

RETIREMENT PLANNING: ARE SELANGORIANS READY?

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Abstract

Retirement planning is crucial for everyone to ensure that they are debt-free and financially secure when they have already stopped working. Retirement comes with a somewhat uncertain monetary stability as the ordinary income has decreased or ceased. The objectives of this research were to identify the related variables that influence retirement planning among working people in Selangor. A quantitative approach and purposive sampling of respondents were employed with the distribution of 120 sets of questionnaire to working people. The data was analysed using Smart-PLS 3.0. The results showed that out of the three identified independent variables, knowledge is the only predictor that had a statistically significant relationship with retirement planning; the path coefficient was .348 ($p=0.00$). Somehow, decision behaviour and retirement age had not significantly contributed to the variance in retirement planning. The effect size was evaluated, and it showed that knowledge had the most substantial influence on the retirement planning ($f^2=.068$). A stimulating discussion has been reported to explain such finding. This finding is insightful for the employers of Selangor's civil servants, as well as to the employers of private sectors, to safeguard the well-being of their greatest assets in managing their organisations effectively.

Keywords: Retirement Planning, Knowledge, Decision Behaviour, Retirement Age, extending hours, Selangorian

1.0 INTRODUCTION / BACKGROUND OF THE STUDY

When a person retires from his or her paid employment, he or she no longer enjoys the salary and benefits that he or she used to have, despite the continuing costs associated with life. An alarming statistics from the Malaysian Employees Provident Fund revealed, as of December 2014, that 68% of members aged 54 have less than RM50,000 in their retirement accounts (EPF Database, 2017). This estimated amount will be used up within five years of retirement. The situation would be aggravated as costs of living keep rising with no signs of slowing down. This phenomenon is worrying, especially for policymakers. Not only retirees do not have enough money in their accounts to continue their living, their quality of life would also suffer as they live in financially stressed conditions or they are short-changed on what is needed to stay healthy. The suffering would be more prolonged, as the estimated average lifespan of Malaysians is 72.5 years for men and 77.1 years for women (Department of Statistics Malaysia, 2017). Unfortunately, most Malaysians have hardly made plans to retire. They are entirely dependent on retirement benefits earned, to sustain life after retirement (Hassan, Rahim, Ahmad, Zainuddin, Merican, & Bahari, 2016). This lack of awareness and unpreparedness need to be improved. Working individuals must realise that they need to have more savings

to cater for the higher cost of living which increases with age, especially medical expenses. Therefore, those who are at prime working age need to be aware of this concern as early as possible, especially on the necessity to plan for their retirement. They need to have some knowledge on planning for retirement, which hopefully initiates desired behaviours or actions.

2.0 LITERATURE REVIEW

2.1 Knowledge

Previous research proves that knowledge is authoritative when it comes to retirement planning. Mahdzan and Tabiani (2013) emphasised that the experience, especially on financial literacy, is an essential determinant of individual savings for the preparation of retirement. Jacobs-Lawson and Hershey (2005), also agreed that business knowledge and financial risk tolerance are crucial variables when it comes to retirement saving practices. Without proper understanding and education, the retirement planning would not be materialised. Employees tend to follow a pension plan provided by the employer, so much so, that they are still some who do not pay attention to their saving behaviour and investment portfolio (Choi, Laibson, Madrian, & Metrick, 2012). Many individuals lack sufficient knowledge of the basic concepts of finance, causing their different decision abilities in the retirement decision process (Chan & Steven, 2008). Van Rooij, Lusardi and Alessi (2012) found much worse; individuals who did not plan for retirement have less net saving and were not likely to invest in properties with greater expected returns.

2.2 Decision Behaviour

Some research found that one factor that links to retirement planning is decision behaviour. Laitner and Sonnega (2013) viewed that the retirement decision, as a consequence of comparing the financial resources accumulated and financial resources spent, are critical in retirement planning. Shanmugam and Zainal Abidin (2013) pointed out that retirement planning behaviour is associated with having a substantial relationship towards the attitude of the working individuals. Rationally, workers will retire only when they feel that their accumulated financial resources, as well as the forecast of future economic conditions, would allow them to support their consumption needs in a sound retirement. Wang and Shi (2014) studied on workers' demographic status, work experience, marital life, type of industries, and productivity that associate with their retirement decision making. They found out that all of these variables are related to how people perceive themselves and their roles in the society. Meanwhile, Brougham and Walsh (2007) evaluated whether the action of retirement matches the retirees' self-images or roles. If they match, only then, the decision to retire will be made.

