



UNIVERSITI PUTRA MALAYSIA

**FINANCIAL WELLBEING OF OLDER PERSONS IN PENINSULAR
MALAYSIA**

BENJAMIN CHAN YIN FAH.

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IN PENINSULAR MALAYSIA**

By

BENJAMIN CHAN YIN FAH

**Thesis Submitted to the School of Graduate, Universiti Putra Malaysia,
in Fulfilment of the Requirement for the Degree of Master of Science**

November 2005



**Dedicated to the memory of my father, Mr Chan Kee Siong,
and my lovely mother Madam Yap Sam Yin,
who instilled in me the importance of education and hard work**



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

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Chairman : Associate Professor Jariah Masud, PhD

Faculty : Human Ecology

The purpose of the study was to investigate the financial wellbeing of older Malaysians and its association with financial status, financial literacy, money attitude, financial practices and financial problems. Data for this cross-sectional study was obtained through interview with 1,841 older persons (55 years and above) in Peninsular Malaysia. Systematically, Seventy-five out of the national total 1,173 sub-division/mukim (provided by Department of Statistic) was chosen and four Enumeration Blocks (EBs) with highest number of older persons age 55-75 were selected from each sub-division. The findings of the study revealed that majority of older Malaysians have negative net worth, low in financial literacy, money attitude and moderate financial practices. One third of the respondents have at least one financial problem over the last year. Respondents who are financially literate have less financial problems. A significant relationship was found between money attitude and financial practices, and also between financial practices and financial satisfaction. Determinants that significantly contributed to financial satisfaction were health, income adequacy, financial literacy, money attitude, financial practices, financial problems, net worth, home ownership, and



ethnicity. However, through an open-ended question, some new factors such as comfortable life, able to cover expenses, pilgrimage to Mecca, hardworking, philanthropy are also contributed to the feeling of financial wellbeing. It is important to educate the population about personal finance, inculcate a positive money attitude and financial practices to public as these will eventually lead to financial wellbeing of an individual.



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

**KESEJAHTERAAN KEWANGAN WARGA TUA
SEMENANJUNG MALAYSIA**

Oleh

BENJAMIN CHAN YIN FAH

November 2005

Pengerusi : Profesor Madya Jariah Masud, PhD

Fakulti : Ekologi Manusia

Kajian ini bertujuan untuk mengkaji kesejahteraan kewangan warga tua Malaysia dan hubungkait dengan tahap pengetahuan, sikap, amalan dan masalah kewangan yang dihadapi oleh responden. Persampelan sistematik digunakan untuk mengenalpasti 75 mukim daripada senarai penuh 1,173 mukim di Malaysia yang disediakan oleh Jabatan Perangkaan Malaysia. Empat Blok Perhitungan dari setiap mukim dipilih and seramai 1,841 respondent telah ditemuramah di Semenanjung Malaysia. Hasil kajian menunjukkan kebanyakan warga tua di Malaysia mempunyai ekuiti pemilik yang negatif, skor tahap pengetahuan kewangan dan skor sikap terhadap wang yang rendah. Kebanyakan mereka mempraktiskan amalan kewangan yang sederhana. Selain itu, satu per tiga daripada jumlah responden menghadapi sekurang-kurang satu masalah kewangan pada tahun yang lepas. Hasil kajian mendapati responden yang mempunyai tahap pengetahuan kewangan yang tinggi kurang menghadapi masalah kewangan. Kajian mendapati terdapat perkaitan yang signifikan di antara sikap dengan amalan kewangan responden, dan juga antara amalan kewangan dan kesejahteraan kewangan responden.



Prediktor yang menyumbang kepada kepuasan kewangan responden termasuk kesihatan, kecukupan kewangan, tahap pengetahuan kewangan, sikap terhadap wang, amalan kewangan, masalah kewangan, ekuiti pemilik, pemilikan rumah dan etnik. Faktor-faktor lain yang dikenalpasti melalui soalan terbuka termasuk hidup senang, mampu membiayai segala perbelanjaan, menunaikan haji, rajin bekerja, memberi sedekah kepada orang yang memerlukan bantuan turut menyumbang kepada kesejahteraan kewangan warga tua. Kepentingan kewangan, sikap positif terhadap wang dan amalan kewangan yang baik harus dididik kepada khalayak ramai demi menjamin kesejahteraan kewangan seseorang.

