

Influence of Investment Experience and Demographic Factors on Retirement Planning Intention

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Abstract

This paper analyses the effect of demographic factors and investment experience on retirement planning intention. As noted in many discussions, issues surrounding retirement have emerged as one of the main topics in public debate, mainly because the world population continues to age. The lost of regular income during the golden years apparently becomes an obstacle for one to chase and realise his or her dream. Seemingly, post-working life is a completely new experience and the adaptation to this new living style is challenging especially with longer life expectancy. Recognising the importance of retirement planning, 300 structured questionnaires were administered in April 2009. The final sample consists of 216 after the account for non-replied questionnaires and the removal of incomplete data. Pertinently, Malaysia represents a unique platform for this research due to its multiracial cultures. Overall, the results of this research show that demographic characteristics affect behavioural intention, i.e. marital status, age, and income level. Investment experience is another factor reported to have significantly affected retirement planning intention in this study.

Keywords: Retirement planning, Investment experience, Demographic factor

1. Introduction

Financial planning continues to be one of the high priority matters for both private and public policy makers. Numerous policy efforts, as well as marketing strategies have been undertaken to capture public attention and more importantly, the various approaches are important to encourage savings and planning for post-working life. Not surprisingly, it has been a buzz word hogging the airtimes and newsprints lately. Advertisements from financial service and counselling firms, for example have made its appearance at every sighted spots, like billboards, television, and print and electronic media, in order to create public awareness and to capture audience attention about the importance of this planning for better financial protection.

It is clear that personal retirement planning is not a mandatory, but rather an option of personal choice about financial preparation and management. That is, it is partly based on the strategy to allocate one's income for savings, investments, and spending. This process is that simple. Unfortunately not everyone is ready for this plan. Joo and Grable (2005) noted that not all are financially prepared for their post-working life because they have either limited savings or they do not have enough assets to generate that level of income. In the United States (U.S.), only 66% of workers have saved for retirement but the amount is insufficient in most cases, according to the 2007 Retirement Confidence Survey (Helman, VanDerhei & Copeland, 2007). In addition, the AXA Retirement Scope 2008 has clearly shown in thestar online (2008) that the retirement income for Malaysians retirees is insufficient, or a total of RM325 is needed to fill the gap for each retiree. Ideally, the accumulated savings must be able to sufficiently finance at least the same level of pre-retirement consumption (Yuh, Montalto & Hanna, 1998). This matter is practical and deserving serious consideration from all parties. Seemingly, an early plan and preparation is promising and rewarding, given that it eliminates fear, provides greater flexibility, and offers financial security to the retirees. It is therefore undeniable that retirement planning reduces future uncertainty but how prepared we are for this?

In fact, retirement planning has been the major concern for many years and it is still the main issue facing policymakers nowadays (Yao, Hanna & Montalto, 2003). Among the reasons, Joo and Grable (2005) stressed that population aging, investment uncertainty, baby boomer, and different retirement policies have all heightened the significance of retirement preparedness. Likewise, the erosion of income during golden years has been a hot issue to most Malaysians. According to the Great Eastern Life Assurance (M) Berhad executive vice-president and chief marketing officer, Loke Kah Meng, 99.90% of the Malaysian citizens have the tendency to withdraw their savings one lump sum from Employees Provident Fund (EPF) once they reach 55 years old (Note 1) (Hunt, 2009). More worrisome, 70% of them would spend the whole amount after the withdrawal in three years times. Given these challenges, the Malaysian government has been urged to come out with better and concrete plans to help citizens so that they are capable to manage their finance in the light of inflation and rising of medical costs. The initiatives, among others, include the launch of 1Malaysia Retirement Scheme for those without fixed income and self-employed, as well as the increase of personal tax relief to RM7000 for EPF contribution and life insurance scheme premiums.

