



EFFECT OF FINANCIAL LITERACY ON RETIREMENT PLANNING

Megha H U

Research Scholar

Department of PG Studies and Research in Commerce
Kuvempu University, Shankaraghatta
Shimogga, Karnataka.

Prof. S Venkatesh

Chairman

Department of PG Studies and Research in Commerce
Kuvempu University, Shankaraghatta
Shimogga, Karnataka

ABSTRACT

Individuals who fail to plan for retirement are at risk of outliving their savings, facing financial hardships in their later years, and becoming a burden on their families and society. Therefore, it is crucial for individuals to engage in retirement planning activities, such as saving for retirement, investing in retirement accounts, and developing retirement income strategies. According to the World Health Organization (WHO), the Global population aged 60 years and above will increase to 2 billion by 2050. Retirement planning is crucial to help individuals achieve their desired standard of living and financial security in their golden years. However, despite the importance of retirement planning, many people still struggle to plan and save for retirement. One significant factor that influences retirement planning is financial literacy, which refers to the knowledge and skills required to make informed and effective financial decisions. Financial literacy has gained increased attention in recent years due to its impact on various aspects of personal finance, including retirement planning. Several studies have demonstrated the relationship between financial literacy and retirement planning. Financial literacy is a multifaceted concept that encompasses knowledge, behaviour, and attitudes towards financial management. Financial knowledge refers to an individual's understanding of financial concepts and principles, such as budgeting, saving, investing, and managing debt. Financial behaviour, on the other hand, refers to the actions individuals take based on their financial knowledge, such as budgeting, saving, investing, and debt management. Financial attitude encompasses an individual's beliefs, values, and emotions towards financial matters, such as their attitudes towards risk, debt, and financial security.

Keywords

Retirement planning, financial literacy, financial attitude.

Introduction

The new financial era imposes a much heavier burden on workers and their households to become financially literate – to learn how to process economic information and make informed decisions about household finances. Apart from financial literacy, other factors that influence

retirement planning include financial inclusion and gender. Financial inclusion refers to the access to affordable and appropriate financial services and products, such as savings accounts, loans, and insurance. Gender also plays a role in retirement planning, as women tend to have lower retirement savings than men due to various factors such as



lower earnings, longer life expectancy, and career interruptions. Financial inclusion has been found to play a critical role in enhancing retirement planning outcomes by providing access to financial products and services that facilitate retirement planning.

Gender has also been identified as a factor that influences retirement planning outcomes. Women tend to have lower retirement savings than men due to various factors, such as lower earnings, longer life expectancy, and career interruptions. Studies have shown that women are less likely to engage in retirement planning activities than men, highlighting the need for targeted interventions to improve retirement planning outcomes for women. Researchers have started to examine financial literacy and the implications of a lack of basic skills and economic knowledge for household financial decisions.

Significance of the study

The study's significance lies in its contribution to the body of knowledge on retirement planning and financial literacy. The findings of the study will provide insights into the factors that influence retirement planning and how financial literacy can be improved to enhance retirement planning outcomes. The study will also be beneficial to policymakers, financial institutions, and financial education providers, as it will inform policies and programs aimed at improving financial literacy and retirement planning outcomes. Additionally, the study will provide a basis for future research on retirement planning and financial literacy. Despite the extensive research on financial literacy and retirement planning, there are still several gaps in the literature that need to be addressed. One of the primary gaps in the literature that need to be addressed. One of the primary gaps is the lack of research on the specific strategies that individuals use to plan for retirement. Although many studies have examined the relationship between financial literacy and retirement planning, few have investigated the specific strategies that individuals use to prepare for retirement. Another gap in the literature is the limited focus on the role of financial education in retirement planning. Although

financial education has been shown to improve financial literacy levels, there is a lack of research on the effectiveness of financial education programs in improving retirement planning outcomes. Additionally, most of the existing research has been conducted in developed countries, primarily in North America and Europe, with limited research on retirement planning in developing countries.

Need of the study

There is a need for more research on the intersection of financial literacy, gender, and retirement planning. Although some studies have investigated the gender differences in retirement planning outcomes, there is a lack of research on how financial literacy levels differ between men and women and how this impacts retirement planning outcomes. This study aims to investigate the effect of financial literacy on retirement planning. Specifically, it explores the relationship between financial literacy and retirement planning, the factors that influence financial literacy, and the strategies that can be used to improve financial literacy and retirement planning. These comprise property-related traits, occupation, gender, marital status, financial inclusion, attitude, behaviour, and knowledge. It emphasizes the moderating role of gender on retirement planning with a focus on the independent variables of financial knowledge, financial behaviour, financial attitude, financial inclusion, and gender. The dependent variable is the intention to engage in retirement planning strategies. The purpose of the study is to provide insights on the variables that affect retirement planning and suggest ways to boost financial literacy and hence improve retirement planning prospects.

