UNIVERSITI PUTRA MALAYSIA

FINANCIAL STATUS AMONG THE MALAYSIAN ELDERLY

BITA PARSA

T FEM 2008 7

FINANCIAL STATUS AMONG THE MALAYSIAN ELDERLY

By

BITA PARSA

Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in Fulfilment of the Requirements for the Master of Science

June 2008

Abstract of thesis presented to the Senate of Universiti Putra Malaysia
in fulfilment of the requirement for the degree of Master of Science

FINANCIAL STATUS AMONG THE MALAYSIAN ELDERLY

By

BITA PARSA

June 2008

Chairman: Professor Jariah Masud, PhD

Faculty: Human Ecology

The increasing life expectancy phenomenon forces the people to have enough money to meet their needs in old age. Therefore the finance matter is vital for the elderly. This study aims to investigate the financial status of Malaysian elderly and its associations with social demographic characteristics, financial behavior and financial problems. This study employed a secondary data from an Intensification of Rresearch on Priority Areas (IRPA) study on Quality of Life of Older Malaysians (2003). The data was analyzed using Statistical Package of Social Science (SPSS) version 13. The procedures were descriptive statistics, t-test, chi-square test, ANOVA and multiple regression analysis. The study found that majority of the respondents had limited income and assets. About sixty percent of Malaysian elderly had negative net worth. Analysis of financial ratios showed that most of the respondents had not enough saving and liquidity assets. A

significant positive correlation was found between net worth and good financial behaviour. The Multiple linear Regression (MLR) showed the elderly financial status was explained by (1) higher income, (2) house ownership, (3) higher education attainment, (4) ethnicity (Chinese), (5) good financial behaviours (6) less financial problems, (7) living arrangement, (8) employment status, and (9) household size. Since most of the elderly has lower income and moderate financial behaviour, financial education should be addressed to this population in managing their money in old age, which leads to a better quality of life among the Malaysian elderly.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk ijazah Master of Sains.

STATUS KEWANGAN DALAM KALANGAN WARGA TUA DI MALAYSIA

Oleh

BITA PARSA

Jun 2008

Pengerusi: **Profesor Jariah Hj Masud, PhD**

Fakulti: **Ekologi Manusia**

Fenomena peningkatan jangka hayat mengakibatkan setiap individu perlu bersedia untuk keperluan kewangan pada usia tua. Oleh itu, aspek kewangan adalah penting untuk golongan tua. Kajian ini bertujuan untuk mengkaji status kewangan warga tua di Malaysia dan juga hubungkaitnya dengan demografi social, amalan kewangan dan masalah kewangan responden. Kajian ini menggunakan data sekunder dari kajian "Intensification of Rresearch on Priority Areas (IRPA) on Quality of Life of Older Malaysian (2003)". Hasil kajian dianalisis dengan menggunakan *Statistical Package of Social Science (SPSS)* versi 13. Statistik yang digunakan termasuk *descriptive statistic, T-test,* ujian *chi-square test, ANOVA* dan *Multiple Linear Regression* (MLR). Hasil kajian ini menunjukkan bahawa majoriti responden mempunyai pendapatan dan asset yang terhad. Sejumlah 60 peratus warga tua di Malaysia mempunyai ekuiti pemilik yang negatif. Analisis nisbah kewangan menunjukan bahawa warga tua Malaysia

tidak mempunyai simpanan dan harta semasa yang cukup. Terdapat perkaitan yang signifikan di antara ekuiti pemilik dan amalan kewangan. Ujian MLR menunjukkan prediktor yang menyumbang kepada status kewangan respondent ialah (1) pendapatan warga tua, (2) pemilikan rumah, (3) pendidikan yang tinggi, (4) etnik Cina, (5) amalan kewangan yang baik dan, (6) kurang masalah kewangan, (7) susunan tempat tinggal (8) status pekerjaan, dan (9) saiz isirumah. Memandangkan kebanyakan respondent mempunyai pendapatan dan asset yang terhad dan juga mengamalkan tingkahlaku kewangan yang sederhana, kepentingan kewangan dan amalan kewangan yang baik harus diajar kepada golongan ini supaya mereka dapat mengurus wang mereka dengan baik dan usaha ini dapat menjamin kualiti hidup mereka di usia tua.

