Financial Literacy Key to Retirement Planning in Malaysia

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Abstract
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 analysed 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.

Keywords: Economic well-being, Financial planning, Financial education, Literacy

1. 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 (Dept 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 EPF and any pension scheme i.e. 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 (Thillainathan, 2004), would be adequate to meet contributors’ post-retirement financial needs (Caraher, 2000). Meanwhile, the pension payments scheme, unless it can be revised upward in line with inflations, would continue to present a similar problem to pensioners. These problems merit a reexamination or examination of the relevant financial learning issue, given the fact that the learning theory emphasizes the significant interaction between the individual, the nature of the material to be learnt and the context, within which learning takes place (Hershey and Mowen, 2000). For all age cohorts, their financial resources influence spending over their life cycle (Tan and Folk, 2011).

The study examines the Malaysians’ financial issues from the perspectives of their financial planning and expectations especially the subjective perception, behavioral assessment objective, and overall financial wealth. It also examines whether they are able to achieve a better retirement through improving their different educational levels, and value systems. The outcome reveals (a) Malaysians’ financial wellness level in order to provide useful information to financial counselors or financial planners, (b) Malaysians managing their own finances and investments; and (c) the level of their retirement preparedness as reflected by the importance of financial education (Bayar et al., 1996; Hogarth et al., 2003; Joo and Grable, 2005; Kim et al., 2005).

2. 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, Beebout and Mendenhall, 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, Beebout and Mendenhall, 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 financial 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, 2008; 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 above summarises 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 “couldn’t care less attitude” towards life, and depend on parents’ handouts in time of financial needs. In the light of the above, 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


Table 1. Results of scale development

<table>
<thead>
<tr>
<th>Scale Name</th>
<th>Cronbach Alpha (α)</th>
<th>KMO</th>
<th>Signi.</th>
<th>Resultant Subscale/Questionnaire Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Literacy</td>
<td>0.894</td>
<td>0.876</td>
<td>.000</td>
<td>LITEXPL - [Q.D3(a) to D3(e)]</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>LITKNOW - [Q.D5(a) to D5(e)]</td>
</tr>
<tr>
<td>Economic well-Being</td>
<td>0.877</td>
<td>0.834</td>
<td>.000</td>
<td>FINSAT – [Q.B1(b)(c)]; SUBPERC – [Q.B8,B9]</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>BEHASS – [Q.B2(a)(b)(c)]</td>
</tr>
</tbody>
</table>
Figure 1. Conceptual framework of factors affecting well-being of the elderly