Financial education: Determinant of retirement planning in Malaysia

Jee Yoong FOLK 1, Loo See BEH 2 and Diana-Lea BARANOVICH 3

1Institute of Post Graduate Studies, University of Malaya, Malaysia
2Faculty of Economics and Administration, University of Malaya, Malaysia
3Faculty of Education, University of Malaya

Accepted 4 January, 2012

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 behavioral 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 behavioral assessment of personal finances, subjective perception and perceived financial well-being perspective.

Keywords: 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 privatization, 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 re-examination or examination of the relevant financial learning issue, given the fact that the learning theory...