



**Financial Attitude, Financial Literacy, Health Literacy and
Financial Retirement Planning : Moderating Role of Financial
Advisor**

by

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Sikap Kewangan, Celik Kewangan, Celik Kesihatan dan Perancangan Persaraan Kewangan : Peranan Penyederhana Penasihat Kewangan

ABSTRAK

Kajian ini mengenal pasti dan menguji beberapa faktor yang mempengaruhi perancangan persaraan kewangan dalam kalangan pemilik PKS individu di Malaysia. Kebimbangan di seluruh dunia semakin meningkat mengenai simpanan persaraan yang rendah bagi kebanyakan individu di kedua-dua negara maju dan membangun. Keadaan ini telah ditambah lagi dengan tahap sikap kewangan yang rendah, celik kewangan, celik kesihatan dan telah dirumitkan lagi dengan kurang perundingan daripada penasihat kewangan, menyebabkan kebanyakan individu tidak dapat membuat keputusan kewangan yang baik. Pemilik PKS individu dari wilayah Utara Malaysia, iaitu Perlis, Kedah, dan Pulau Pinang, mengambil bahagian dalam kajian ini. Teori Penyimpanan dan Pelaburan Kitaran Hayat dan Teori Perakaunan Mental digunakan untuk menyiasat faktor tingkah laku dan kemungkinan campur tangan dasar untuk perancangan persaraan kewangan pemilik PKS individu ini. Structural Equation Modelling (SEM) digunakan untuk menguji hubungan dan kesan penyederhanaan bagi konstruk yang digunakan dalam kajian ini. Sikap kewangan dan celik kewangan didapati mempengaruhi perancangan persaraan kewangan secara positif. Di samping itu, peranan penasihat kewangan menyederhanakan hubungan antara 1) sikap kewangan dan perancangan persaraan kewangan dan 2) celik kewangan dan perancangan persaraan kewangan. Dengan mengambil kira keputusan ini, usaha intervensi menasihatkan sikap kewangan, celik kesihatan, celik kewangan dan peranan penasihat kewangan akan membantu dasar yang direka untuk mendorong simpanan persaraan kewangan tambahan. Implikasi dan cadangan penemuan serta kebolehgeneralisasiannya dibincangkan, batasan kajian ditunjukkan, dan hala tuju untuk penyelidikan lanjut diterokai.

Financial Attitude, Financial Literacy, Health Literacy and Financial Retirement Planning : Moderating Role of Financial Advisor

ABSTRACT

This study identified and tested some factors that affect financial retirement planning among individual SME owners in Malaysia. Concern the world over has been growing about the low retirement savings of many individuals in both developed and developing countries. This situation has been compounded by the low level of financial attitude, financial literacy, and health literacy and has been further complicated by less consultation from the financial advisor, causing most individuals to be unable to make good financial decisions. Individual SME owners from the Northern region of Malaysia, namely Perlis, Kedah, and Penang, took part in the study. The Theory of Life Cycle Saving and Investing and The Theory of Mental Accounting were used to investigate the behavioural factors and possible policy interventions for these individual SME owners' financial retirement planning. Structural Equation Modelling (SEM) was used to test the relationships and moderating effects of the constructs used in this study. Financial attitude and financial literacy were found to affect financial retirement planning positively. In addition, the role of the financial advisor moderated the relationships between 1) financial attitude and financial retirement planning and 2) financial literacy and financial retirement planning. With these results in mind, intervention efforts targeting financial attitude, health literacy, financial literacy and the role of a financial advisor will aid policy designed to induce additional financial retirement savings. Implications and suggestions of the findings and their generalisability are discussed, the study's limitations are pointed out, and directions for further research are explored.

CHAPTER 1: INTRODUCTION

1.1 Introduction

With the changing nature of work, it is crucial for individuals to prioritise their financial readiness for retirement to ensure their overall well-being (De los Santos et al., 2020). Within the specific environment of Malaysia, where a considerable proportion of the labour force actively pursues self-employment, the patterns of behaviour related to saving for retirement have a unique and distinguishable shape. This thesis explores the complex interaction of several factors that affect the behaviour of retirement savings, with a specific focus on self-employed individuals in Malaysia.