ACKNOWLEDGEMENTS

First of all, I would like to sincerely express my greatest gratitude to my supervisor, Professor Dr. Jariah Hj Masud for her guidance, priceless time and advice, encouragement through out this research. I would also like to express my deepest appreciation to my co-supervisor Dr. Sharifah Azizah Haron for her valuable advice and guidance that gave me impetus to complete this thesis on time.

My thanks also go to the Dean and Deputy Dean of Research and Graduate Studies, Faculty of Human Ecology, Universiti Putra Malaysia for all their support given to this study. My sincere thanks also go to all my lecturers during my study period for their perfect teaching and their guides through the study.

Finally, I would like offer my sincere thanks to my parents and siblings for their endless support through out my life and this study.

I certify that an Examination Committee met on 27th June 2008 to conduct the final examination of Bita Parsa on her Master of Science thesis entitled "Financial status among the Malaysian elderly" in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Putra Malaysia (Higher Degree) Regulation 1981. The committee recommends that the student be awarded the Master of Science.

Members of the Examination Committee were as follows:

Tengku Aizan Abd Hamid, PhD
Associate Professor
Faculty of Human Ecology
Universiti Putra Malaysia
(Chairman)

Laily Hj Paim, PhD
Associate Professor
Faculty of Human Ecology
Universiti Putra Malaysia
(Internal Examiner)

Mumtazah Othman, PhD
Associate Professor
Faculty of Human Ecology
Universiti Putra Malaysia
(Internal Examiner)

Chamhuri Siwar, PhD
Professor
Institute for Environment and Development (LESTARI)
UniversitiKebangsaan Malaysia
(External Examiner)

_____

HASANAH MOHD GHAZALI, PhD
Professor and Deputy Dean
School of Graduate Studies
Universiti Putra Malaysia

Date: 26 August 2008

This thesis submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of **Master of Science**. The members of the Supervisory Committee were as follows:

Jariah Hj Masud, PhD
Professor
Faculty of Human Ecology
Universiti Putra Malaysia
(Chairman)

Sharifah Azizah Haron , PhD
Lecturer
Faculty of Human Ecology
Universiti Putra Malaysia
(Member)

AINI IDERIS, PhD
Professor and Dean
School of Graduate Studies
Universiti Putra Malaysia

Date: 11 September 2008

DECLARATION

I declare that this thesis is my original work except or quotations and citations which have been duly acknowledged. I also declare that it has not been previously, and is not concurrently, submitted for any other degree at Universiti Putra Malaysia or at any other institution.

<div align="center">

_____

BITA PARSA

Date: 31 July 2008

</div>

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBRIVATIONS

EPF	Employees Provident Fund
FS	Financial Status
FWB	Financial Well-Being
FR	Financial Ratio
MNSUD	Ministry of National Unity and Social Development
NASCOM	National Councils of Senior Citizen Organizations Malaysia
NPOC	National Policy for Older Citizen
NWD	National Welfare Department
WHO	World Health Organization

CHAPTER 1

INTRODUCTION

1.1   Background of Study

In recent decades, many parts of the world have witnessed a dramatic increase in the aging population. In Asia populations aged 65 and older were more than quadruple by 2005 (Chan, 2002). In Malaysia 1 out 16 people is an elderly person aged 60 years and above (Department of Statistics Malaysia, 2003). According to Department of Statistics 2001, there were 1.4 million elderly Malaysians. Based on population projections, the number of people above 60 years is likely to more than double to 3.4 million in 2020. Females are the majority among the elderly (Mat and Mohd. Taha, 2003). Aging phenomenon is attributed to declining fertility rates and increased life expectancy.

Over a period of 50 years, the median age of the Malaysian population will increase by 10 years and the old-age dependency ratio by 5 years. By the year 2020, Malaysia will be a mature society with 9.5 per cent of its population aged 60 and above (Department of Statistics Malaysia , 2000). The increase in the proportion of older persons will make it impossible for the government to ignore the social and economic impacts of population ageing.