2.3 Retirement age and extending work

In Malaysia, the private sector employees are required to contribute in the Employees Provident Fund (EPF) scheme where 13% of the contribution comes from their respective employer and 11% from the employees themselves. Meanwhile, the Government Pension plan applies to government servants where they will receive an amount of pension payment after their post-retirement period (Ibrahim, Mohamed Isa & Ali, 2012). Wahab (2015) revealed that the majority of both public and private sector employees prefers to retire at the age of 60 years old, where there is a positive relationship between the retirement age and the retirement planning. Taylor and Shore (1995) showed that chronological age, employee health, and self-perceptions of the ability to adjust to retirement, predicted the subsequent planned retirement age. Tan, Folk and Choong (2012) also discovered that the retirement age did affect the preparation of employees' retirement planning. However, the younger age groups contribute very few savings for their middle life or their retirement. Zabri, Ahmad, and Ann Loy (2016) postulated that 60.6% of their respondents have

prepared for retirement age and a small number of respondents was not interested in extending work after retirement. The evidence proved that retirees would be financially secured if they had planned for their golden years of retirement.

3.0 RESEARCH OBJECTIVES

Taking this point, we believe that knowledge, decision behaviour, retirement age, and extending hours have some influences toward retirement planning. Thus, we proposed that the objective of this study is to identify whether the relationship between knowledge, decision behaviour, retirement age, and extending hours of work-life, have some influences toward retirement planning. We also want to find out whether there is a significant difference between an individual's marital status and gender towards retirement planning.

4.0 RESEARCH OBJECTIVES

This research was conducted in Selangor, and 120 sets of questionnaires were distributed. However, only 100 sets were usable (83.33% of response rate). The inquiry encompassed personal profile and questions related to the study variables. In conducting the study, Smart PLS3.0 was utilised to analyse the data. The aim of employing Smart PLS 3.0 was to allow the researchers to examine the relationship amongst the hard-to-test latent variables. A pilot test was also conducted earlier to ensure the validity and reliability of the measurements.

5.0 RESULT AND DISCUSSION

Table 1 is the reliability analysis, with each variable's Cronbach's Alpha attaining above 0.700. These results indicate that all the variables were reliable for this study.

Table 1. Reliability analysis

Items	Cronbach's Alpha
Decision Behaviour	0.821
Knowledge	0.912
Retirement Age and extending work	0.710
Retirement Planning	0.862

A descriptive analysis was run to identify the frequency of gender, age, race, and income of the respondents. Table 2 shows the characteristics of the respondents. For the gender, there was equal participation from both gender (male, 50%) and (female, 50%). The age range of 21-30 years represented half of the respondents, followed by 31-40 years (32%), 41-50 years (12%), and over 50 years (6%). The racial majority is Malay (79%), followed by Chinese (11%), and Indian (10%). For income, both respondent groups that earn less than RM2499, and RM2500–RM3499 are (33 %), followed by RM 3500–RM4499 (23%), and more than RM4500 (11%).

Table 2. Demographic Profile

Characteristics	Percentage of frequency
Gender	
Male	50.0%
Female	50.0%
Age	
21-30	50.0%

31-40	32.0%
41-50	12.0%
Over 50	6.0%
Race	
Malay	79.0%
Chinese	11.0%
Indian	10.0%
Income	
Less than RM2499	33.0%
RM2500–RM3499	33.0%
RM3500–RM4499	23.0%
More than RM4500	11.0%
Total	100.0%

In addition, ANOVA and Independent sample t-test were also computed to test the differences between the observed groups and variables, respectively. ANOVA has been performed to analyse the differences between the income groups (less than RM2499, RM2500–RM3499, and more than RM3500) and retirement planning. ANOVA results in Table 3 below indicate that there was a statistically significant difference between the three groups surveyed; $df(2, 97, F= 5.722, p=.004)$.