The choice to engage in self-employment is frequently motivated by a yearning for independence and the pursuit of entrepreneurial endeavours. Nevertheless, this independence entails the duty of manoeuvring through the intricate landscape of financial strategizing, specifically in the domain of retirement. Given the potential unavailability of typical employer-sponsored retirement plans, according to Patel, P. C., & Rietveld, C. A. (2020) found that self-employed individuals must independently navigate their path to ensure financial security in their later years.

The main goal of this thesis is to understand the complex nature of retirement savings behaviour among self-employed people in Malaysia. In order to accomplish this, a complete strategy is adopted by incorporating three essential cognitive behaviours: financial literacy, health literacy, and financial attitude. Coupled with the role of financial advisor as a moderating variable. The study aims to gain a detailed understanding of how

many factors work together to influence the decision-making processes involved in retirement planning among self-employed individuals

1.2 Background of the Study

Retirement is an important life event that every working individual experiences. A comfortable retirement requires sensible financial planning. Individuals who do not give importance to financial retirement planning will struggle to accumulate sufficient wealth for their retirement period (Visyalini, 2018). According to the Minimum Retirement Age Act 2012 (Act 753), Malaysia's current minimum retirement age is 60 (Act 753: Minimum retirement age act, 2012). Retirement age is when the individual must leave the workforce permanently (Tan & Singaravelloo, 2020). After retirement, retirees will start a new phase of life with their family and friends (Haron et al., 2019). The retirement age policy is given utmost importance worldwide due to the longer lifespan of the population.

In Malaysia, the ageing population of 60 years and above is rising steadily from 5.7% in 1990 to 6.3% in 2000 and 9.8% in 2020 (Izharuddin et al., 2022). A study by Darmaraj and Narayanan (2019) found that 54% of retirees continue working because they stated that they still "can," and 38% stated that they "want to" work until age 65 years or beyond. They contended that economic factors like personal finances and retirement incentives are one of the main reasons for the continuation of working upon retirement. Meanwhile, a study by Mahmud et al. (2019) found that only 512 respondents out of 2,327 respondents had an average median of RM18, 500.00 in their Employees Provident

Fund (EPF) account, and out of 512 respondents, only 222 of them had an average median of RM12, 000.00 in their EPF account.

1.2.1 Retirement

Retirement is when an individual leaves the labour force after many years of being in a committed job (Society of Actuaries Key Findings: Working in Retirement, 2012). Retirees are those who have retired from their full-time work. They do not need to clock in and out and work according to office hours. Throughout 40 years of working, everyone lives by the clock, and the body needs to follow a systematic routine. Life after retirement is a new one. It is a completely changed life. Retirement is about starting a new phase of life (Sullivan & Al Ariss, 2019). Even though people wish to remain employed at older ages, they are forced to leave their job because of factors like declined productivity, poor health, mandatory retirement and age discrimination, and structural shifts in labour demand (Sullivan & Al Ariss, 2019).

In Malaysia, the government decided the minimum retirement age is 60 years old, which was enforced on 1st July 2013 (Ministry of Human Resources, 2013). Figures 1.1 and 1.2 indicate the retirement age changes for Malaysian men and women from the year 2010 until the year 2014. However, the retirement age for employees can be above 60 years as the employers can decide the retirement age. Premature retirement is not advisable in Malaysia. Those who commit the offence without a proper justification will be responsible for a fine not exceeding ten thousand Ringgit (Act 753: Minimum retirement age act 2012). There are several critical elements of "retirement readiness" (De los Santos et al., 2020). The most crucial aspect is that before retiring, a person should have a clear vision of retirement and start planning according to it. The approaches include knowing

the need for savings, potential threats, and a backup plan if he is forced to retire earlier. Next, one has to be smart enough to have solid retirement incomes, which include savings and investments, and be aware of the benefits of a pension from the government. Besides, they should equip themselves with sufficient knowledge before retirement to make wise decisions about retirement investments, government benefits, and healthcare. Lastly, the person should have an understanding of family. They can have an open discussion about financial matters and agree on any expectation of support.