Life expectancy is an indicator of the number of years a person is likely to live at the time of birth. Life expectancy at birth for Malaysian has risen from 61.6 years for male and 65.6 years for female at 1970 to 70.2 years for males

1

and 75.0 years for females for the year 2000 with an average of 72.6 years (Mat and Mohd. Taha, 2003).

With increasing life expectancy, people have to seek continuing wealth throughout their extended old age (DeVaney, 1995; Hogarth, 1991). This is because living longer will increase the chances of experiencing poverty and outliving available income and assets. Changes in work, health status, independence to dependence, and all these changes cannot be carried out without money. Thus, finance is vital for this group of older persons.

The term "finance" refers to, how an individual manage his/her personal resources. It does mean that one knows what his financial resources are, and understand how the resources can best manage for him now and in the future (Joo, 1998).

As elderly, individuals seek to improve the management of their economic resources and develop plans for strengthening their financial position in the future, a logical first step is to determine their present financial position (De Vaney, 1994). Financial status of elderly is able to picture the financial situations of an individual, how wealthy are they? How much money do they make? How much are their spending? What are their spending it on? To survive financially, they have to know whole of financial pictures (Keown, 1998).

1.2　Problem Statement

The rapid growth of the elderly population raises concerns for older people's well-being. With increasing life expectancy, decision making among the elderly becomes more important, especially decisions related to financial management. Careful asset management is important to the well-being of older people because assets are essential to preserving elderly needed to maintain the desired level of living (Hogarth, 1991).

People accumulate wealth over their working lives to finance consumption after retirement (Friedman, 1957). The longer the employment period, the larger the amount of saving, even though some of the accumulated savings will be spent on marriage, car, children, house and so on. As older persons had reached retirement age, they will move into dissaving stage. The older persons need to spend money for their daily expenses and to maintain a basic lifestyle from their accumulated saving (Garman and Forgue, 1997). Moreover at older ages, the older person may suffer illnesses that require frequent medical treatments. The expenditure on health treatment will increase the cost of living in later ages.

The importance of stretching limited resources over retirement years becomes more significant as people spend a greater number of years in retirement. According to the National Center for Health Statistics (2003), Americans live nearly 18 years beyond age 65. However, many elderly households do not have adequate savings for post-retirement expenses

3

(Bernheim, 2000; Retirement Confidence Survey, 2005; Verma and Lichtenstein, 2000). Because of a lack of retirement funds, many elderly persons are confronted with serious financial problems (Gardyn, 2000). In U.S. approximately 41% of those 65 years of age or older expressed a concern related to lack of financial resources (National Council on Aging USA, 2000). These individuals have to deal with growing inflation and increasing health care costs leading to reduced financial independence. The maintenance of old age can be expensive and may be a financial burden to the family members as well. Therefore, the proceeds from the life insurance policies may act as a financial buffer against this eventually.

In Malaysia people retire in younger age (56 years) and their post retirement problem is more important than developed countries (Muhamad and Kamis, 2002). In Malaysia nearly 70% of the retirees received less than RM 500 per month (Ithnin, 1995) and some of those who live below the country's poverty line were employed before (Mohd. Rashid, 2000; Nair, 2003).

Employees Provident Fund (EPF) in Malaysia was established to reduce the poverty among elderly who were working before. Unfortunately, it does not adequately address poverty among older persons (Olsen, 1994). The EPF covers only a small group of the older persons (5.8%) who have been employed in 1977 (United Nations, 2001). EPF only covers those in formal

employment and it is unavailable to those not engaged in similar lines of work.

A survey on the near elderly in public service shows that they anticipate financial constraint to be the major challenge upon retirement (Muhamad and Merriam, 2000). Therefore, many of elderly still need to work at retirement age and need careful financial planning in earlier years and financial management in older years. Due to the lower education level, elderly have less working capabilities and have limited sources of income (Mat and Mohd. Taha, 2003).

