



UNIVERSITI PUTRA MALAYSIA

***FINANCIAL PREPAREDNESS FOR RETIREMENT AMONG PRIVATE
SECTOR EMPLOYEES IN THE KLANG VALLEY, MALAYSIA***

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SECTOR EMPLOYEES IN THE KLANG VALLEY, MALAYSIA**

By

SWAARNA A/P KRISHNAN

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

January 2019

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

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Chair : Associate Professor Sharifah Azizah Haron, PhD
Faculty : Human Ecology

Being financially prepared for retirement is challenging due to escalating cost of living and slower movement of labour income. This means people have a lower pay and eventually lack of EPF accumulation. This is made worst by poor money management and the need for more funds for retirement because people live longer. Failing to do so will increase vulnerability, so proper plan must be put in place.

The objective of the study is to understand financial planning behaviour for retirement, to measure EPF fund adequacy and to examine their self-rated retirement assessment. The fourth and fifth objective is to develop a typology and assessing the probability of financial preparedness of respondents respectively. The final objective is to explore factors that motivate or hinders financial preparedness for retirement. The theoretical basis of this study will be The System Theory and Life-Cycle Model.

This study utilized a secondary data and supplemented with a focused group discussion (FGD). A total of 324 were selected out of 754 respondents from the data. 15 informants consisting of private sector employees were chosen for the FGD. Parametric statistical techniques and thematic analysis were used to analyze the quantitative and qualitative data respectively.

Finding from the study indicated that, respondents had good behavior towards retirement preparedness. EPF was not adequate and respondents overrated themselves for retirement preparedness. The typology shows four (4) naturally formed clusters consist of respondents who has the effort for retirement, adequate EPF and vice versa. The findings from multinomial logistic shows respondents who are female, older employees, non-Malays, married, has tertiary level education and M40 group are more prepared for retirement.

Respondents were categorized in each clusters and the common characteristics they have, hence this is a better way for the financial educators or government to help them in the area they need.



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

**KEBERSEDIAAN KEWANGAN UNTUK PERSARAAN OLEH PEKERJA
SEKTOR SWASTA DI LEMBAH KLANG, MALAYSIA**

Oleh

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Bersiap sedia untuk persaraan dari kewangan adalah satu perkara yang mencabar kerana peningkatan kos sara hidup dan pendapatan pekerja yang rendah. Ini bermakna individu yang mempunyai gaji yang lebih rendah mempunyai dana KWSP yang lebih rendah. Situasi ini menjadi lebih serius apabila individu mempunyai pengurusan wang yang lemah dan memerlukan lebih banyak dana untuk bersara kerana orang ramai hidup lebih lama.

Objektif kajian ini adalah untuk memahami tingkah laku perancangan kewangan untuk persaraan, untuk mengukur kecukupan dana KWSP dan untuk mengkaji penilaian persaraan mereka sendiri. Objektif keempat dan kelima adalah untuk membangunkan tipologi dan menilai kebarangkalian persediaan kewangan responden masing-masing. Objektif terakhir adalah untuk meneroka faktor-faktor yang memotivasi atau menghalang kebersediaan kewangan untuk bersara. Asas teori kajian ini adalah 'System Theory' dan 'Life-cycle Theory'.

Kajian ini menggunakan data sekunder dan perbincangan kumpulan fokus (FGD). Sejumlah 324 responden dipilih daripada 754 responden daripada data sekunder tersebut. Bagi FGD, 15 informan yang terdiri daripada pekerja sektor swasta dipilih. Teknik statistik parametrik dan analisis tematik digunakan untuk menganalisis data kuantitatif dan kualitatif.

Penemuan dari kajian menunjukkan bahawa responden mempunyai kelakuan yang baik terhadap kebersediaan persaraan. dana KWSP tidak mencukupi dan responden memberi jawapan yang terlampau tinggi keyakinannya untuk kebersediaan persaraan. Tipologi menunjukkan empat (4) kluster yang terbentuk secara semula jadi terdiri daripada responden yang mempunyai usaha persaraan, KWSP yang mencukupi dan sebaliknya. Penemuan logistik multinomial menunjukkan responden berjantina perempuan, pekerja

yang lebih tua, bukan Melayu, berkahwin, mempunyai pendidikan peringkat tinggi dan kumpulan M40 lebih bersedia untuk persaraan.

