors such as income, education, or financial literacy. The study contributes to behavioral finance literature by providing evidence that psychological biases do not always translate into significant behavioral differences in personal financial planning.

References

[1] Barber, B. M., & Odean, T. (2001). Boys will be boys: Gender, over confidence and common stock investment. *Quarterly Journal of Economics, 116*(1), 261–292. https://doi.org/10.1162/003355301556400

[2] Barberis, N., Shleifer, A., & Vishny, R. (1998). A model of investor sentiment. *Journal of Financial Economics, 49*(3), 307–343. https://doi.org/10.1016/S0304-405X(98)00027-0

[3] Benartzi, S., & Thaler, R. H. (1995). Myopic loss aversion and the equity premium puzzle. *Quarterly Journal of Economics, 110*(1), 73–92. https://doi.org/10.2307/2118511

[4] Bikhchandani, S., Hirshleifer, D., & Welch, I. (1998). Learning from the behavior of others: Conformity, fadsand informational cascades. *Journal of Economic Perspectives, 12*(3), 151–170. https://doi.org/10.1257/jep.12.3.151

[5] Daniel, K., Hirshleifer, D., & Subrahmanyam, A. (1998). Investor psychology and security market under- and overreactions. *Journal of Finance, 53*(6), 1839–1885. https://doi.org/10.1111/0022-1082.00077

[6] Gervais, S., & Odean, T. (2001). Learning to be overconfident. *Review of Financial Studies, 14*(1), 1–27. https://doi.org/10.1093/rfs/14.1.1

[7] Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica, 47*(2), 263–291. https://doi.org/10.2307/1914185

[8] Laibson, D. (1997). Golden eggs and hyperbolic discounting. *Quarterly Journal of Economics, 112*(2), 443–478. https://doi.org/10.1162/003355397555253

[9] Lusardi, A., & Mitchell, O. S. (2007). Financial literacy and retirement preparedness: Evidence and implications for financial education. *Business Economics, 42*(1), 35–44.

[10] Shefrin, H., & Thaler, R. H. (1988). The behavioral life-cycle hypothesis. *Economic Inquiry, 26*(4), 609–643. https://doi.org/10.1111/j.1465-7295.1988.tb01520.x

[11] Thaler, R. H. (1985). Mental accounting and consumer choice. *Marketing Science, 4*(3), 199–214. https://doi.org/10.1287/mksc.4.3.199

[12] Thaler, R. H., & Benartzi, S. (2004). Save more tomorrow™: Using behavioral economics to increase employee saving. *Journal of Political Economy, 112*(S1), S164–S187. https://doi.org/10.1086/380085

[13] Tversky, A., & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. *Science, 185*(4157), 1124–1131. https://doi.org/10.1126/science.185.4157.1124

*****