

Factors that Influence the Financial Planning in Malaysia

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Abstract

According to the Employee Provident Fund, Malaysians have insufficient retirement fund to sustain their retirement life. This paper studies financial literacy and wealth accumulation among Malaysians. A sample of thirty individuals has been chosen as a focus group. The focus group consists of six groups from 25 to 55 years old. This discussion is about retirement planning and saving profile from the perceptions of different levels of education. The results show individual perception on financial literacy, attitude towards saving, and awareness towards financial products. In addition, accessibility, availability and affordability are the factors that affect the attitude towards saving, financial literacy and awareness towards financial products. The existing financial products offered in financial market are important for retirees to plan their golden years. Therefore, customers should obtain financial services and products from financial providers to achieve financial independence.

Keywords: Retirement fund, financial literacy, wealth accumulation, focus group, awareness, availability, accessibility, affordability

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Introduction

Over the years, personal debt among Malaysians is getting worse and as a result the excessive debt has led to default and bankruptcy Yuen (2014). The difficulty of personal debt repayment is caused by the inability to balance the debt and income.

Lu, et. al. (2015) concur with the statement by Yuen (2014) that people's debt accumulation rate rises faster than their income growth, which may result in the default towards repayment and bankruptcy. Therefore, the increase in non-performing loans, insufficient in cash flow management and the lack of financial literacy are the factors which lead to the increase of personal bankruptcy (Cheng, et. Al, 2014; Hancock et. Al, 2013; Huhmann & Mc Quitty, 2009; Roberts & Jones, 2001). Kaviyarasu (2012) pointed that among all these factors, lack of financial literacy is the main cause of failure of cash flow management.

In addition, according to the statistics of Bank Negara Malaysia, the ratio of household debt to GDP has experienced an increase since 2000. Until 2013, this ratio has become the worst ratio compared to other countries in the Asia-Pacific region. The ratio of household debt to GDP in Thailand is 30%, Indonesia is 15.8%, Hong Kong is 58%, Taiwan is 82%, Japan is 75%, and Singapore is 67% respectively (Bank Negara Malaysia, 2014). The latest data from the Department of Statistics (2014b) shows that the median monthly wages and salaries are RM1700 in 2013. This implies that half of the workforce

got this amount or less, making them deficits, and forcing them to seek for assistance to meet daily needs.

According an analysis highlighted in 2013, the household debt includes 56.5% mortgage loans, 20% car loans, 8.3% personal loans, 5% credit cards, 7.8% securities insurance, and others at 2.4%. The higher debt in mortgage, car and other luxury goods cut down the impact of personal savings as well as retirement planning, which eventually leads to both short-term and long-term saving problems. In fact, in Malaysia, saving for retirement is perceived as a relatively new concept. Malaysians save for their children's needs, who in return are expected to provide support for them in retirement and in their twilight years (Beh & Folk, 2013).

This study reveals a serious problem in Malaysia in terms of the financial planning, which needs to be solved immediately. Many researchers and policymakers have to pay more attention on the retirement plan. For example, it is difficult to determine the key factors of retirement planning based on the policy, which will lead to poor family financial planning for the long term. Retirement planning comprises of two parts. Firstly is the role of the government to create a pension system in order to support the retirees in their future life. Secondly, is that individuals have to plan their wealth accumulation in advance to meet the financial needs during their retirement life. Thus, this research emphasizes on the personal retirement plan where a framework for retirement planning behavior is proposed to focus on

financial literacy and wealth accumulation through a focus group in Malaysia.

Literature review

According to Brigham and Ehrhardt (2013), personal financial planning refers to the continuous process of personal expenditure, finance and investment in order to achieve their financial goals. People are aware of this issue and tend to pay more attention for a better lifestyle and healthy financial condition. Hence, there are a variety of financial products and investment tools offered for people to achieve their financial goals. Lin et. al. (2016) elaborated that financial problems can be solved more intelligently if an individual is equipped with a comprehensive financial plan. For example, an effective surplus cash flow helps to accumulate wealth, maintain value, resist inflation, and utilize wealth during the retirement.

Furthermore, some people lack the ability to cope with cash flow management, risk and insurance planning, investment planning, tax planning, retirement and real estate, education planning and other financial needs. Ali et. al. (2015) demonstrated that Malaysia's financial planning industry has experienced a growth within the recent 5 years. Malaysians are unable to handle their financial issues. In addition, they also do not pay attention to the importance of financial planning, which will be beneficial on them (Albeerdy & Gharlegghi, 2015) since they lack financial literacy and preparation of long-term plans.