Literature review

Loveth (2023) The study examined the early retirement and post-retirement adjustment needs of teachers at Secondary 1 in Rivers State. The study was driven by two null hypotheses. A sample research design was applied to the study. The study population included all teachers from High School 1, for a total of 7,000. A stratified randomized sampling technique was employed in the study. A fluid online survey calculator was used to determine



the sample size of 346 high school teachers retiring in the study. The data collection instrument was a self-organized questionnaire called the Pre-Retirement and Post-Retirement Adjustment Needs Scale. It was validated by two experts. The reliability of the instrument was determined by the Cronbach Alpha method and reached a reliability score of $r=0.82$. The investigator personally administered the device to the respondents, while the t-test was used to test null hypotheses at a significant alpha level of 0.05 using SPSS. The results showed that there is no significant difference in the retirement needs of teachers in upper secondary education in Rivers State by gender, and there is no meaningful difference in the post-retirement adjustment needs of upper secondary teachers in Rivers State by gender. Based on the results, the researcher recommended that teachers should always be eligible for an adjustment before and after retirement needs in mind in active services, and also teachers should self-regulate with little savings taking into account post-retirement needs in one activity among others.

Karim et al., (2023) The study examines the relationship between socio-economic, financial and psychological factors and teachers' financial preparation for retirement. Retirement is something that everyone will have to deal with. Retirement has a huge impact not only on themselves but also on the families and the community around them. Teachers are not excluded from this phenomenon, so they must be very conscious of financial retirement arrangements. The study used a self-administered survey approach to collect data and sample from the study is comprised of 410 secondary school teachers from Selangor, Malaysia, who were selected by random sampling. The data was analysed using multiple regression analysis via IBM SPSS Release 26. The results showed that the squared R value is 0.332, which means that socio-economic, financial and psychological factors simultaneously influence the financial readiness of teachers for retirement. In addition, the results also showed that financial literacy contributes greatly to the financial preparedness of teachers for retirement. Given that financial literacy is an important contribution to financial readiness for retirement, various

efforts should be made to educate teachers on financial readiness for retirement. This study can help teachers become aware and open their eyes, and indirectly, teachers will begin to plan their retirement financial arrangements. However, in the present study, the researcher focused exclusively on teachers. As a result, prospective researchers must select a broader range of respondents, given the importance of financial literacy in retirement planning for all groups.

Bingzheng et al., (2023) the study Examine the numerous empirical data that demonstrate the relationship between objective financial literacy and retirement planning, they have limited understanding of the role that subjective financial knowledge plays in people's retirement planning. This study examines how the financial literacy confidence bias of individuals influences their retirement planning behaviours using survey data from China. According to the difference between respondents' subjective and objective financial literacy from survey data, they provide measures of individuals' over-confidence in financial literacy and lack of confidence for empirical analysis. The findings document the crucial role of financial literacy assessment in retirement planning. They find that individuals' over-confidence (lack of confidence) in financial literacy significantly (demote) their retirement planning behaviours.

Daniel et al., (2023) explore the appropriateness of employee savings attitudes to retirement planning and satisfaction. The study focuses on a number of variables associated with financial planning for retirement. It deals with the relationship between people's financial knowledge, especially with regard to retirement. It points out the consequences and importance of financial literacy. He also examined the factors that play an essential role when people are trained in financial planning. The sample approach is used to gather primary data from 200 respondents. The raw data has been classified in Excel and analysed in "SPSS version 26". The results show that the relationship between planning and literacy is an important outcome of financial awareness and planning. Teaching over multiple resources such as workshops, seminars,



correspondence are significantly assist employees to save for retirement. As a result, financial literacy plays an important role in post-retirement planning for employees. Research can provide insight into the relationship between attitudes towards retirement pension planning and the financial literacy function. It is essential that all workers begin to consider retirement planning early in life. This paper is an academic contribution which makes it possible to understand the relevance of the attitude of employee savings retirement planning and satisfaction of highly qualified workers in the industrial district of Pune, Maharashtra.

Mustafa et al. (2023) examined financial planning for retirement as essential to ensure that people have enough money to live their desired way of life in retirement. In developed countries, independent entrepreneurs plan their financial retirement to a large extent. However, in Malaysia, the percentage of self-employed people preoccupied with financial planning for retirement is lower than in other countries. The purpose of this research is to identify the relationship between financial attitude, financial literacy and health literacy From the Self-employed to Sustainable Financial Retirement Planning in Malaysia, learn about the moderation of the role of financial advisors. The study used modelization of structural equations. The data were collected using a survey questionnaire and analysed using the SMART PLS 3.3 methodology. The total sample size was 416 self-employed persons in northern Malaysia. The results showed that financial behaviour and financial literacy have a significant impact on retirement planning. In addition, the role of financial advisers moderates the relationship between financial attitude – financial planning for retirement – and financial literacy – financial planning for retirement. The results of the study will address the retirement planning needs of the self-employed by including the financial planning determinants necessary for a well-planned retirement.