Most of Malaysian elderly depended to their adult child to support them but one third of elderly who never had children or their children moved away and those whose children do not have enough money to support them, have serious problem to manage their living costs (Muhamad, 2002; Mohd. Yatim, 1999).

Financial behaviour refers to the process people use in managing their financial resources to achieve financial success in the areas of retirement plans, financial planning, credit and money management (Garman et al., 1988) and its study has show that financial behaviours are positively associated with financial status. A study by Tan et al. (1999) found that older persons are unable to sustain themselves and keep up with inflationary costs

without depending on children and other family members. Previous study has shown that financial behaviours had been found to be positive associated with financial status (Weber and Davis, 1986). With declining support from children and other family members due to rapid-socio-economic and demographic changes, many older persons may indeed end up with financial problems. Hence, older age is an important period when elderly persons stretch their limited financial resources and deal with many complicated financial management tasks.

As individuals or families seek to manage their economic resources, a logical first step is to determine their present financial status e.g., net worth (Prather, 1990). Using income as a measure, the economic status of older households may not be an appropriate measure of the economic status of older households. Asset holdings and asset management practices and consumption and expenditures are also measures of financial status. Even though there has been limited empirical research using financial ratios for households, a number of family economists believe that financial ratios should be used to analyze and interpret personal financial statements (Griffith, 1985; Lytton et al., 1991; Mason and Griffith, 1988; Prather, 1990).

The studies have shown gender, race, having homeownership, living with other family member particularly spouse, education attainment, health

status, employment status and income are positively related with financial status (Hermalin , 2002; Knodel and Chayovan, 1997).

In Malaysia, there is no evidence of study on financial status by use of financial ratios. Therefore with considering the result of previous study on usefulness of measuring financial ratios to determine financial status to address financial wellbeing , this study assessed financial status by using net worth and financial ratios among Malaysian elderly and investigated which factors are influencing financial status among elderly. In order to assess financial status among elderly, this study investigated the financial aspects of Malaysia's aging society focussing on income, financial behaviour, net worth, and financial ratios of older Malaysians.

1.3 Research Questions

This study seeks to answer the following questions:

1. What are the sources of income among Malaysian elderly?

2. What is the financial behaviour of Malaysian elderly?

3. What is the financial status of Malaysian elderly looking into their net worth and selected financial ratios?

4. What are the factors explaining net worth of Malaysian elderly?

1.4 Objectives of the Study

1.4.1 General Objective

To determine the financial status of Malaysia elderly

1.4.2 Specific Objective

1. To identify the sources of the income among the Malaysian elderly.

2. To examine financial behaviours among the elderly.

3. To analyze financial status among the elderly using net worth and selected financial ratios.

4. To determine the factors explaining net worth of Malaysian elderly.

1.5 Hypothesis of the Study

 The net worth of Malaysian elderly is influenced by factors such as: income, age, house ownership, ethnic, employment status, gender, education attainment, household size, marital status, health status, living arrangements financial behaviours and financial problems.

1.6 Significant of the Study

With rapid increase the population of aging the special consideration is necessary to this group. Eldery's lower income, education and health status are some underlying of financial problems and poverty among elderly. Therefore, for reduce the risk of bad financial situation and poverty among

elderly and improving their quality of life understanding present elderly 's financial situation and behaviours are necessary.

The financial status of the older people is dependent upon their financial behaviours while financial behaviours are related to variety of factors such as age, gender, education attainments, employment status and earning and etc. The financial status of persons can be explained by their net worth and financial ratios. The policy makers and programme planners can design good programme targeting this poor group by having a good knowledge of elderly's financial status. Financial ratio analysis could be used as an objective measure to better understand the financial shortcoming or deficiencies which elderly people have. It also can be used as a measurement of change in financial progress over time for their families, and as a tool for financial educators, counselors, and planners to make recommendations to families. Thus, specific programmes can be specially designed to include and address elderly.

The information gathered in this study will help to provides useful information to government, social planners, and other practitioners when addressing issues related to finance and aging. The need for personal financial behaviour can become clearer in targeting constructive financial education.