Responden dikategorikan dalam setiap kelompok dan mempunyai ciri-ciri umum, oleh itu, inilah cara yang lebih baik bagi pendidik kewangan atau kerajaan untuk membantu mereka dalam bidang yang mereka perlukan.



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This thesis was 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:

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CHAPTER 1

INTRODUCTION

1.1 Background

According to Hershey, Jacobs-Lawson, McArdle and Hamagami (2007) one normally imagine retirement as having freedom, peace life, happy and fun. Previously retirees expect their children to take care of them financially in retirement, but now due to family structural change and erosion of filial piety, retirees cannot depend on their children (Higo and Klassen, 2015). At the same time, Malaysia is not a welfare state, so social assistant for older person is only given to selected few (i.e. mean tested based assistance) (JKM, 2017). Hence, in order to maintain a decent standard of living during retirement, the responsibility for providing an adequate retirement fund has gradually shifted from family members and other parties such as government to the individual. Therefore, Lusardi and Mitchell (2011), asserted happiness in retirement can only be achieved with proper retirement preparation, which requires personal financial management skills. This is because it affects the way people spend, save, invest, and manage risks to protect their standards of living in their retirement years, consequently has direct impact on one's quality of life and financial well-being (National Financial Literacy Strategy, 2011).

Individual preparation for retirement to ensure sufficient fund in old age become very important as we are moving towards an aged nation. In 1970, only 3.3% of the population was aged 65 years and over. By year 2017 those aged 65 years comprise 6.2% of the total population. This represents approximately two-fold increase within the span of 40 years, or an increase of 65,000 older persons per year. Therefore, it will be economically burdensome for the government to support more and more older person if they are unable to financially independent during their old age. In addition, Malaysians are living longer as the average life expectancy in Malaysia has increased from 47 years old in the 1950s to 72 years old for men and from 48.5 years old to 76 years old for women (Department of Statistics, Malaysia 2015). According to Moorthy, Durai, Chelliah, Sien, Leong, Kai and Teng (2012) increase in elderly lifespan, further enhance the importance of retirement preparedness among Malaysian society to manage and reduce the burden of poverty among retirees because more fund needed for them to survive.

In order to prepare themselves for retirement, private sector workers saves in Employee Provident Fund (EPF), which is a mandatory retirement savings plan. Other than EPF, Private Retirement Scheme (PRS) is another method of voluntary savings plan. Some employees prefer to accumulate assets and manage their return themselves whereas some will seek financial help from professionals to allocate their assets and savings appropriately to have sufficient funding during their retirement (Arano, Parker and Terry, 2010). Those with their own accumulation plans for retirement will invest according to their knowledge and skills. In this situation, individuals with lacking investment skills tend to lose their money or invest in inappropriate portfolios. According to research, findings from Kidwell and Turrisi (2004) indicate that people nowadays have wide

access to financial services and education but they are lacking of financial management knowledge and have trouble to manage money. This may worsen the survival during retirement.

As a human being, survival is crucial and basic needs should be fulfilled in order to survive at least with a standard level of funding during retirement. Basic needs include house for shelter, clothes, transportation, utilities and other emergencies. All stated basic needs can only be achieved with adequate amount of money. Unfortunately, savings for retirement are implemented by very less people in Malaysia that effects financial preparedness for retirement. Individual that has sufficient funding during retirement usually falls under the category of highly educated and earns higher income (Siti and Foon, 2013).

The inadequate EPF or retirement savings is mainly caused by the people's behavior. People may view retirement to be far away in the future but it needs planning now to make sure they have enough to support themselves. Apparently, there is little individual involvement in the process of planning for the old age or retirement (Kiso and Hershey, 2016).

Finally, adequate retirement funds and financial planning behaviour for retirement has direct impact on financial preparedness for retirement. Preparatory activities involve gathering information about or making assessments of their retirement needs, setting financial goals and objectives. Plan initiation refers to the age at which individuals begin making financial preparations for retirement. Retirement asset accumulation encompasses the types of assets people anticipate they will have from the government, employers, and what they are personally accumulating for retirement. Negligent in financial preparedness for retirement can cause people to experience financial issues such as old age poverty and survival difficulties during their retirement phase (Kolb and Kolb, 2005).

