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Retire with Poor or Rich? Life Cycle Model Approach

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Abstract: *Everyone think that retirement planning is too far for them. As a result, they fail to plan and save for their golden age. The purpose of this paper is to examine the four factors namely the financial self-efficacy, financial socialization, financial literacy and financial behavioural influence are the most important retirement planning among the working individuals in the private sector. Life cycle theory was use in determine Malaysians retirement planning. These studies are using the quantitative method. The study outcome will be beneficial to the government and non government in Malaysia. Policy maker will enhance and continually make improvement on how to create the awareness effectively regarding the importance of the retirement planning.*

Keywords: Financial self-efficacy, Financial Literacy, Financial Socialization, Retirement Planning

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1. Introduction

Malaysia gross domestic savings keep decreasing. In November 2020 forecast the number of savings will keep decreasing (Nur Haziqah A Malek, 2020). 9 out of 10 Malaysians have zero savings is considered a serious problem in Malaysia and 96% of households who live in rural areas have zero saving compared to the households who live in the urban areas 86% (Ho, F. (2016).

In Malaysia, Employees Provident Fund (EPF) goals is to ensure our Malaysian employees can enjoy their retirement. In the private sector, the employers are required to contribute 13% while 11% from employees of their salary respectively to the EPF for the employees benefits (Eugene & Wong, 2013). Even there have EPF fund but Malaysian employees nowadays are still short of money while in their retirement age and some retirees need to work as a part time due to the lack of retirement fund and the burden of high cost of living. In conjunction with, those who is lack of retirement planning will be facing difficulty to sustain their life after their retirement (Eugene & Wong, 2013).

The age of retirement for men and women in Malaysia averaged at 57.78 from 2009 until 2017, reaching an all time high of 60 in 2013 and a record low of 55 in 2010.

Figure 1: Age of Retirement Men And Women in Malaysia

Source: Trading economic.com Inland Revenue Boards of Malaysia,
(Economics, 2009-2018)

Member who withdrew 70% from their Employees Provident Fund's (EPF) saving spend all within 30 days which is a serious problem occurred in Malaysian (Nornisah, 2016). EPF fund is also insufficient for retirees to support their golden age due to the longer life expectancy (Narayanan, 2002). Majority of our Malaysians in the private sector are over-depending on the Employee Provident Fund (EPF) and for public or government sector they will depend on their monthly pensions from the government when they retire, which they think is good enough for them but in fact is insufficient to survive in today's volatile economic environment (Zabri, Ahmad, & Lian, 2016).

Majority of our Malaysian people do not have enough for their income. So the mandatory contribution to the Employees Provident Fund for the retirement benefit is insufficient. From the annual report 2016 EPF have 14.80 million members only 6.88 million members are actively and consciously contribute to their EPF (EPF Annual Report, 2016). In conjunction with the annual report it seems that the active members have less than RM500,000 in their respective EPF saving which is insufficient for them to cover their expenses when they retire (Ibrahim, Isa, & Ali, 2012).Table 1 below shows the average of their member at 54 years old meaning that is 1 year before their members are entitle to make a full withdrawal.

Table 1: Member Average Saving at Age 54

MEMBERS' AVERAGE SAVINGS AT AGE 54

Year	Active Members			Inactive Members		
	Number of Members	Total Savings (RM)	Average Savings (RM)	Number of Members	Total Savings (RM)	Average Savings (RM)
2008	53,022	7,027,524,442	132,540	130,653	2,860,548,303	21,894
2009	54,939	7,681,372,168	139,816	134,556	3,055,433,736	22,708
2010	62,028	8,868,040,956	142,968	148,844	3,528,282,764	23,705
2011	62,358	9,304,858,493	149,217	146,172	3,418,820,359	23,389
2012	68,151	10,788,445,936	158,302	157,425	3,802,693,654	24,156
2013	73,168	12,193,461,751	166,650	160,131	4,203,516,072	26,250
2014	76,424	13,767,990,019	180,153	166,131	4,578,149,209	27,557
2015	81,646	15,875,114,998	194,438	169,425	5,343,743,319	31,540
2016	**82,332**	**16,819,459,387**	**204,288**	**170,844**	**5,812,652,311**	**34,023**

Source :("Annual Report EPF-Members"Average Savings at Age 54," 2016, p. 17)

Another key point is, 92% of Malaysians start to worry over retirement fund on their financial health and needs when they are in the old age that have been mentioned by assistant Bank Negara Malaysia. In general, most of our Malaysian popular strategies for their retirement is over depending on their children or partner, they continue working after retirement and relying on the government financial assistance (Jessica, 2016). It is important to realize that nowadays generation Y the young adult think that retirement planning is too far for them due to their different life style and different thinking perception (Joseph, 2010).