The two issues have combined to make the study about retirement planning a significant topic subsequently for most researchers (e.g. Joo & Grable, 2005). Continued on the same note, the present study is set to investigate the effect of demographic factors and investment experience on retirement planning intention among Malaysians. Unlike the general study in personal financial planning, the study focuses explicitly on retirement planning to be more specific in its scope. Besides, this topic is relatively new in Malaysia, and more importantly, it is pertinent to Malaysia in view of its multiracial cultures. Belonging to different ethnic group, the Malaysian is dissimilar in many aspects, including lifestyles, cultural beliefs, religions, and habits. Against this backdrop, the behavioural intention and attitude towards retirement planning might not be alike. Therefore, the study is conducted to understand whether people will respond to retirement planning the same way. After all, the findings are important to raise public awareness of the critical need for this planning and to help outline strategies to encourage early preparation.

2. Literature Review

Financial planning and being prepared for retirement are two interrelated issues. Research addressing financial planning often includes retirement intention because savings made in the early life-cycle turns to be the resources for later, retirement years (Elder & Rudolph, 1999). In its basic, retirement is the withdrawal of oneself from the office, service, or business, which subsequently leads to a less structured lifestyle with ample free time (Lawrence, 2003). The workers, especially civil servants, understand that their income is diminished when they age, mainly due to physical inability, and they most likely have no clue about the source of income in future once they are away from the workplace. The lost of regular income coupled with inflation during the golden years is apparently a hard time for senior citizens especially with longer life expectancy. A proper plan thus is called for to provide better security.

Retirement planning has received great attention from policy makers since many years ago. Many countries have accorded first priority to this issue and embraced retirement into its top planning agenda. In the U.S. for example, retirement planning becomes the primary public policy issue mainly because the population continues to age (Elder & Rudolph, 1999; Yao et al., 2003). Wiener and Doescher (2008) noted that the government has undertaken serious efforts, by two alternatives, namely structural approach and communication technique to encourage savings for retirement. The first approach aims to change the conditions to make people save while

the latter changes worker's knowledge and perceptions about retirement savings. Regardless of the differences, the same objective remains to bring about transformation in retirement planning.

There are a few good reasons for retirement planning. In one hand, retirement planning captures a part of public finance. More precisely, it needs an allocation of tax income or a substantial budget to take care of the well-being of citizens, for example the healthcare maintenance for the elderly. Years over years, a huge fund has been spent for this protection and perhaps, this may help explain why public policy makers proactively make employers more accountable for employee retirement funding deficiencies (e.g. Harrison, 1997). On the other hand, the plan provides financial security to the individual, which ensures that the lifestyle expectancy is met with no disappointment. The plan is more than a right choice to reward themselves because retirement is time for leisure activities like travelling and chasing dreams. Therefore, it is believed that a good planning not only leads to a better living standard but improves the governmental spending and expenditures.

As aforementioned, a proper planning for post-working year is warranted for both individuals and the regulator. Besides the main income from job engagement, people nowadays have started to diversify the sources of income in a hope for better financial security. Lai and Tan (2009) reasoned asset investment is needed to strengthen monetary security, particularly for their post-working years. Barker (1995) further stressed tax as another consideration besides inflation and healthcare expenses in financial planning. More prominently, the extended life expectancy and the rise of living cost make retirement planning a serious consideration. Possibly, retirement planning provides a less stressful living, which is good for both physiology and psychology.

To start with this planning, the party concerned needs to abstain from spending and set aside funds for retirement purpose. The fund not spent is used for various purposes, which include savings, investments, and insurance in order to reach the financial goal. The plan is straightforward but the adoption is relatively low as not everyone is ready for retirement (Joo & Grable, 2005). To explain this phenomenon, Engel, Blackwell and Miniard (1990) mentioned three factors: environment, individual, and psychology. Environmental factor refers to culture, social class, third party influence, and working situation. Individual factors take into account of demographic characteristics like age and races while psychology is characterised by inner state of the person, such as attitude and information processed. The differences among people in these three aspects are believed to have potentially affected workers' perception and willingness to do their planning. Following that, many studies have been conducted surrounding this facet. Lim (2003) for example conducted a research on senior workers in Singapore about their retirement planning. In general, the respondents are neutral to this issue. Nonetheless, when they age 50 years and above, retirement planning represents one of their priority. In addition to this, Devaney, Su, Kratzer, and Sharpe (1997) concluded that age, marital status, and income tend to have a significant impact on the amount of money saved for retirement. Furthermore, higher income, longer years of employment, better education, having a skilled occupation, and being White are positively related with the defined contribution retirement fund levels (Yuh & Devaney, 1996). On top of that, VanDerhei and Olsen (2000) noted that women tend to invest less of their contributions to qualified retirement plans in equity assets compared to men. As a brief summary of previous studies, demographic factors have profoundly affected retirement planning intention.