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CHAPTER 1

INTRODUCTION

1.1 Background

As we move into the 21st century, many countries in the world are experiencing an expansion in their population of older persons. At present, one out of every ten persons is 60 years or older. By the year 2050, one out of every five will be 60 years or older and by 2150, it will be one out of every three persons (UNDP, 1999). The Department of Statistics, Malaysia estimated about six percent of the total national Malaysian population is made up of older persons aged 60 years and above. It also means that one out of every sixteen persons in Malaysia today is sixty years or older.

As people expect to live longer than before, they also seek continuing wealth throughout their extended old age (DeVaney, 1995). This is because living longer will increase the chances of experiencing poverty and outliving available income and assets. She found that while a majority of individuals in later life will not experience poverty, the chances do increase with age and the meaning of living longer is also referring to changing. The longer one lives, the greater risk of requiring long-term care which is costly (Garmen, 1997). 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 an individual/micro level in how an individual manage his/her personal finance. 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. Meanwhile financial wellbeing is the outcome of financial practices (Joo, 1998). In order to contribute to the body of the knowledge for this gerontology field, this paper will study the financial aspects of Malaysia’s aging society, focussing on financial literacy, their money attitude, financial problems and financial practices of older Malaysians.



1.2 Problem Statements

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 (Garmen, 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.

Many people agree that a retirement system should address poverty among the older persons and it was the primary reason for establishing Employees Provident Fund (EPF) in Malaysia. Unfortunately, it does not adequately address poverty among older persons (Olsen, 1994). The EPF (Employee Provident Fund) covers only a small group of the older persons and according to United Nations Development Programme (1999), there is only 5.8 percent of older Malaysians have been employed in 1997. SOCSO (Social Security) only covers those in formal employment and it is unavailable to those not engaged in similar lines of work. Government employees and some in the private sector enjoy medical benefits but these tend to be limited to certain facilities and coverage.

The maintenance of old age can be expensive and may be a financial burden to the family members. Therefore, the proceeds from the life insurance policies may act as a financial buffer against this eventually. Below is the statement from David and Steven (1996) in picturing the current scenario of retirement support in most countries:

“It has been presumed that support in retirement is provided by three legs: social security, employment provided pensions, and personal savings. For most countries, however, the first leg is very tall, the second leg is shorter, and the third leg barely clears the ground.....”

David and Steven (1996)

In Malaysia, older persons who live with their children as part of an extended family and their consumption needs are covered by the group where parents invests in their children and the children will support them later in returns (Mazanah Muhamad and Mazalan Kamis, 2002). Data drawn from the Second Malaysian family Life Survey (MFLS-2) (1993) indicate that two thirds of older Malaysians co-reside with an adult child. This indirectly shows that one third of older Malaysians fall between crakes, as some of them never had children, those whose children have died or moved away and those whose children do not have enough money to support them. The crakes have widened due to the rapid socio-economic and demographic changes (Tan *et al.*, 1999). Do older Malaysians have sufficient money to sustain their old age? What is the financial status of older Malaysians?

Older Malaysians need basic knowledge of finance to avoid financial problems later on. Most of the employees would invest their savings passively, entrusting some government bodies or the financial experts to do it for them and provide them with dividends. However, recent surveys reveal that majority of retirees spend almost all of

their EPF savings within a few years after retirement (Mazanah Muhamad and Mazalan Kamis, 2002). After having painstakingly saved throughout one's working life, the money is used up within a short period of time. As such, financial literacy is very critical to maintain a high quality of life during their old age. What is the level of financial literacy among older Malaysians?

Older person values their own money differently (Furnham, 1998). Meanwhile, some other researchers might define money is psychological as well as financial (Curtler and Devlin, 1996). A positive money attitude is the key to financial practices. Previous research showed that older persons tend to show a positive attitude toward money than the youth (Tang, 1992), but were more worried about their future than younger people, possibly because they had greater financial responsibility with families, children and mortgages (Furnham, 1998). A positive money attitude will directly influence good financial practices of an older person (Ajzen and Fishbein, 1980). Thus, this lead to the third research question of the study: What is the attitude of older Malaysians towards money?