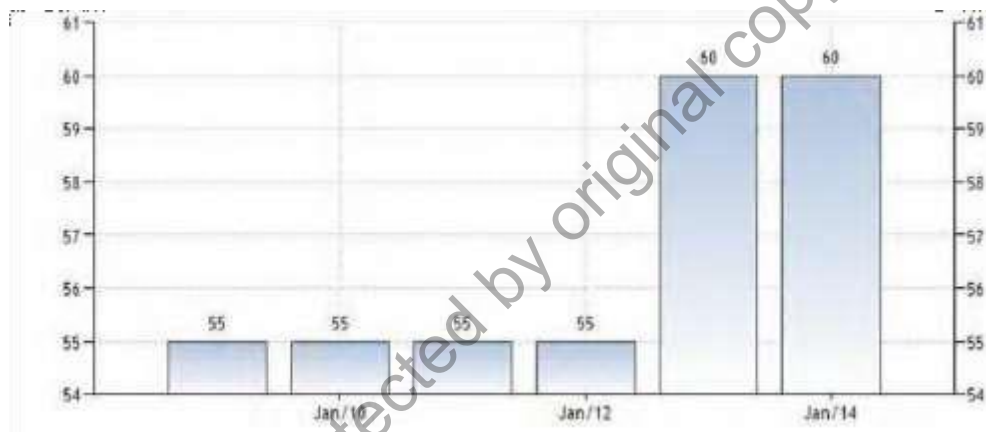


Figure 1.1 Malaysian Retirement Age: Men
Source: Trading Economics (2015)

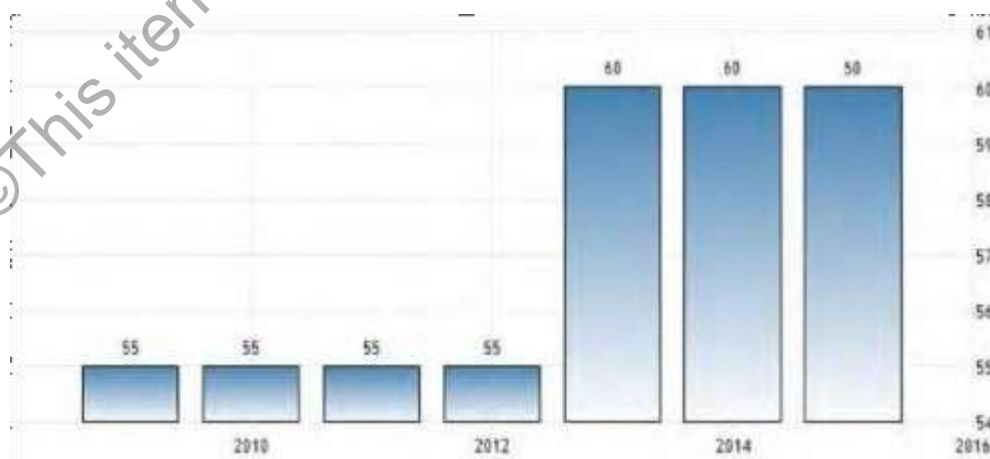


Figure 1.2 Malaysian Retirement Age: Women
Source: Trading Economics (2015)

According to a report by Selvadurai et al. (2018), there are five essential steps for a well-planned retirement. Firstly, one should know their retirement needs while working. Individuals need to know how much they need to sustain themselves throughout retirement. Secondly, importance should be given to savings in advance. Sufficient savings is required as an aid of support for the elderly upon retirement. In Malaysia, it was found that approximately half of the retirees were supporting their children financially. One of the leading causes of Malaysians having higher debts is children's education (Selvadurai et al., 2018). Children in Malaysia depend on their parents even after they retire, so those parents with fewer savings and financial aid continue working to support their children.