1.2 Problem statement

Being financially prepared for retirement is challenging due to escalating cost of living and slower movement of labour income. Increased cost of living and inflation cause problem for retirement savings. The reason will be the additional cost is used off the retirement savings for consumption usage. Hence, higher cost of living is reducing savings (De Nardi, French and Jones, 2016). This means people have a lower pay and eventually lack of EPF accumulation. EPF savings of private sector employees are basically low and inadequate (Thillainathan, 2004). The 2015 EPF annual report states 65% of EPF members at the age of 54 have savings of less than RM 50000 and 80% of its active members have an average savings of RM100,000 and less. Moreover, 99.90% of EPF members have the tendency to withdraw their savings one lump sum from EPF once they reach 55 years old and this amount will wear off in 3 to 5 years that could cause inadequacy for the whole retirement period (Hunt, 2009). These grim statistics clearly show that the majority of Malaysians are not sufficiently prepared for retirement.

This is made worst by poor money management and the need for more funds for retirement because people live longer. People with poor financial planning behaviour for retirement are totally not aware of their own retirement, thus it can lead to worst retirement experience in future as they do not have enough preparation. They also insisted that individual who are aware of their planning and saving behaviour are able to control their current position to keep their future position from financial disaster (Van Rooij, Lusardi, and Alessie. 2012). Evidence from HSBC (2016) shows 28% of the early Baby Boomers have not thought about retirement planning at all during pre-retirement which is a bad sign for Malaysians. Consequently, poor planning behaviour will result in lack of retirement preparedness in Malaysia (Hunt, 2009). Hence, in order for a private sector employee to get retired stress-freely in future, they need to do retirement planning ahead. Failing to do so will increase vulnerability, so proper plan must be put in place.

Other than individuals poor behaviour for retirement preparedness, Siti and Foon (2013) stressed that, investment uncertainty is one of the cause for their poor behavior. Different retirement policies and unpredictable economic changes have all heightened the significance of financial preparedness for retirement.

Hassan, Rahim, Ahmad, Zainuddin, Merican and Bahari (2016) found that individuals attempt to get prepared for retirement were affected by their demographic factors such as age, education, gender, income, and marital status. The focus of the findings was focused on demographic factors and effects. Secondly, most researchers talk about shortage of funds in the future and is a long-term goal (Hershey et. al., 2007). Other than that, researcher also research about managing employee's retirement preparedness, where, each employee should take charge of their own planning such as creating a good social relationship atmosphere, psychologically stable and mentally prepared to face retirement, good health condition and having adequate fund for smooth consumption during retirement (Yao, Hanna and Montalto, 2003). Fourthly, researchers found about self-rated evaluation means one's own character, feelings, or behaviour, used as a tool in psychology to quantify people's perception of themselves or assess mental health risks. Individuals self-rating towards financial setbacks, discipline regarding saving, impulsive spending, credit card debt, research and planning of large purchases, and financial planning contribute to financial preparedness for retirement (Danes and Yang, 2014).

Given the above critical issues and literature related to the lack of EPF and poor behavior towards retirement, this study applied the financial planning behaviour for retirement, EPF adequacy and self-rated retirement assessment to develop typology to understand who are the people in each group and their demographic characteristics. There is no previous study mentioning the characteristics of people who are prepared and not prepared. This study is important to attempt because there is no previous research found developing typology and understanding their characteristics in each group. Additionally, each group were examined thoroughly to understand each respondents behaviour, EPF adequacy and their self-assessment using multinomial logistic regression. This study also used The System Theory and Life-cycle Theory to develop the typology which is a new area not found in Malaysia yet. Apart from that, the reason of why certain people fall in a particular typology group was further discussed in the FGD to understand what hinders and motivates that specific individual to be in that typology group.

Therefore, this study is attempted to answer the following research question:

1. What are the financial planning behaviour for retirement among private sector employees?
2. What are self-rated retirement assessment among private sector employees?
3. What are the EPF adequacy among private sector employees?
4. What is the typology of financial preparedness for retirement among private sector employees?
5. What are the demographic profile of private sector employees and the probability to be in various cluster of typology?
6. What are the factors that motivate or hinders private sector employees towards financial preparedness for retirement?