3. Research Methodology and Data Collection

The primary research objective of this study is to test the effect of demographic factors and investment experience on retirement planning intention. Hence, a total of 300 questionnaires were personally administered in three states in Malaysia, namely Johor, Melaka, and Selangor in April 2009. Only 250 respondents attempted this survey. There were 50 questionnaires that were failed to be collected from respondents. Of the total 250 responded questionnaires, 34 copies were discarded due to incomplete data, making a sample of 216 copies in the present study or a total of 72 % response rate. SPSS version 16.0 was used to analyse all the data collected.

The questionnaire was designed in such a way to capture the effect of demographical difference on retirement behavioural intention. Section A consists of gender, age, marital status, race, education level, annual income level, investment experience, and status of employment. In addition, there were four questions with likert-scale of 5 points in the behavioural intention section. That is, respondents were given options between 1-point of strongly disagree to 5-point of strongly agree about their retirement planning intention in Section B. These factors were identified based on the previous researches like Lai and Tan (2009), Lim (2003), and Turner et al. (1994) that suit the Malaysian context. Besides, the four questions were reviewed and tested on validity by subject expert while they were reliable with Cronbach's alpha value more than 0.80.

Appropriate statistical tests were used to test the hypotheses, including t-test, analysis of variance (ANOVA), and its post hoc analysis, Tukey method.

Independent t-test was performed to compare means for two groups of cases. As such, the difference of gender and marital status with binary scores was tested on retirement planning intention using t-test.

In addition to t-test, an analysis of variance or ANOVA, was used to determine whether or not there is a significant mean difference in a dependent variable by a single factor. Plainly, ANOVA was performed to find out whether there is a significant difference for three or more groups. In this study, age groups, races, education level, annual income level, employment status, investment experience were tested using ANOVA.

To provide more insights, post hoc analysis using Tukey method was performed to determine which pair of mean differs significantly.

4. Data Analysis and Discussion

Table 1 describes the demographic profiles of the respondents participated in this survey.

The statistic in Table 1 shows 45.8% of male respondents and 54.2% female respondents. Both gender participated in this survey are almost in equal in terms of number. The respondents are mostly from age group between 20 and 29 (41.70%). The next higher age category is 30-39 (23.60%). The following age group is 40-49 (20.40%), 50-59 (13.00%) and only 3 respondents aged 60 and above.

Chinese is the major respondents, at 53.20% while the least race group is from others. Malay community represents 35.20%, while 9.30% is Indian. In the section of marital status, more than half of the respondents are being single. Only 105 respondents indicated that they are married. It is reasonable as majority of the respondents are young in this survey, age between 20 and 29.

98.60% of the respondents have received their education under different level. 35.20% of them have attained secondary school education, while 29.60% are undergraduates. Diploma level makes up of 28.20% while the respondents from postgraduate level are only 4.20%. Against this backdrop, most of the respondents hence have income level below RM 20 000 annually. Only 6.00% earn more than RM 40 000 per annum. As anticipated, full time employees outnumber self-employed, part-time workers, and those who are doing odd-job, at 92.20%.

The results from independent t-test are shown in Table 2. It is noted that males are not significantly different from females in terms of their retirement planning intention. In contrast, VanDerhei and Osleen (2000) found that men tend to allocate more contributions for retirement plan.

Married respondents are significantly different from being single at 0.01. The mean in addition shows that married respondents show greater interest in retirement planning. Consistently, a similar result has been reported in DeVaney et al. (1997) that marital status is related to retirement savings.