Thirdly, in retirement planning, people should know how their savings will be affected by significant life events. Individuals with little savings or investments upon retirement will face problems when they come across unexpected expenditures. Health related expenses are one of them. Everyone should set a considerable amount for medical expenses as it rises due to economic growth. Mitchell et al. (2021) explained that in the United States, Long-term Care (LTC) is in crisis as medical advances result in higher costs and very few retired persons are prepared to pay for their LTC as they do not have sufficient savings or insurance for themselves.

Fourthly, those who want to retire with less financial burden should be able to plan for the future before they retire. Individuals with lower incomes need financial retirement planning more than those with higher incomes (Tan & Singaravelloo, 2020). Planning is crucial in this new century because earlier generations of employees rely entirely on their pensions; however, many employees will also need to depend on their savings. Therefore,

by planning, one can solve their financial issues. Financial planning guides individuals to review their financial goals and take necessary steps to update or fulfil them (Selvadurai et al., 2018).

Lastly, to improve their financial well-being for later life, retiring person is encouraged to seek advice from financial professionals to help them by advising pertinent matters they should do before they retire (Sabri et al., 2020). For instance, professionals may suggest investing in financial schemes like public mutual to get a return several years after retirement.

Despite all the importance of retirement planning, Safari et al. (2021) found that less than 50 per cent of 300 employees said that they had attempted to plan for their retirement, and less than 40 per cent of them have achieved their goals, and out of them, only 14 per cent boldly said that they would have sufficient resources at retirement. In short, there is a need to spread awareness of retirement planning among Malaysians. They ought to have a clear vision of retirement and plan accordingly. In the current unpredictable economic situation, Malaysians must have solid retirement incomes rather than depending on their pension or EPF. The awareness of planning for retirement should start while working itself.

1.2.2 Retirement Age Policy

The flexible and adjustable retirement policies in the 21st-century help individuals face the changing social demographics and human capital shortages in certain occupations. Many find ways to balance their dreams and financial security even when

nearing retirement age (Tan & Singaravelloo, 2020). The initial retirement age policy cannot be used as it is irrelevant to today's living. Many employees have practised expanding the retirement age to keep abreast with the progress of demographic changes. In the United States, researchers contended that working upon retirement can lead to a better quality of life for the elderly and this population generally tends to be more productive and resilient (Wandner et al., 2018).

However, the retirement-income systems in Asia are not well prepared for the rapid growth of population ageing, which will take place over the next twenty years. (Wandner et al., 2018). Several pieces of evidence consistently indicate that initially, in many countries, the retirement age was lower compared to the current policy, which states that the minimum age is sixty (60), and the retirement age can be prolonged. For instance, Chen et al. (2020), who conducted a study in China, stated that proper adjustments should be made according to socioeconomic development and population.

The current retirement age in China is 65 years for men and 55 years for women in white-collar professions and 60 years for men, and 50 years for women in labourintensive fields (Chen et al., 2020). In addition, De Tavernier et al. (2022) stated that many western countries have policies where the retirement age is delayed as they aim to increase income and decrease disbursements. This is because the pension payment is increasing due to the increased number of elderly populations. Usually, the retirement age is above 60. For instance, the retirement age in the United States of America is 66 years old for both males and females.

The increase in retirement age results in a reduced number of pensioners and pension expenditure, which would positively affect the number of pension contributions. Thus, the findings for certain countries suggested increasing the retirement age by redesigning their pension systems to encourage their employees to be longer in the labour force (Atav et al., 2021). In the United States, researchers found that most retiring employees are well-prepared to work beyond the retirement age because they are fit to work to earn some income, and there is an increase in life expectancy (Heisler & Bandow, 2018).