1.3 Research objectives

The general objective of this study is to develop the typology of financial preparedness for retirement of private sector employees. The specific objective of the research is as follows:

Specific objective

1. To determine the financial planning behaviour for retirement among private sector employees.
2. To examine the self-rated retirement assessment among private sector employees.
3. To measure EPF adequacy among private sector employees.
4. To develop a typology of financial preparedness for retirement among private sector employees.
5. To analyze demographic profile of private sector employees and the probability to be in various cluster of typology.
6. To explore factors that motivate or hinders private sector employees towards financial preparedness for retirement.

1.4 Hypotheses

These are the null hypothesis for this study:

H_0^1 : There is no significant relationship between financial planning behaviour for retirement and EPF fund adequacy.

H_0^2 : There is no significant relationship between EPF fund adequacy and self-rated retirement assessments.

H_0^3 : There is no significant relationship between financial planning behaviour for retirement and self-rated retirement assessments.

1.5 Significance of study

The government or Ministry of Finance and Gerontology Institutions can use the information from these findings to predict and identify the financial planning behaviour for retirement of private sector employee thus helping them in managing the country's baby boomers and their financial position to overcome any problem related to financial preparedness for retirement. These findings may be favor to Bank Negara Malaysia, Public Service Department (JPA), Insurance companies, and Employee Provident Fund (EPF) to track the retirement planning of private sector employee and also to figure out the reasons of their satisfaction or dissatisfaction towards retirement. Hence, the authority party can help them design and implement new strategy to manage their money to promote a stronger pillar to their retirement phase. As for government, this study may inspire them to amend more efficient and effective policies of economy in upcoming time.

This research also expected to be able to give a clear picture to employers to be more mindful of their employees. Employers can provide early awareness to their employees to make early preparations to face the nature of their future retirement, especially related to finance. The employer can organize seminars or programs to ascertain workers get a little information about the nature of retirement as the level of life after retirement is often associated with insufficiency of money (Schulz, 2017).

This study will also acknowledge the community about the awareness and importance of retirement planning in Malaysia which indirectly triggers them to manage their finance properly in the earlier stage. It is also intended to help employees understand the life transition, especially in terms of financial well-being. Particular to encourage the individual to save for now and future needs (retirement). Among the proactive measures that can be done is improve behaviour towards retirement planning and make positive changes towards retirement planning and financial preparedness for retirement. Individual who has awareness of the importance to prepare savings for old age should able to plan their life after retirement well (Stawski, Hershey and Jacobs-Lawson, 2007). This step will guide them to achieve financial well-being during their retirement phase and not end up with financial problems and feeling unsatisfied with their retirement planning.

1.6 Limitations and scope of study

This research specifically investigates about the retirement planning behaviour in financial aspect. EPF accumulated savings was used to calculate financial preparedness for retirement from the secondary data titled "Dependent Children and Aged Parents: The Economic and Financial Wellbeing of Sandwiched Generations.

This study aims to find out the minimum financial preparedness level and other retirement preparedness such as health, social, environment and psychological are not

included. Other than that, this research is conducted among employees of private sector in Klang Valley district.

1.7 Definition of terms

a) Retirement

Conceptual: Retirement is a situation when an individual or employee is allowed or forced to leave their jobs or careers and mandatory retirement age at 60 in Malaysia (Pensions Act 1980).

Operational: Retirement is the status of an employee who will retire at the age of 60.

b) Retirement planning behaviour

Conceptual: Retirement planning behaviour is the effort of an individual for their retirement decisions (Joo and Grable, 2005).

Operational: Retirement planning behaviour is the financial skills and effort of plan implementation for a proper retirement structure for being prepared to face retirement.

c) Adequacy

Conceptual: An individual is regarded as having adequate funds for retirement if its resources at its planned retirement age are equal to or greater than its needs at retirement (Yuh, Montalto and Hanna, 1998).

Operational: Adequate funds for retirement is the fund needed to fulfill basic needs and the amount is as indicated by EPF which is RM 950 per month (EPF, 2017).

d) Retirement preparedness

Conceptual: An individual is prepared for retirement when they could retire at the desired retirement age and able to maintain their social relationship, psychological factor, health status and financially adequate to support their entire retirement phase (Yuh, Montalto and Hanna, 1998).

Operational: The preparedness of retirement is when an individual able to maintain the level of pre-retirement consumption and post-retirement consumption from the accumulated retirement resources or funds.

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