Full Length Research Paper

Influence of financial education on retirement preparation in Malaysia

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This paper examined the influence of financial learning on retirees’ retirement financial planning preparation. 750 questionnaires were distributed with a 53.9% return rate. Three hypotheses were analyzed using hierarchical regression analysis. The results revealed that some mediating effect existed between financial learning and behavioural assessment of personal finance, and that the older age groups had mediating effect on the relationship between financial learning and subjective perception of satisfaction with personal finance. Within this context, respondents were satisfied with their financial situation from the behavioural assessment of personal finances, subjective perception and perceived financial well-being perspective. The study also indicated that some mediating effect existed between financial learning and behavioural assessment of personal finance, and that the older age groups (above 50 years) had mediating effect on the relationship between financial learning and subjective perception of satisfaction with personal finance.

Key words: Economic well-being, financial planning, financial education, literacy.

INTRODUCTION

The ageing phenomenon has turned Malaysia into an ageing society currently with 6.3% of its population being elderly people (over 60 years old) in 2000 and estimated at 7.4% in 2010 and 9.9% in 2020 (Taha and Mat, 2003). This phenomenon has posed serious problems to policy makers and people nearing retirement with little savings, apart from becoming a heavy financial burden for their dependent children especially in the low echelon of society. The problems are identified as (a) the low public-sector employees’ pension payments and the inadequate private-sector employees’ EPF savings (Caraher, 2000; Kumar, 1997; Thillainathan, 2004); (b) the gap between rising Malaysian living costs and living standards; (c) generally speaking, Malaysians’ life longevity, susceptibility to diseases, rising medication and healthcare costs, as well as unavailability (in certain areas) and medical services privatisation, and (d) finally the extended family systems’ erosion and the nuclear family units’ emergence (Chan, 1997).

On healthcare costs issue, Chia’s (1996) study has indicated that elderly people aged 60 and above require greater medical attention by visiting medical and healthcare centers, six times a year, on an average. Thus, Malaysians’ life expectancy improvement from 72.76 in 2007 to 73.29 in 2008 (Department of Statistics, 2008) would further imply heavier financial burden with rising medication/healthcare costs. On the retirement resource issue in Malaysia, Kumar (1997) has also revealed that savings and retirement resources adequacy problems in the low- and mid-income groups were serious, as 38.2% of the total employed ‘informal sector’ Malaysians in 1998 were not covered by the employees’ provident fund (EPF) and any pension scheme that is, the two pillars (Fox and Palmer, 2001). Of the remaining 61.8% covered employees, there are doubts that the EPF scheme, being subjected to lump-sum payments or pre-retirement withdrawals

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LITERATURE REVIEW

In early studies, the 'lifecycle' hypothesis by Ando and Modigliani (1963) dealt with economic decisions on retirement savings in particular the rationalization of an individual's income in order to maximize its utility over his lifetime, whereas the 'permanent income' hypothesis by Friedman (1957) investigated pre-and post-retirement living standards in "straightening out the consumption stream". In recent studies, correlations are found in existence between education and financial literacy (Fletcher et al., 1997; Clark et al., 2003), while other studies have indicated that, by increasing an individual's literacy, he could improve his mental faculty in predicting consequences of his action (Becker and Mulligan, 1997; Barlett and Kotlik, 1999; Bolhuis, 2003; Sebstad and Cohen, 2003; Loibl and Hira, 2005). In a sense, these studies have principally dealt with different effects impacting an individual's financial behavior (Fletcher et al., 1997; Kim, 2000), and personal savings and retirement investment (Joo and Grable, 2001). More recent studies have also found financial education as a form of knowledge being positively related to retirement planning (Ekerdt and Hackney, 2002; Lusardi, 1999, 2000), and personal savings and retirement investment (Joo and Grable, 2001). Financial education has been investigated inter alia as a tool for saving accumulations (Joo and Garman, 1998; Mannix, 1998; Fox and Palmer, 2001; Lusardi and Mitchell, 2005; Lyons et al., 2006), as financial matters constantly affect our daily lives (Staten et al., 2002; Jacobs-Lawson and Hershey, 2005; Lim, 2003). Studies by Mitchell and Moore (1998) have also found many people without retirement planning for lack of domain-specific knowledge. Most recently, other studies have also emerged indicating that the least literate are also the least likely to plan and save for retirement, while those who cannot do simple and compound interest calculations are also less likely to calculate their retirement needs (Lusardi and Mitchell, 2006, 2007, 2008). Besides, difficulties with interest calculations are also documented in some other studies (Lusardi and Mitchell, 2007; Lusardi and Tufano, 2006; van Rooij et al., 2007). Evidence has also shown that financially unsophisticated households tend to avoid the stock market (Kimball and Shumway, 2007; van Rooij et al., 2007), and that they are less likely to choose mutual funds with lower fees (Hastings and Tejeda-Ashton, 2008). Furthermore, people unable to correctly calculate interest rates tend to borrow more and accumulate less wealth (Stango and Zinman, 2008). The aforementioned summarizes some of the relevant studies on the implications of financial education.

The study looks at Malaysians with their embedded cultural and ethnic diversities on the assumption that they would generally acquire the requisite skills in career planning, and obtain appropriate financial education to plan for their retirement financial needs. However, it is an accepted fact that some Malaysians may sometimes maintain certain "could not care less attitude" towards life, and depend on parents' handouts in time of financial needs. In the light of the afore-mentioned, the study would be intended for those in need of retirement financial planning and for financial advisers or counselors in evaluating the niche market for financial planning in Malaysia. Given Malaysia's highly competitive work environment, individuals' financial education and their expectations of future financial position are invariably inter-related. The study focuses on the importance of the inter-relationships between financial education, financial literacy and expectations of future financial savings. Whereas the most important old age income sources are the EPF savings and pension schemes notwithstanding their weaknesses, many of the EPF contributors and pensioners in this formal sector may still face the uncertainty of their retirement years because of possible income inadequacy (Caraher, 2000). A summary of the hypotheses, derived from the earlier discussions, are examined as follows:

Hypothesis 1: Controlling for demographic attributes, financial learning makes a significant contribution to the explained variance in financial literacy.

Hypothesis 2: Controlling for demographic attributes and
As a further enquiry, it is also useful to look into the reasons or circumstances as to why some people were not seeking professional help for their retirement planning as clearly indicated as their responses.

Finally, a developmental approach to population ageing would ensure that all people are fully aware of their ageing process by taking an active role to integrate ageing issues and concerns. Younger people should also take responsibility to maintain a healthy lifestyle and understand the life-long process involved and start preparing for their own old age security through various schemes, on the other. The latter should also become the catalyst in promoting policies and programs on ageing issues not only because they affect older relatives and friends, but also because people could avoid the ageing process by themselves. As health status is a major influence on an elderly person’s social and economic life, it is also pertinent that government should ensure life-long healthcare services are available and affordable, particularly for the elderly.

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