The impact of extending the retirement age would affect the competitiveness of enterprises. Chen et al. (2020) stated that state-owned and collective enterprises faced depression because they had to pay high insurance as the labour costs were primarily pensions and insurance. The higher the retirement age, the lower the contribution rate. When the contribution is low, the enterprises' burden reduces, resulting in the growth of the enterprises, and automatically it aids in absorbing more labour force. For example, Australia's retirement income system is one of the best in the world, with prolonged retirement age. The minimum retirement age is only 65, and the minimum age will increase to 67 over the next decade (Chomik et al., 2018).

However, prolonged retirement age affects the employment of young ones. Twenty-five million Baby Boomers, 40 per cent of the U.S. labour force, will be leaving the labour force in large numbers by 2020 (Heisler & Bandow, 2018). Employees are less prepared to face the gradual changes in the labour force with an increased number of elderly employees than younger employees (Stirpe et al., 2018). Older people gain various experiences from the number of years they have worked. Thus, they are valuable

and productive labour, contributing to economic growth (Stirpe et al., 2018). Elderly individuals' expertise is needed to develop certain matters, but prolonged retirement age would affect the younger generation.

The researcher also found that demographic characteristics like age, sex, the status of current employment, and personal health influence older people to continue working. In China, it was reported that elderly with white- and blue-collar professions gave opposing opinions regarding prolonging retirement age. Those with white-collar professions like government officials, teachers, doctors, accountants, and engineering agreed to work longer than their retirement age, and those with blue-collar professions, like labourers, disagreed with the rise in retirement age (Rabaté & Rochut, 2020). Elderly employees are capable of working closer to capacity than younger employees; however, most of them are inhibited from performing well in physically demanding work. For instance, elderly employees in Taiwan face challenges in remaining working in their old age. Once they are retired, they find it challenging to seek odd jobs to survive or maintain their personal and family standard of living (Lu, 2022).

In brief, based on the previous studies, the retirement age policy has been changed to ensure workers keep abreast with the progress of demographic changes and ageing. There is a need for a broader look at the retirement age policy as many individuals face challenges in fulfilling their dreams and planning for their financial security even when they are approaching retirement.

1.2.3 Pension Funds

Pension funds play an essential role for retirees as these funds are collective contributions from the pension plans planned by the employers or the organizations where the employees worked before. Every month, a minimal amount will be taken from the employee's salary and put in any pension funds. Later, the employees can use up the funds upon retirement. Every country has pension funds for its employees.

In Singapore, the government developed Central Provident Fund (CPF) for the employees. It is a social security savings plan that gives a sense of security and confidence for employees' retirement years. CPF Life was introduced to provide employees aged 65 and above who are citizens and permanent residents a monthly payout for as long as they live, and those between the age of 55 and 80 who are not part of this scheme can opt to join (Leng, 2019).

CPF Life consists of two plans; CPF Life Standard Plan and CPF Life Basic Plan. In CPF Life Standard Plan, employees' savings in their retirement account will be deducted twice. The first deduction is made at age 55 from employees' Retirement Account (R.A.) according to their Basic Retirement Sum. The second deduction is made one or two months before the employees' payout eligibility age. In this round, the rest of the R.A. savings will be deducted as the second instalment of their annuity premium. In the CPF Life Basic Plan, deductions from R.A. savings will be made twice as well; however, the actual percentage of deductions will depend on employees' age and gender. So, the employees will be informed about the deduction amount once their policies are issued (Leng, 2019).

CPF members are also exposed to housing schemes. Savings from CPF Ordinary Account (O.A.) can be used to buy new or resale Housing and Development Board (HDB) flat under the Public Housing Scheme (PHS) or to buy or build private residential property for occupation or investment under the Private Properties Scheme (PPS). (Leng, 2019). The board also states that CPF members will be insured under Home Protection Scheme (HPS), which protects them and their families against losing their homes if the members pass away or experience a permanent disability before they finish their housing payments.