Table 3. ANOVA result

	<i>df</i>	F	P
Retirement Planning	2	5.722	.004

To find out which income group has a significant difference, Tukey's test was also run. Table 4 presents the results. There was a substantial difference in the scores for working people with income more than RM3500 ($M=4.22, SD=.443$). The respondents are ready for their retirement planning as compared to the working people with income less than RM2499 ($M=3.87, SD=.447$). However, the results show that there was no difference between those with income RM2500–RM3499 and other observed groups.

Table 4. Turkey's test

Income	Income	Mean Difference	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Less than RM2499	RM2500- RM3499	-.24345	.10482	.057	-.4929	.0060
	More than RM3500	-.34280*	.10405	.004	-.5905	-.0951
RM2500- RM3499	Less than RM2499	.24345	.10482	.057	-.0060	.4929
	More than RM3500	-.09935	.10405	.607	-.3470	.1483
More than RM3500	Less than RM2499	.34280*	.10405	.004	.0951	.5905
	RM2500- RM3499	.09935	.10405	.607	-.1483	.3470

* The mean difference is significant at the 0.05 level.

Next, the Independent T-test was run between marital status, as well as gender, and retirement planning. Table 5 below presents the results. The results indicate that there was a significant difference in the scores for those who are single (M=3.90, SD= .403) and married (M=4.22, SD= .431); $t(98) = -3.780, p=.000$. The results suggest that married people are more aware of retirement planning compared to those who are single. Meanwhile, there was no significant difference in the scores for male (M=4.09, SD= .459) and female (M=4.06, SD= .435); $t(98) = .363, p = .717$. From the reported results, it shows that male and female are similar in deciding for retirement planning.

Table 5. Independent t-test for marital status

		N	Mean	Std. Deviation	t	Sig. (2 tailed)
Retirement Planning	Single	45	3.9017	.40267	3.78	.000
	Married	55	4.2196	.43083		
Retirement Planning	Male	50	4.0928	.45964	.363	.717
	Female	50	4.0603	.43521		

In this study, PLS 3.0 analysed the research model as this study has a moderate sample size. PLS 3.0 tested the path coefficients, R Square, and F Square; the findings are presented in Table 6. At first, the structural model was run by using an algorithm and followed by 5000 times re-sampling of the bootstrapping procedure to evaluate the hypothesised model, as shown in Figure 1 below.