From this point of view shown that our Malaysians' level of financial literacy awareness in the retirement planning is low. Furthermore, the life expectancy of Malaysian male and female keep increasing every year. Thus male age reach 60 years are expected to live until 78.4 years old and female can live until 82.2 years. Based on Department of Statistic Malaysia the population age 60 years old increased from 3.4 million (2019) to 3.5 million (2020) which is 10.7 represents the total of population. The longer of life expectancy in their retirement age the more will they be the burden with the high cost of medical healthcare.

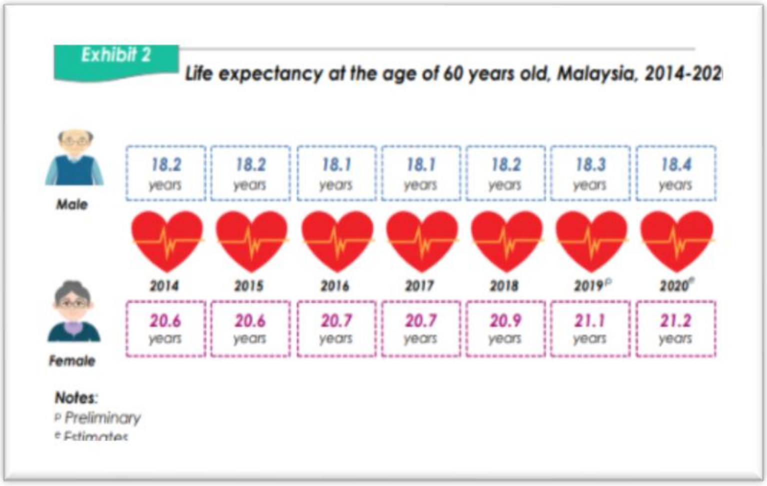

Figure 2: Life expectancy of birth Malaysia
Source: Department of Statistic Malaysia 2020

Malaysians life expectancy increase to 74.7 if they were to retire at 60 years old how are they going to survive for another 15 years if the average life expectancy is 74.7. In this 15 years retires need some money to cover their expenses for instance for the healthcare, food, and other expenses. In this globalised environment in Malaysia, inflation rate keeps increasing. Based on this worrying situation, how can our Malaysians hedge against the skyrocketing inflation rate nowadays? From this current situation, how can we cope with this problem? This is a very alarming problem that occurres in Malaysia. 9 of 10 Malaysians are having zero savings which is a sad news and failing to plan for their finance (Ho, F, 2016). Miserably that one in three Malaysians do not have savings account and majority of them cannot survive more than 5 years post retirement. As a result, this research is to create our awareness on how to start planning for their retirement and when is the right time to start planning for a comfortable retirement.

In addition, a study that have been conducted showed that only 22% have their retirement plan. Meaning to say that another 78% of them are not prepared financially for their retirement. Most of our Malaysian people are not having a proper financial planning for their retirement years (Andy Chua, 2015).

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Furthermore, some Malaysians are nowadays facing with serious of bankruptcy charges. The Malaysia Department of insolvency declared that cases of bankruptcy are consistently keep increasing year by year due to the lack of financial literacy in the ability to handle their personal finance well. Most of the Malaysian especially graduates will be facing bankruptcy problem due to their own lavish lifestyle. Another reason that causes of bankruptcy is due to the high cost of living (Isabell, 2014).

