Retirement Planning Behavior for Financial Independence in Malaysia

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Abstract

A standard instrument is required to measure retirement planning behavior(RPB), especially for long term financial planning. This paper studies the reliability and validity of RPB. A sample of 900 Malaysians participated in this study. The focus of the study was to measure the Retirement Planning Behavior scale that was developed from the literature of different papers. The results show that RPB is a valid measurement based on its reliability and validity. The findings highlight two dimensions for the RPB scale which consist of attitude and intention towards retirement planning. Retirees will benefit from RPB as they will achieve financial freedom after their retirement.

Keywords: Retirement planning, retirement planning behavior (RPB), reliability, validity, financial freedom

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Introduction

Retirement represents a huge life transition for a majority of employees (Atchley, 1991). It is defined as when an individual stops continuing his or her primary career and usually begins to receive pension from either a public or private source (O'Rand & Henretta, 1999). Fehr, (2012) reported that most people suffer considerable amount of pressure in the transition to or the actual state of retirement. One of the most effective alternatives to assist a more successful transition into retirement is planning (Petkoska & Earl, 2009). Several studies show that people who made arrangements for their retirement demonstrate lower levels of pre-retirement anxiety, better adjustment, as well as greater satisfaction in retirement as compared to people who have failed to plan (Adams &Rau, 2011; Hershey, et al., 2010). Planning for retirement has various components such as financial security, good health and so on. Many theoretical types of researches, along with practical interventions focus on the financial domain of retirement planning, maybe at the expense of a broader set of domains such as health, leisure, interpersonal relationships, and work (Parker, et al., 2012; Knoll, 2010; Binswanger & Schunk, 2012).

The major issue in retirement planning literature review is that there is a lack of theory for assessment of retirement planning behavior. Some past researches have employed the role theory (Dorfman, 1989; Reitzes & Mutran, 2004) as well as continuity theory as proposed by Atchley, 1989, but these past researches did not develop a measurement to examine the theories directly. Therefore, the objective of this study is to develop a coherent measurement of retirement

planning according to the theory of planned behavior. Behavioral intentions might be affected by three elements as suggested by planned behavior theory which is the attitude toward the behavior, subjective norms, and perceived behavioral controls. Behavioral intention influences an individual's behavior patterns. Two factors in the theory of planned behavior which covers attitude and intention of behavior are employed in this study. There are two areas in the retirement planning. Firstly, retirement planning associates with the government's responsibility to support retirees during retirement through various retirement plans that include mandatory contribution. Secondly, is the individual's responsibility to plan for their retirement through investment or saving sufficient money for future retirement years. This study addresses the assessment of personal retirement planning.

Literature review

Retirement planning

Personal retirement planning refers to a personal plan for an individual for their retirement. A plan is required that comprises of saving, investing as well as spending based on their income which may vary for each individual (Joo & Grable, 2005; Ng, et al., 2011). Justification is given for the lack of retirement planning like insufficient savings or limited properties, which are two dominant factors for those who are unprepared to plan for retirement (Joo & Grable, 2005). This results to insufficient saving. Past studies have established a strong association between knowledge and behavior (Lusardi & Mitchell, 2011; Robb, et al., 2012). People who are

classified as “planners” are likely to have greater financial literacy compared to those who are classified as “non-planners” (Lusardi & Mitchell, 2007; Lusardi & Mitchell, 2009).

Although there are lot of a studies for retirement planning, the measurement of this behavior has rarely been studied. Despite the increase of evidence for the viability of retirement planning, the literature is overwhelmed by a broad as well as a questionable range of measurement scales (Elder and Rudolph, 1999; Noone, et al., 2010; Quick and Moen, 1998). For example, one of the largest aging surveys in the world, the Health and Retirement Survey (HRS), gauges retirement planning with three questions: “How much have you thought about retirement?”; “How much have you discussed it with your spouse?” and “How much have you discussed it with your friends or colleagues?” Other studies on retirement planning and well-being such as Quick and Moen (1998) inquire regarding the respondents level of plans for retirement which highlights a single three-level indicator.