Due to the issues of an aging population, retirement planning has become the primary task of policymakers (Brucker & Leppel, 2013; Elder & Rudolph, 1999; Yao, et. al., 2003). Even though creating a personal retirement plan depends on intention and willingness, it is essential to be aware on the preparation for future retirement life.

However, consumers do not realize the importance of financial planning (Ng, et. al., 2011). The insufficient savings and limited assets result in a higher level of surplus, which will lead to consumers being not prepared for planning their retirement (Joo & Grable, 2005). An effective retirement plan is different from a financial plan. The wealth that is being accumulated in the early stages of life become a source of financial support for retirement (Elder & Rudolph, 1999), Retirement planning has a significant impact on accumulating wealth (Ameriks, et. al., 2002; Lusardi, 1999; Lusardi & Mitchell, 2007a; Lusardi & Mitchell, 2009; Lusardi & Mitchell, 2011b). Lusardi (1999) state that the distribution of net wealth is various in different types of planners. The result shows that the median planners are able to accumulate wealth three times more than those of non-planners.

Certain information is needed in order to develop a retirement plan. According to the study done by Gustman and Steinmeier (1999), Rohwedder and Soest (2006), and Delavande and Rohwedder (2011), there is little evidence that show individuals can access adequate information such as pensions and social security. Although recent studies show that financial knowledge can be very useful for financial behavior (Xiao, et. al., 2011), a variety of researches have revealed

that there is a significant relationship between financial behavior and financial literacy (Hilgert, et. al., 2003; Lusardi & Mitchell, 2011; Robb, et. al., 2012). Others researches suggest that lack of retirement preparation is derived from insufficient educational opportunities which can develop a negative savings attitude (Bernheim, et al., 1997), consumers being overconfident in the quality of their financial decisions (Hershey & Wilson, 1997), as well as inaccurately estimating their own longevity (Walsh, et. al., 1989).

Moorthy, et. al. (2012) advocate a variety of methods to accumulate retirement planning funds and emphasize that the financial planning information can be obtained from retirement calculation, retirement seminars, financial experts, and other methods. In addition, Lusardi (2003) pointed out that financial planning has a positive impact on a good personal experience. However, most unpredictable events could not be planned as early as possible before retirement such as health problems and financial constraints (Ameriks, et. al., 2002; Waldkirch, et. al., 2004).

Methodology

A focus group study was conducted before the questionnaire was distributed. The formation of focus groups is based on a structured conversation in which qualified and eligible respondents are invited to share their views and experiences on their retirement plans, financial markets as well as related products. There are five groups of six participants with different educational levels (a convenience sampling procedure). These five groups are divided into highly educated and

less educated groups. The highly educated group consists of lecturers, professionals, students and in-service personnel with MBA degrees while the self-employed and the administrative personnel make up the less educated group. These groups are mixed with male and female Malaysians in the age group of 25-45 years old.

This research is based on a qualitative and exploratory method, which includes a group interview and a questionnaire. The questionnaire was conducted after the interview to assess the participants' different financial literacy levels and their savings information. The period of the discussion group is about forty-five minutes. Before that, a moderator was appointed to provide some guidelines for the discussion. The discussion was subjective and they were no correct or wrong answers. They shared their thoughts pertaining to the assigned issues related to this study. The moderator had sufficient financial knowledge in financial planning and this proved to be useful as the discussion was directed in the correct path. The discussion was tape recorded and this eased the process of transcription.

Retirement Planning

Retirement planning: Participants were asked, "What do you think about your retirement planning?" There were several responses, such as "this is your future plan after retiring", "this is a plan, you have to prepare for your tomorrow," and "this is a plan to know the total amount of pension received". All the participants knew the definition of retirement planning. The main concern is the different interpretations of retirement.

Sixty percent of them did not have any retirement planning, while one of them felt it was meaningless due to the short period of time before retiring. Ten participants mentioned that they have never considered about retirement at their young age. This is because they felt they still had the time or their income was not sufficient for their retirement savings.

There were four participants who did not believe on the retirement age limit and they had decided to work until they could not continue to work anymore. Six of them planned to retire at sixty. The others intend to work until they are able to accumulate enough wealth to live comfortably after retirement. The group discussion mirrored the life cycle theory. Forty percent of the participants did not know the total amount of money that they needed to prepare for retirement and how they could obtain the target amount. Ten percent of participants stated that it was impossible to know the exact amount of money needed due to the inflation and medical costs. Twenty percent of participants said that this is based on their capability of saving before retirement. One of them stated that they would estimate the amount of retirement funds needed with the help of a financial planner. The rest of the group mentioned that lifestyle, the health condition and status of debts would impact the amount of money needed to calculate for retirement.