Table 2: Total of Bankruptcy by Age from year (2012-2016)

GOLONGAN UMUR	TAHUN					JUMLAH	PERATUS
	2012	2013	2014	2015	2016		
DI BAWAH UMUR 25 TAHUN	130	208	635	122	91	1,186	**1.16**
25-34 TAHUN	3,970	5,212	4,822	4,648	5,184	23,836	**23.38**
35-44 TAHUN	7,164	7,616	7,641	6,507	6,601	35,529	**34.85**
45-54 TAHUN	5,698	5,973	6,223	4,744	4,967	27,605	**27.07**
55 TAHUN DAN KE ATAS	2,499	2,818	2,867	2,299	2,536	13,019	**12.77**
TIADA MAKLUMAT	114	160	163	137	209	783	**0.77**
JUMLAH	**19,575**	**21,987**	**22,351**	**18,457**	**19,588**	**101,958**	**100**

Source: Malaysia Department of Insolvency, (2016).

2. Literature Review

Financial Literacy

Financial literacy can be defined as “the sufficient knowledge regarding their personal finance, fact and also was the key in their personal financial management (Garman et al. 1999). Besides that, in their discussion the lack of financial literacy and time constraints in learning about personal finance is considered a stress or barrier for them to make decision on their personal finance due to a lot of product choices in the market nowadays. Financial literacy is important among Malaysian today because it will be useful for them in planning their own financial with a smart way (Fisher, Hayhoe, & Lown, 2015). On the other hand (Abraham. A & Michael, A. G, 2009) indicated that financial literacy is about the education or knowledge skill and understanding on their own finance, manage their own financial in the well informed and plan carefully with the smart way. A poor financial literacy or lack of financial literacy will affect on the decision making in handling their own finance. Individual that have ability on knowledge and skill in finance will manage their life time financial well-being effectively using all resources provided for their happy life in future (Suwanaphan, 2013). Retirees need to have some knowledge or skill in handling or planning for their retirement to ensure that they are happy while they retire.

People who are financial literate and financial educated will have basic understanding on some financial concept for instance our current inflation rate, interest rate, risk reduction, compounded interest and diversification in their finance (Sabri & Juen, 2014). Nowadays inflation rate keeps increasing so is the time for those who is educated will start their planning as fast as possible. From this view people who are financial literate and have better understanding on financial conceptual capability and high confidence will manage their personal finance. This financial literacy level is able to use in short term decision making and long term for retirement planning (Remud, 2010). Individual who is low level of financial literacy is one of the main reason that would cause financial crisis in their retirement in future

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(Atkinson and Messy, 2011). Furthermore nowadays individual needs to be knowledgeable in finance in order to survive in the volatile economic environment like our country Malaysia (Lusardi and Mitchell, 2010).

All individual should have financial literacy awareness as consequently they would make up their mind regarding their budget and planning for their future (Harnish, 2010). The Credit Counselling and Debt Management Agency (2016) mentioned that lack of financial knowledge or financal literacy awareness is the main reason as to why individuals having a lot of debts especially youngsters that having loans and using credit cards as the main causes of bankruptcy. Every month there are a lot of bankruptcy cases. Hopefully after doing this research it will reduce the number of bankruptcies in Malaysia especially the youngsters nowadays (Azaddin, 2016). Mostly the consumers do not have sufficient financial literacy so it will affect on the decision making. People who is low financial literacy will make their decision on their retirement planning late (Mak and Braspenning, 2012).

Researcher argues that person who is financial literate is able to manage their money and grow money value by investing in the right place or save in the right place. Let their money work for them instead they work for the money by using their expertise in analytical skill. This kind of people will be responsible on their finance (Beal, Depschtray, 2003). Financial literacy is about to describe how well their knowledge and understanding the concept of financial concept then use their expertise plan and managed their own financial and decision making (Hogarth , 2002). In addition, an individual having positive mind set or attitude the outcome is that they will be more confidence on their retirement if they have a strong financial literacy awareness (Kim & Garman, 2004).

Financial Self-efficacy

The definition of self-efficacy is "belief in one's abilities Start organizing and activities and tasks required Self-efficacy beliefs are important to engage in and follow through with self-regulatory behaviour and are unique to the behavioural domain under it (Asebedo et al., 2019). Financial self-efficacy is an individual's belief in, or belief in, this same possibility to accomplish it. Financial self-efficacy is an individual's belief in, or belief in, this same possibility to accomplish his financial goals. When a person's level of confidence is high, he or she will be encouraged to do everything possible to achieve his or her goals. The higher the level of self-efficacy or the level of individual confidence, the better or the more responsible individual in managing their own finances (Asandimitra & Kautsar, 2019). Self efficacy can be used to explain and change the saving behaviour. In particular, Medium to high Self efficacy levels can help continue providing individual motivation so it could help them save for the long term and prevent over expenditure (Lown et al., 2015).