Nevertheless, the questions of this research are too broad and general. In these questions, for instance, they do not investigate the different areas of retirement planning in which people are concerned about. It should include the type of factors, or aspects of planning leading to greater prosperity. In order to resolve these limitations, there is a need to develop a more detailed conceptualized question list (Hunter, 1976).

Currently, scholars differentiate and measured four aspects of retirement planning which are financial, health, lifestyle, as well as psychological planning. Friedman and Scholnick (1997) argue that planning encompasses different stages. The primary stage of planning for a future occasion is known to build up a mental representation of the problem space. Once a psychological comprehension of the subject is developed, objectives for what is to come are built up.

Subsequently, some individuals prefer to start planning or undertake the required behaviors to accomplish their goals. This decision is according to the issues of timing as well as the apparent viability of preparatory behaviours. Then, they form a plan or a strategy to reach their objectives. The plans are then executed and adjusted when necessary. Noone, et al., (2010) support this idea through determining the four stages to a retirement plan namely: retirement representations, retirement goals, the decision to prepare, and preparedness.

Methodology

Data and Sample Selection

The relevant primary data was collected through a survey instrument. The population of this study was from Malaysia. In 2016, Malaysia had an estimated 31.7 million population with 16.4 million being males. Ethnic Malay had the highest percentage (68.6%) followed by the Chinese (23.4%) and Indians (7.0%). The remaining 1.0% were other ethnic races. (Statistics Department of Malaysia, 2015). The samples of this present study were drawn from the KlangValley region in Malaysia with about eight million population in the year 2014. The

Klang Valley region was selected due to approximately 40% of the Gross Domestic Product of Malaysia generated from this area. In addition, it also represents the demographics of the country.

This study uses the convenience sampling approach which is a nonprobability sampling technique. This is due to the cost and lack of population list constraints. The current study attempts to minimize uncertainty as well as biasness through evaluating the sample's representativeness, adding diversity, and increasing number of samples. The questionnaires were distributed to Malaysians in different locations such as shopping malls, local markets, restaurants, public libraries as well as other high-density areas. Nine hundred questionnaires were distributed for this study.

The response rate in this study is 86.6% based on seven hundred and eighty (780) questionnaires were returned out of 900. From this group, since a large proportion of questions were not answered or straight lining (choosing the same response option for a set of items) as well as varying response patterns, a total of 260 responses were removed for further analysis. Thus, only 520 from 780 (66.6% response rate) were deemed usable. Three ethnic groups comprising of Malays, Chinese, and Indians were the focus of this study. A 6-point Likert-like scale, which ranged from strongly disagree to strongly agree was employed throughout this study. The questions of this study were all closed-ended.

Measurement and Statistical Analysis

This paper adapted the questions from MacFarland, et al., (2004), Noone, et al., (2010), Petkoska and Earl (2009), and Lusardi, et al., (2012**)** to measure the retirement planning behavior. In addition, the research adapted the questions from other prominent studies pertaining to retirement planning. The final part of the questions included age, gender, race, marital status, education, and income. There were five age categories: 18 to 29 (who finished their school education and may enroll in an university or seek for a job), 30 to 39 (most probably secure a job), 40 to 49 (may accumulate money or have savings), 50 to 59 (near to retirement age), and 60 and above (most probably retired) in this paper. Malay, Chinese, and Indians were three ethnic groups with diverse opinions, perceptions, and practices as a result of their cultural and ethnic background.

The reliability estimation of the internal consistency of the scale was measured by Cronbach alpha coefficient, which is an index referring to the number of variables and means of correlation between variables. It is the core reliability internal consistency index (Hair, et al., 2010). A reliable scale is characterized by repetitiveness and is not connected with measurement errors. Furthermore, a scale cannot be valid when it is not reliable. A principal component analysis with Varimax Rotation was adopted to explore the determinant structure of the data as well as to confirm the scale construct validity. Bartlett's test of sphericity and Kaiser- Meyer-Olkin (KMO) (KMO Measure of Sampling Adequacy, KMO) were adopted to examine the suitability of factor analysis before the factors are extracted. Bartlett's test of

sphericity was employed to investigate the inter-independence of the subscales on the scale, as well as the Kaiser- Meyer-Olkin (KMO) (KMO Measure of Sampling Adequacy, KMO) was adopted to analysis sample sufficiency (Hair, et al., 2003).