Financial practices 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 (Garmen *et al.*, 1997) and its study has show that financial practices are positively associated with financial wellbeing. Simply increasing knowledge of finance principles does not ensure that a person will be more effective in financial practices. Knowledge must be applied as those who have a higher financial literacy are more likely to follow recommended financial practices (Marianne and Jeanne, 2003).

A recent study found that older persons are unable to sustain themselves and keep up with inflationary costs without depending on children and other family members (Tan *et al*, 1999). 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.

Financial wellbeing is the outcome of the financial practices (Joo, 1998). According to Tucker and Rice (1986), good financial practices affect financial wellbeing. Ross and Huber (1985) found that financial wellbeing is positively related with individual characteristic (income, education, and age) but negatively related with the number of children and debts. This study will also find out the some other determinants of financial wellbeing of the older Malaysians.

1.3 Research Questions

The purpose of an inquiry or investigation begins with a problem. Hence, this study seeks to answer the following questions:

1. What is the financial status of older Malaysians?
2. What is the level of financial literacy of older Malaysians?
3. What is the older persons' money attitude?
4. What are the financial practices of older Malaysians?
5. What kinds of financial problems those currently have among older Malaysians?
6. What determines the financial wellbeing of older Malaysians?

1.4 Objective of the Study

1.4.1 General Objective

To determine the financial wellbeing of older persons in Peninsular Malaysia

1.4.2 Specific Objective

1. To determine the net worth of older Malaysians.
2. To measure the level of financial literacy among older Malaysians.
3. To investigate attitude towards money among older Malaysians.
4. To examine financial practises of older Malaysians.
5. To identify financial problems faced by older Malaysians.
6. To examine the determinants of financial wellbeing among older Malaysians.

1.5 Significant Of the Study

Financial literacy, attitudes and behaviour can reflect the financial wellbeing of Malaysian elderly. Studying the financial literacy of older Malaysians, it is crucial to know whether they are equipped to make correct financial decision or not. A positive money attitude is a key to good financial practices but there is no research on money attitude of older Malaysians. The financial situation of the older Malaysians is dependent upon the financial practices while financial practices are related in financial literacy and money attitude. The financial wellbeing of older persons can be explained by their net worth. The information gathered will help to provides useful information to government, social planners, and other practitioners when addressing issues related with finance and aging. The need for personal financial literacy and financial practices can become clearer in targeting constructive financial education.

1.6 Limitations of the Study

Financial matters are a personal concern and people may not want to share these matters with other people openly. Financial matters are also not being widely discussed among the older persons especially in Malaysia. Besides, respondents need to recall their income, expenditure, asset and liabilities when interviewed. Thus, information of data may depend on the willingness of respondents to provide accurate information as well. It also depends on how good their memory in answering the answers related with their financial matters.

1.7 Hypothesis of the Study

H₁: The financial wellbeing of Older Malaysians is influenced by a number of determinant variables namely: health, income adequacy, financial literacy, money attitude, financial practices, financial problems, net worth, home ownership, ethnic, employment status, sex, education attainment, family size, income and marital status.

1.8 Definitions of the Study

The conceptual and operational definitions for key terms and variables in this study are as follows:

Older Persons

- Conceptual : The cut off point to be an older person is 60 years or older (pala, 1998)
- Operational : In this study, the older persons refer to the group of people with age group 55-75

Financial Wellbeing

- Conceptual : The term of financial wellbeing and financial satisfaction is used interchangeably (Joo,1998). It also refers to an overall satisfaction with one's financial situation. (Morgan,1992)
- Operational : The financial wellbeing refers to their net worth and financial satisfaction

Financial Literacy

- Conceptual : Financial literacy refers to having adequate knowledge of personal finance facts and vocabulary for successful personal financial practices (Garmen and Forgue,1997)
- Operational : Level of financial literacy among the respondents is measured using 7 statements covering the aspects of investment, saving, insurance, spending, borrowing, and money management on the scale of "True" or "False"