The ANOVA results depicted in Table 3 shows that age and income level are significantly different when come to retirement planning ($\alpha < 0.01$). In addition, there is a difference between investment experience gained and the intention to plan for golden years ($\alpha < 0.01$). Other variables, including race, education level, and employment status, on the contrary are reported to have no significant difference on this behavioural intention. These findings are inconsistent with several previous researches. For example, a positive relationship was reported between education level and retirement saving in Hogarth, (1991) and Joo and Grable (2005), while ethnicity was a significant factor towards retirement planning in Yuh and DeVaney (1996).

Among the age groups, post hoc analysis portrayed in Table 4 indicates that respondents from 20-29 years old are less concerned about retirement planning (mean= 3.19). In contrast, people from age group of 40-49 and 50-59 consider retirement planning a more serious issue (mean= 3.70, 3.82 respectively). The results are at 1.00% significant level. This finding is similar to Hograh (1991) and DeVaney et al. (1997) that retirement savings are positively correlated with being older.

Table 5 illustrates the significant difference among income levels. The results show that those earn more than RM 40 000 per annum (mean= 4.23) are significantly different from the category of below RM 20 000 and RM 20 001-RM 30 000 (mean =3.34, 3.52 respectively). Specifically, high wage earners are more likely to have a plan for retirement. In a study of retirement saving, Joo and Grable (2005) provided the same finding that higher income group tends to have a saving plan for retirement purpose.

Among the investment experience, respondents who have reported no experience exhibit different interest in retirement planning, significant at 0.01. As shown in Table 6, respondents with little, moderate and extensive experience have greater intention about the planning (mean= 3.68, 3.60, and 3.95 respectively).

5. Conclusion

The statistical results show that not all individuals in Malaysia are financially prepared for retirement. Being older, higher income, more investment experience, and married couples are more likely to plan for their retirement in future. In other words, financial capability, previous asset management experience, and social exposure are related to the willingness of planning for retirement. Married and aged people are undeniable to have greater exposure to many aspects, including investment and life quality; whilst most young adults are reasonably to have less commitment since they are still single. To explain, the accumulation of experience throughout the years has further 'enlightened' the older group about the importance of early preparation for future benefits. On the other hand, financial planning requires monetary obligation and this help explain higher income group to have interest in retirement planning comparatively.

Perhaps, this is not an ideal picture that regulators have wanted to see. As addressed in the beginning, retirement planning has been the public issue because it bears direct consequence on public finance, social problems, and personal well-being. The intention for retirement preparedness is supposed to be set in to everyone's mind so that a better standard of living is built in the golden years. To highlight this issue, financial planning education is critically needed in the education system to inculcate the savings behaviour from young age because awareness comes before planning and action. Not only that, several affordable financial plans shall be in place so that low wage earners have other alternatives in their planning. Possibly, financial counselling service should be made available to low-wage earners, in order to raise awareness of the importance of retirement planning.

As a recommendation for further study, a more comprehensive study about the factors that influence the behavioural intention is needed to point out the determinants of retirement planning.

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Note

Note 1. EPF is the governmental body for savings for old. All Malaysian employees and employers must register as members of EPF. Members of EPF can withdraw savings from the fund at age 55.

Table 1. Demographic profiles of the respondents

Demographic Characteristics		Frequency	Percentage
Gender	Male	99	45.8%
	Female	117	54.2%
Age	20-29	90	41.7%
	30-39	51	23.6%
	40-49	44	20.4%
	50-59	28	13.0%
	60 and above	3	1.4%
Race	Malay	76	35.2%
	Chinese	115	53.2%
	Indian	20	9.3%
	Others	5	2.3%
Marital status	Married	105	48.6%
	Single	111	51.4%
Education level	No education	3	1.4%
	Primary school	3	1.4%
	Secondary school	76	35.2%
	Diploma	61	28.2%
	University degree	64	29.6%
	Postgraduate	9	4.2%
Annual income	< RM20 000	146	67.6%
	RM20 001-RM30 000	31	14.4%
	RM30 001-RM40 000	26	12.0%
	>RM40 000	9	6.0%
Employment status	Casual	1	0.6%
	Part time	12	6.7%
	Full time	166	92.2%
	Self-employed	1	0.6%

Table 1 shows the demographic information of the respondents.