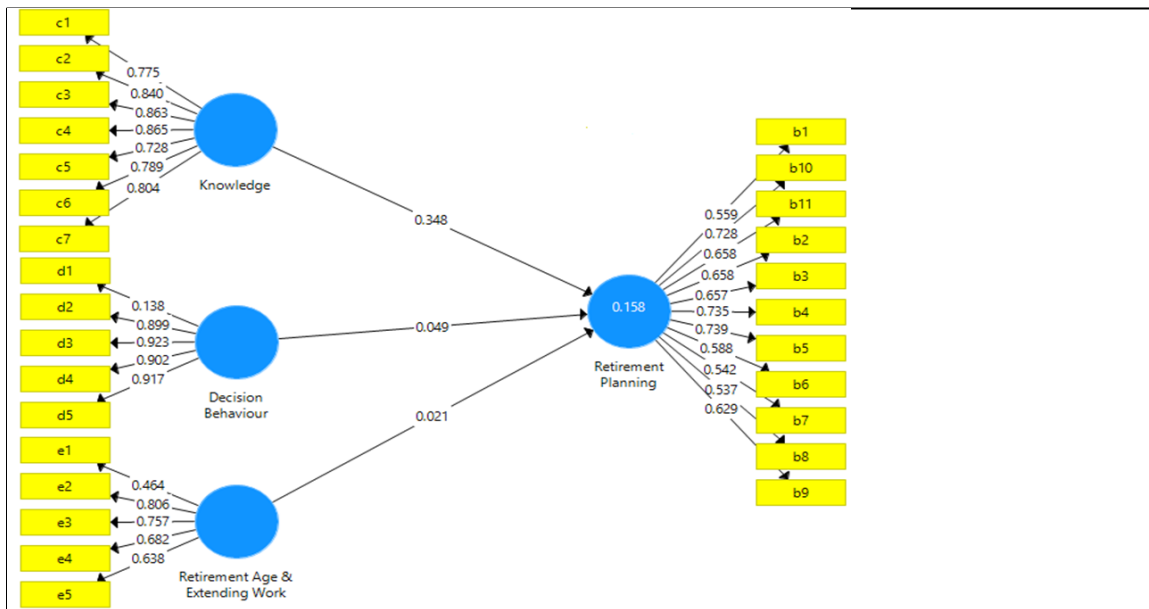


Figure 1. PLS 3.0 analysis

Examining the factors that contribute to retirement planning, Table 7 below shows the results generated. The variance that has been explained in retirement planning was $R^2 = .158$, indicating that 16% of the difference in retirement planning was related to the predictor variables. The results reveal that knowledge variable is the only predictor that had a statistically significant relationship with retirement planning, with a path coefficient of .348 ($p=0.00$). Nevertheless, decision behaviour and the retirement age did not significantly contribute to the variance in retirement planning. To evaluate the impact of contribution, we

assessed the effect size (f^2) value of the predictor variables. It shows that knowledge had the most substantial influence to the retirement planning ($f^2=.068$).

Table 6. Structural Model Properties

Path	Coefficients	<i>t</i> -statistics	<i>p</i> -value	f^2	R^2
Decision Behaviour	0.049	0.383	0.702	0.001	0.158
Knowledge	0.348	2.976	0.003***	0.068	
Retirement Age	0.021	0.109	0.914	0.000	

6.0 DISCUSSION

This study examined the determinants of retirement planning. The results revealed that a Selangorian's retirement planning is anchored on his/her knowledge of retirement. 15.8 per cent of the variance in retirement planning was statistically and significantly accounted by expertise. However, decision behaviour and retirement age did not have a significant contribution to the retirement planning. It is not a surprise to find an active link between knowledge and retirement planning as previous studies have found a statistically significant relationship between the two variables. Mahdzan et al. (2013) suggested that knowledge is imperative to working people to buy-in into retirement planning. Furthermore, previous work by Choi et al. (2012) has also documented that knowledge is a significant factor that influences retirement planning among working people in Selangor.

For decision behaviour, no significant influence is found, which contrasted with the studies by Laitner et al. (2013) and Shanmugam et al. (2013). Previous researchers revealed that the decision behaviour is linked with attitude and perception of wealth that the respondents possess. Probably, in this study, the respondents are still very early in their career paths and have very little savings, as they mostly live in the Selangor urban areas, which demand a lot of money to make ends meet. Our data support this point; 66 per cent of the respondents earn the most (RM 3499).

Naturally, as hypothesised, the retirement age and extending work determine the retirement planning among individuals. Somehow, in this study, the link between retirement age and extending work was not statistically significant, which contradicted previous research documentations. For instance, Taylor et al. (1995) suggested that retirement age and extending work influence retirement planning. They revealed that the preparation for the retirement age and the perception of health are related. In this study, however, retirement age and extending work were not critical for the working people in Selangor. We rationalised that it could be due to the majority (50 per cent) of the respondents' age 21 to 30, who have just begun their work life and started a family. They still have a very long working career ahead. After all, these working people also save their retirement money with EPF investment.

The above discussions shed new lights on retirement literature. The variables involved in this study are necessarily new variables, otherwise we may not have further problems in the retirement field. However, our research, which focused on working individuals, is a key to understanding the behaviour of the people involved in retirement planning, as such action could be used to help modify or target future retirement planning.

Overall, the results of the study highlighted the importance of pension knowledge and retirement planning among Selangorians. Financial literacy is fundamental for effective personal finance management and retirement planning. Beside the strengths, this study does have its limitations. The data were collected from

Selangorians, and the majority of the research participants were young. Due to the nature of the sample, this result may not be generalised to other working people from different states or backgrounds. Furthermore, there were only 100 individuals surveyed. Therefore, we recommend future research to expand the scope and sample of the study. Research is needed to evaluate the retirement planning factors, as well as retirement readiness for working people. The finding could provide a holistic insight into retirement planning.

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