Findings

Majority of the respondents' age fell in the range of 30 to 39 (39.2%) and 40 to 49 (26.9%). The usable data showed two thirds (64%) of the respondents were married, 27.9% of them were single, and less than 5% were either widowed or divorced. More than half (55.6%) of the respondents were male, and 44.4% were female. According to the ethnic distribution, the Malays were 49.8%, Chinese (34.6%), Indians (12.5%) and others were 3.1%. By referring to the education level, more than half (53.1%) have a bachelor's degree, less than one-third (30.4%) did not have an academic qualification and 16.5% of them pursued their studies at the postgraduate level. The respondents who acquired an income of between RM 3,001 to RM 6,000 a month was approximately 43%, while 33% of respondents earned RM 3,000 or less. The percentage of monthly households' income in the range of RM 9,000 and above was only 9.5% (Table 1). Table 2 exhibited the skewness as well as kurtosis within the acceptable range (±3) which implied that the variable followed the normal distribution.

The internal consistency of the RPB scale was highlighted by a Cronbach alpha of .931 (Hair et al., 2003). Therefore, the RPB scale is a reliable scale.

		Frequency	Percent			Frequency	Percent
Gender	Male	310	59.6	**Marital Status**	Single	145	27.9
	Female	210	40.4		Married	332	63.8
					Divorced	26	5.0
					Widowed	17	3.3
Household Monthly Income	RM 3000 and below	166	31.9	**Age**	18-29	104	20.0
	RM 3,001-RM 6,000	215	41.3		30-39	201	38.7
	RM 6,001-RM 9,000	79	15.2		40-49	134	25.8
	RM 9,001-RM 12,000	37	7.1		50-59	68	13.1
	RM 12,001 and above	23	4.4		60 and above	13	2.5
Education Level	High school and below	44	8.50	**Race**	Malay	349	67
	Diploma	106	20.4		Chinese	130	25
	Bachelor Degree	282	54.2		Indian	36	7
	Post-Graduate	88	16.9		Others	5	1
Occupation	Self-employed	61	11.7		Military/Armed force	13	2.5
	Government sector	56	10.8		Professional	48	9.2
	Student	20	3.80		Other	44	8.5
	Private sector employee	278	53.5				

Table 1. Demographic Profile of Participants

Variables	Mean	Standard Division	Skewness	Kurtosis
Retirement Planning	4.1628	0.96479	-0.732	-0.404

Table 2.Descripive Results

Table 3 indicates that the sample sufficiency index Kaiser-Meyer-Olkin (KMO) is 0.920. This highlights the percent of 0.70 which is considered as a good value for the sum of analysis variables as it compares the size of the observed correlation coefficients to the size of the partial correlation coefficients. The values show that the sample data are appropriate for the undergoing factor analysis.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.920
Bartlett's Test of Sphericity	Approx. Chi-Square	5093.596
	df	105
	Sig.	.000

Table 3. KMO and Bartlett's Test

From the Table 3, it can be seen that Bartlett's test of sphericity is rejected on a level of statistical significance $p<0.005$ for Approx. Chi-Square = 5093.596. As the finding of KMO and Bartlett's test indicates the coefficients are not all zero. The findings of Barlett's test manifest the principal component analysis is a suitable technique for factor analysis.

A screen plot graph (Figure 1) shows a graphical representation of eigenvalues guide the author to determinate of the number of the essential factorial axes. A distinguished break up is presented up to the two factors, while after the two factors an almost linear part of the eigenvalue curve follows. 61.71% of retirement planning behaviour was explained by these two factors.