Table 2. Independent t-Test for gender and marital status

Items		Mean	Std. deviation	Sig. value
Gender	Male	3.49	0.91	0.75
	Female	3.45	0.77	
Marital status	Married	3.73	0.76	0.01**
	Single	3.22	0.84	

* $p < 0.05$, ** $p < 0.01$

Table 2 portrays the relationship between gender and retirement planning intention, as well as between marital status and retirement planning intention.

Table 3. ANOVA Test

Factors		Sum of Squares	Mean Square	F- value	Sig. Value
Age	Between Groups	13.68	3.42	5.26	0.01**
	Within Groups	137.10	0.65		
	Total	150.77			
Race	Between Groups	4.34	1.45	2.09	0.10
	Within Groups	146.44	0.69		
	Total	150.77			
Education	Between Groups	1.84	0.37	0.52	0.76
	Within Groups	148.93	0.71		
	Total	150.77			
Income	Between Groups	11.63	3.88	5.91	0.01**
	Within Groups	139.15	0.66		
	Total	150.77			
Status	Between Groups	2.27	0.76	1.12	0.34
	Within Groups	119.34	0.68		
	Total	121.60			
Experience	Between Groups	18.54	6.18	9.91	0.01**
	Within Groups	132.24	0.62		
	Total	150.77			

* $p < 0.05$, ** $p < 0.01$

Table 3 indicates the results of the relationship between various factors and retirement planning intention.

Table 4. Post hoc analysis for age-Tukey Method

Age	Mean		Mean Difference	Sig. value
	(A)	(B)	(A) –(B)	
20-29 and 30-39	3.19	3.52	-0.33	0.15
20-29 and 40-49	3.19	3.70	-0.51	0.01**
20-29 and 50-59	3.19	3.82	-0.63	0.01**
20-29 and >60	3.19	4.00	-0.81	0.43
30-39 and 40-49	3.52	3.70	-0.18	0.80
30-39 and 50-59	3.52	3.82	-0.30	0.50
30-39 and > 60	3.52	4.00	0.48	0.85
40-49 and 50-59	3.70	3.82	-0.12	0.98
40-49 and >60	3.70	4.00	-0.30	0.97
50-59 and >60	3.82	4.00	-0.18	0.99

* $p < 0.05$, ** $p < 0.01$

Table 4 indicates the post-hoc result for age and retirement planning intention.

Table 5. Post hoc analysis for annual income level-Tukey Method

Annual Income (RM)		Mean		Mean Difference	Sig. value
(A)	(B)	(A)	(B)	(A) –(B)	
<20 000 and 20 001-30 000		3.34	3.52	-0.18	0.67
<20 000 and 30 001-40 000		3.34	3.72	-0.38	0.13
<20 000 and >40 000		3.34	4.23	-0.88	0.01**
20 001-30 000 and 30 001-40 000		3.52	3.72	-0.20	0.80
20 001-30 000 and >40 000		3.52	4.23	-0.71	0.04**
30 001-40 000 and >40 000		3.72	4.23	-0.51	0.25

* $p < 0.05$, ** $p < 0.01$

Table 5 indicates the post-hoc result for annual income level and retirement planning intention.

Table 6. Post hoc analysis for investment experience-Tukey Method

Experience		Mean		Mean Difference	Sig. value
(A)	(B)	(A)	(B)	(A)-(B)	
None	Little	3.08	3.68	-0.60	0.01**
None	Moderate	3.08	3.60	-0.52	0.01**
None	Extensive	3.08	3.95	-0.87	0.01**
Little	Moderate	3.68	3.60	0.08	0.92
Little	Extensive	3.68	3.95	-0.27	0.66
Moderate	Extensive	3.60	3.95	-0.35	0.44

* $p < 0.05$, ** $p < 0.01$

Table 6 indicates the post-hoc result for investment experience and retirement planning intention.