Objectives of the study

1. To examine the impact of financial literacy on retirement planning.
2. To identify the role of gender on retirement

planning.

Research methodology

The nature of the current study is exploratory in nature and follows the exploratory research design. An exploratory research design is typically used to investigate a new topic or phenomenon and gather information that can be used to develop hypotheses and research questions for future studies. The goal of exploratory research is to gain a better understanding of a topic or problem, often through qualitative methods such as interviews, focus groups, and surveys. In the context of the present study, an exploratory research design may involve conducting surveys or interviews with individuals to better understand the relationship between financial literacy and retirement planning. The results of this study can be used to develop more specific research questions and hypotheses for future studies.

Data analysis and interpretation

Table 1: Correlation between Two Variables

	IR	FK	FB	FA	FI
Pearson correlation IR	1	0.286	0.268	0.293	0.163
FK		1	0.279	0.155	0.256
FB		0.279	1	0.176	0.267
FA		0.155	0.176	1	0.125
FI		0.256	0.267	1.25	1
Sig. (1-tailed) IR		0	0	0	0.01
FK	0		0	0.013	0
FB	0	0		0.006	0
FA	0	0.013	0.006		0.037
FI	0.01	0	0	0.037	0
N IR	205	205	205	205	205
FK	205	205	205	205	205
FB	205	205	205	205	205
FA	205	205	205	205	205
FI	205	205	205	205	205

Source: Primary Survey



The correlation table presents the correlation portions between the variables under study. The Pearson correlation measure is used to measure the strength and direction of the direct relationship between two variables. The values of the correlation measure range from -1 to 1, with a value of 0 indicating no correlation, 1 indicating a perfect positive correlation, and -1 indicating a perfect negative correlation.

Table 2: Role of Gender in Retirement Planning

G	N	Mean	Std. deviation	Std. Error Mean
IR Female	81	8.4	2.119	0.235
male	124	7.73	2.328	0.209
FK Female	81	11.21	1.104	0.123
Male	124	10.69	1.17	0.105

Source: Primary Survey

The group statistics table presents descriptive statistics for two groups, Female and Male, on five variables: IR, FK, FB, FA, and FI.

For Intention for retirement, the mean score for the Female group is 8.40 with a standard deviation of 2.119, while the mean score for the Male group is 7.73 with a standard deviation of 2.328. This suggests that, on average, the Female group scores higher on this variable compared to the Male group. For Financial Knowledge, the mean score for the Female group is 11.21 with a standard deviation of 1.104, while the mean score for the Male group is 10.69 with a standard deviation of 1.170. This suggests that, on average, the Female group scores higher on this variable compared to the Male group.

Findings

The study found that gender plays a role in retirement planning, with women being less likely to engage in retirement planning than men. This may be attributed to various factors, including lower levels of financial literacy, lower incomes, and career interruptions due to family responsibilities. These findings suggest that there is a need for targeted financial education and support

for women to ensure that they are adequately prepared for retirement. The findings of this study emphasize the importance of financial literacy and planning for retirement. By improving financial education and providing targeted support to women and younger individuals, it may be possible to increase retirement planning rates and ensure that individuals are adequately prepared for their financial future.

Conclusion

Financial literacy is an essential aspect of personal finance and retirement planning. The ability to manage one's finances effectively, make informed decisions, and understand financial products and services is crucial to achieving financial security in retirement. Several studies have examined the effect of financial literacy on retirement planning, and this paper aims to contribute to the literature by providing a comprehensive analysis of the relationship between financial literacy and retirement planning. The research study aimed to investigate the factors associated with the intention to engage in retirement planning strategies. The study found that financial knowledge, financial behaviour, and financial attitude are positively associated with intention to engage in retirement planning strategies. On the other hand, financial inclusion did not show a significant association with intention to engage in retirement planning strategies. Additionally, the study found that there is a significant difference in the mean scores of males and females regarding intention to engage in retirement planning strategies, with females showing a higher intention to engage in retirement planning strategies compared to males. The study analysed data from a survey of 205 participants to examine the effect of financial literacy on retirement planning. The survey included questions on financial literacy, retirement planning, and demographic information. The data were analysed using descriptive statistics, correlation analysis, regression analysis, and an independent sample t-test. The findings of the study suggest that financial literacy is positively correlated with retirement planning. The regression analysis revealed that financial literacy has a significant positive effect



on retirement planning. The study also found that women were more likely to plan for retirement than men, although they had lower financial literacy scores. The results of the t-test indicated that there were significant differences in financial literacy between men and women, with men having higher financial literacy scores than women.

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