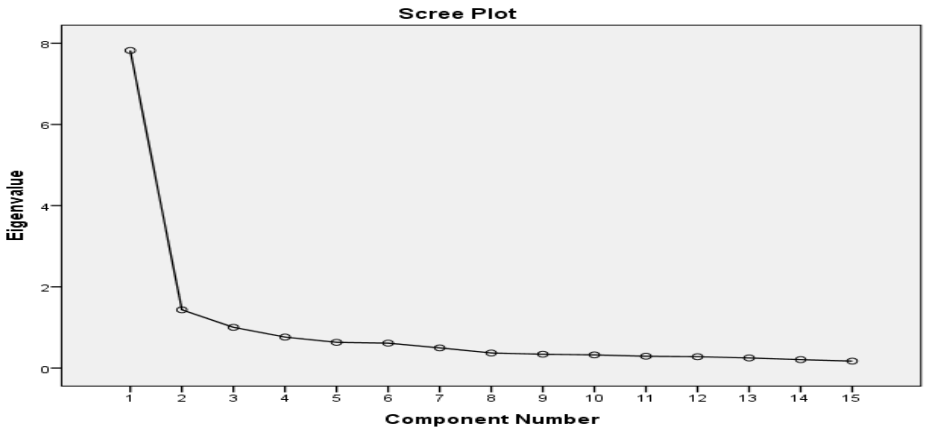

Figure 1. Screen Plot

From the data in Table 4, it is apparent that the components and factor loadings generated subsequently the Principal components analysis. The first factor refers as intention toward planning for retirement. The second factor relates to attitude toward behavior of retirement planning.

No	Question	Component	
		Retirement planning Intention	Retirement planning attitude
Re_4	I have a clear understanding of financial issues for retired people	.903	
Re_5	I spend time for planning and reviewing my finance.	.873	
Re_15	By the time I retire, I will have sufficient income to ensure the standard of living I need in retirement time.	.853	
Re_1	I am generally optimistic about my financial future.	.837	
Re_3	Making financial provisions for retirement is worthwhile.	.788	
Re_14	I know the amount of money I will need for retirement time.	.766	
Re_13	I am in a position to meet all of my financial goals for retirement.	.716	
Re_11	I participate in workshops/seminars on retirement planning.	.595	
Re_12	I usually discuss with my families/friends about retirement planning.	.537	
Re_8	I feel stressed out when I think about planning for retirement.		.866
Re_9	I am more focused on day-to-day responsibilities than on planning for retirement		.836

Re_10	Planning for retirement needs too much time and effort.	.814
Re_6	I never think about retirement planning.	.672
Re_2	It is early for me to start thinking about my retirement planning.	.664
Re_7	Ido not like dealing with money and finances.	.591

Table 4.Pattern Matrix[a]

Extraction Method: Principal Component Analysis.
Rotation Method: Promax with Kaiser Normalization.
a. Rotation converged in 3 iterations.

Conclusion

Based on the findings, the validity and reliability of the RPB scale is satisfactory. A total of 15 questions form the RPB scale in this study, which is an appropriate instrument to measure the retirement planning behavior. The components of analysis in this research are divided into two subscales, namely; (i) Intention to retirement planning behavior and (ii) Attitude toward retirement planning behavior. The associations between attitude and intention are significant to investigate theoretical validity. The findings show that those undertaking positive attitude towards planning for retirement manifest a greater probability to plan for their retirement. This finding supports not only the theory of planned behavior (Ajzen, 1991; Ajzen& Madden, 1986), but also previous studies (Armitage & Conner, 2001; Rise, et al., 2010) that examine these factors as an essential pre-requisite for planning behavior.

Several limitations of this study need to be acknowledged. Firstly, since this research employed a cross-sectional approach, time series analysis could not be examined. Nevertheless, the five age groups and the three ethical groups have lesser influence on the study limitations. Secondly, the current study adopted non-probability sampling method because of the cost and accessibility to reach the population constraints.

The RPB scale contributes towards an understandings of retirement planning behavior as well as interventions to facilitate planners. The majority of planning literature investigates the differences between planners from non-planners. There ought to be a more explicit recommendation to social policy makers as well as providers of educational programs. Besides that, future studies should also consider to adopt the RPB in order to examine retirement planning. This would help to foresee the well-being in retirement as the domains of the scale will show an influence to better plan. This has significant implications for planning-based policy as well as educational programs.

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