Financial Literacy

Seventy percent of the participants responded to all the questions correctly. On the other hand, thirteen percent of participants could only respond to one question correctly.

Saving Attitude

Sixty-three percent of people tried to control themselves by hearing unexpected, adverse or bad financial news, and twenty-two percent of people have always thought that this news has caused excessive reactions. On the contrary, more than half of the participants would sell their stocks as the growing return on the stock market, and only twenty-five percent of people will do nothing, or buy more stocks.

In addition, fourteen out of thirty respondents have sufficient savings to pay for the living expenses for more than six months. However, the rest only can survive under their savings for less than 6 months. Furthermore, about fifty percent of the respondents said that investment growth is faster than inflation. However, the rest of the investors still believe that the growth rate of security of investment is at the same level or lower than the rate of inflation. In ten percent of the portfolio, sixty-three percent of the participants can accept the biggest loss of the portfolio in any year, while twenty-three percent of the portfolio cannot afford any loss in the first year.

Financial Products

The next area focuses is on the wealth accumulation and the awareness of financial products in terms of retirement in the markets. All participants were familiar with insurance, unit trust, stocks, bonds and property. One of them highlighted Islamic financial products, such as SUKUK and overseas investment. Two people mentioned about the lack of hedging products in Malaysia. Most participants commented to the lack of awareness and financial products in

Malaysia due to the lack of professionalism in the education system or agency advisory services.

Investment

For investment, most of the participants are engaged in either life or health insurance. This suggests that they are more concerned about protection than investment. Ten percent of the respondents thought that their property is their investment. People have different risks for different financial products. One participant said that due to the high commission and management costs, they were reluctant to participate in any investment. Another two stockholders said they enjoyed investing because they knew that high risk would lead to high returns. Those without shares said it would take longer, but they would get advice from professionals regarding stock picking.

In addition, five respondents mentioned that their other savings plans lack details and types of assets. When respondents are asked, "what kind of financial products do they like best?" they answered insurance for conservation and savings. Eighty percent of respondents stated that the affordability and availability of financial products play an important role in investment. One respondent said he did not believe in any financial products as he believed in himself rather than the financial market.

Another participant pointed out that, it is important to know the goals and objectives in order to find the right financial products. In addition, it is important to consider the choice of any product's reputation, past performance and product returns. More than half of the respondents

adverted that obtaining any information about different financial products is very crucial in their investments. Seventy percent of respondents seem to get financial products information from their families and friends. Few of them have pointed out that various financial columns, books and materials have provided them with the information. Five respondents mentioned that they gained access to information from their agents or financial planners. One of them said that social media is very important. Three of them seemed to seek information by themselves by whatever means necessary, rather than relying solely on other people's advice.

Conclusion

This research shows the retirement planning framework on the basis of financial literacy and wealth accumulation. A focus group discussion was conducted by collecting information about retirement planning. When asked to explain how to obtain sufficient funds they need to retire, they stated that their attitudes towards saving is important for accumulating wealth in the golden age.

The financial literacy level of respondents shows that financial literacy plays an important role in mastering the financial concepts for financial activities. People with high financial literacy tend to have a better understanding of the concepts involved, even though they are not able to clearly express their views or strategies all the time. The group agreed that systematic planning was important but uncertainty in terms of income, health and other factors make it difficult to determine the best financial plan for them.

It was emphasized that awareness is the most important factor for the use of financial products in the market. The findings show that people with low level of awareness have a precautionary factor in financial planning. Lack of awareness will not only affect the development of the financial system within the country, but also will influence the overall quality of life of the people.

Another factor affecting people's decision to use financial products is affordability. The findings show that the more expensive financial products and services are, the fewer people intend to participate, which is a rational expectation of consumer behavior. Accessibility is the next influential factor in using financial products. Due to the limited access to financial services and products, it is difficult for them to make decisions about the design, delivery and price of products such as mortgages, insurance and savings.

Another key factor that significantly affects the use of financial products is availability. In other words, if the availability of financial services and products is more convenient, then it will help expand people's contact with different stages, speed up equal opportunities and reduce financial inequality. This is important for the financial activities in the economy. The government should encourage financial institutions to offer consumers with more availability to all financial services and products.

The limitation of the focus group is that respondents may not be able to express their thoughts for more specific discussions in a sincere

manner. This is due to the asymmetric information, especially different opinions from different participants. Therefore, this research suggests a need for further research in this area, because the information about retirement planning behavior may be difficult to obtain. In addition, future researchers need to conduct longitudinal studies to have a better understanding regarding retirement planning behavior.

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