CPF members are also exposed to health schemes. For instance, Medisave is a savings scheme that aids members in saving a portion of their income for their personal or immediate family's hospitalization, day surgery, and other outpatient expenses (Leng, 2019). Employees will contribute 8% -10% of their monthly income to this scheme. Employees aged 35 and below will pay an 8 per cent monthly contribution, while those between 35 to 45 will pay 9 per cent. Employees between 45 to 50 years old make 10 per cent monthly contributions. Those 50 years old and above will pay 10.5% of the monthly contribution. The above rates are for employees who earn more than \$ 1500 per month, and those who make less than \$1500 are different (Leng, 2019).

Besides that, MediShield Life is a basic health insurance plan provided by the CPF, which can be helpful for members to settle large hospital bills and expensive outpatient treatments like dialysis and chemotherapy for cancer (Earn, 2020). Private Medical Insurance Scheme (PMIS) in CPF allows the members to utilize the Medisave savings to buy Integrated Shield Plans (I.P.s) for themselves and their family members, including their parents, spouse, children, and grandparents (Earn, 2020). In CPF,

ElderShield is provided for disabled individuals, and it is a reasonable insurance scheme with essential financial protection. Individuals with ElderShield will be given a monthly cash payout for their expenses for up to seven years. At 40, CPF members with Medisave Account (M.A.) will be offered ElderShield (Truong, 2021).

In Malaysia, the government has several pension funds like Employees Provident Fund (EPF) and the Social Security Organization (SOCSO), the Government Pension Scheme for Civil Servants and the Old Age Benefit Scheme for the Armed Forces (YinFah & Paim, 2010). These funds act as social security, and they provide benefits for the members who will be retiring. Retirees will be given a service pension monthly, service gratuity in lump sum payment, and cash award instead of leave, when applicable in lump sum payment. According to Jabatan Perkhidmatan Awam (2005), the rate of gratuity and pension will be paid to retirees based on the following calculation:

Gratuity

$7.5\% \times \text{number of months of reckonable service} \times \text{corresponding last drawn salary.}$

Pension

$1/600 \times \text{number of months of reckonable service} \times \text{corresponding last drawn salary.}$
(Subject to a maximum pension of three-fifths (3/5) of the final drawn salary (after a service of 30 years or 360 months of reckonable service))

Cash Award in lieu of Leave (GCR)

$1/30 \times [\text{basic salary} + \text{fixed allowances}] \times \text{no. of leave accumulated up to 120 days.}$

However, having sufficient savings upon retirement is an issue even with these funds. Despite having several pension funds, EPF remains the primary income security upon retirement. Almost half of the labour force population in Malaysia are EPF members from the private, non-pensionable public sector and self-employed employees (Visyalini, 2018).

Selvaduraj et al. (2018) explained that Malaysians face the challenges of not having sufficient savings upon retirement. According to Alkhawaja and Albaity (2020), many people do not have enough knowledge of the fundamentals of saving and investing and are not fully aware of the chances provided for retirees. These cause many retirees to live undesired lives upon retirement.

It could be even more challenging with the increase in the life expectancy of the elderly population. In Israel, it was found that among 550 elderly respondents, 42.6 per cent claimed their pension funds were insufficient for their entire life (CohenMansfield & Eisner, 2020). Similarly, statistics have shown that the average retirement saving of Employee Provident Fund (EPF) members in Malaysia is insufficient for their whole life (Rameli & Marimuthu, 2018). Even with relatively high contribution rates of 11 per cent of basic pay by employees and 12 per cent by employers, individuals with low income will not accumulate sufficient savings for retirement as the amount contributed to EPF is directly related to individuals' monthly salaries (Rameli & Marimuthu, 2018).

EPF survey in Malaysia back in 2003 indicated that 14 per cent of the members used up all their EPF money within three years, and 70 per cent of the retirees used up their savings within ten years of retiring (Rashvinjeet, 2011). Another study indicated that 86 per cent of EPF contributors failed to have adequate savings upon retirement. These studies included 2,427 former EPF contributors, and the surveys found that 14 per cent of the retirees used up their savings in 3 years, half of them ran out of savings in 5 years, and 70 per cent of them finished up their savings in ten years (Ministry of Human Resources, 2013).