Financial Socialization

Financial socialization as a planning phase for the identification and development of individual values , attitudes, standards, norms, knowledge and behaviors which lead to the development of financial socialization, financial viability and well-being of individual persons (Jorgensen et al., 2017). Financial socialization shall include the internal processes through which youth and teens develop consumer skills and learn to adult economic world, directly or indirectly (Kim & Torquati, 2019). Family roles have major effects in the course of young minds, and enable actively participating and applying money management skills independently. It is a phase where individuals gain and develop their own skills, thoughts that influence them in the area of management of finance. These behavior are developed by their family members and could be used for the later in life (Bakar & Bakar, 2020). Families also positively influence their children to make smart decisions and learn about financial management by trying to bring good behavior in their children. The significance of financial learning and family interaction is discussed in this research on financial socialization. For the past researches have shown that effect of the family is far stronger than financial socialization by any other source of social support (Grohmann et al., 2015).

Financial Behavior

Financial behavior leads to individual behaviors related to money management. Beside that it also state that cash, credit and savings management are part of common financial behavior activities. Therefore poor behavior in making financial decisions could have serious long-term, negative cultural and social negative effects (Kumar et al., 2017). In this study individual who is working in private sector they are aware of the important of financial behavior nowadays consequently they plan their saving for future. Good financial behavior can minimize financial hardship and therefore reduce the negative effects, such as initiatives to minimize personal debt, spending complying, reduce costs of living, financial management and retirement savings, make and increase savings, minimize financial hardship and have a direct impact on financial satisfaction (Ahmisuhaiti et al., 2017). Financial behaviour is about building controlling the budget for instance payment of bills and save regularly. This human behaviour will leads and applicable to their own financial situation in decision making and money management (Rai et al., 2019). In this research individual who is working on private sector will start to control their spending before making decision. Financial behaviour can also be defined as the total amount of cash flow behaviour, credit behaviour, savings behaviour, investment behaviour, and other financial perspective. Employees in the private sector have different financial behavioural perception due to their different background of demographic. Demographical factor is also one of the factors that will determine the individual financial behavior.

Life Cycle theory

From the past research reveals that women employees tend to save due to the high perception on saving behaviour (Sudindra & Naidu, 2018). In this study individual who is working on private sector in Kelantan also have positive saving behaviour and mostly they diversified their savings in a variety type of saving vehicle.

The life-cycle hypothesis was formulated by (Franco, M, 1950) and his student Richard, Brumberg, the objective of this is to better understand individual life-saving plan for their retirement. Ultimately, the life-cycle hypothesis is the main motivation and encourage employees to save and utilise their savings in their upcoming retirement age.

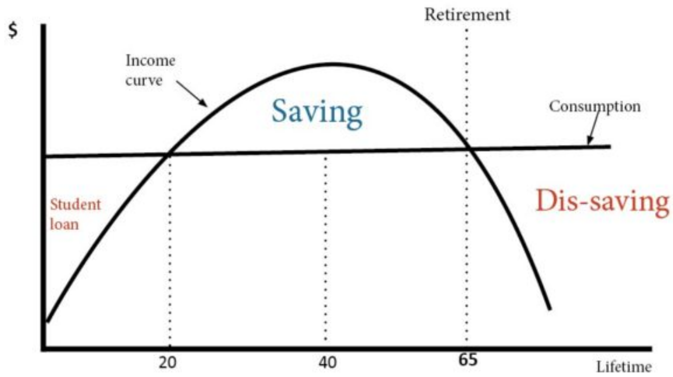

Figure 3: The Graph Shown Individual Save From 20 To 65 Years Old

3. Discussion and Conclusion

People who is financial literacy will manage their money in a smart way but in contrast to the employee who is working in the Small Medium Enterprise lacks of financial knowledge in order to diversify their money as a saying goes don't put all egg in one basket if the basket is spoiled all the saving will be gone. The effective and smart way is to diversify their saving portfolio to maximize the profit return. Financial planning is important because it is about the understanding on their own financial management and planning carefully with a smart way. A poor financial planning or lack of financial planning will affect on the decision making in handling their own finance.

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