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JUDUL : **FACTORS INFLUENCING RETIREMENT PLANNING OF WORKING INDIVIDUALS IN KOTA KINABALU**

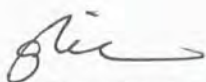
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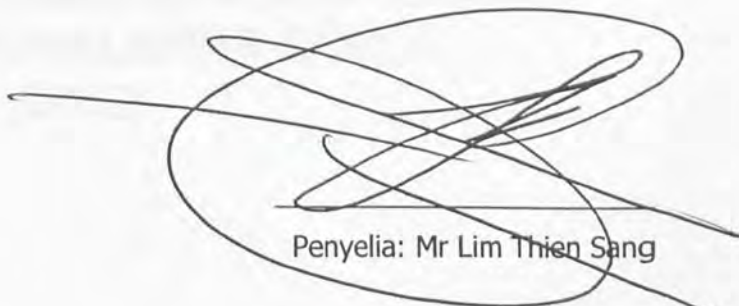


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**FACTORS INFLUENCING RETIREMENT  
PLANNING OF WORKING INDIVIDUALS IN  
KOTA KINABALU**

**GLORIA PEH SHEN YUH**

*PERPUSTAKAAN  
UNIVERSITI MALAYSIA SABAH*

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FOR THE DEGREE OF MASTERS IN BUSINESS  
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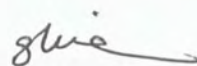


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I hereby declare that the materials used in this thesis is my own except for quotations, excerpts, equations, summaries and references which have been duly acknowledged.

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## **ABSTRACT**

### **FACTORS INFLUENCING RETIREMENT PLANNING OF WORKING INDIVIDUALS IN KOTA KINABALU**

The purpose of this study is to examine the factors which will influence the retirement planning behavior of the Malaysians by establishing the relationship between the retirement planning behavior and various factors influencing the retirement planning behavior. A total of 137 working individuals in Kota Kinabalu in the age group of 26 and above had participated in this study. This study contributes a clear view through the life-cycle theory and work role theory. From the results, there was significant relationship between retirement planning behavior and several variables which included social effects, peer effects, income, ethnic background and education level. However, insignificant result was occurred between retirement planning behavior and other variables such as job involvement, workplace financial education, financial literacy knowledge level, age, health status, gender and marital status. The findings of this study were found out to be supporting the life-cycle theory. Besides, the findings of this study have implications for working individuals to do early planning for retirement and marketers to market more suitable retirement products for different groups of consumers in order to enable them to have strong financial resources during their golden years when they retire.



## **ABSTRAK**

*Tujuan kajian ini adalah untuk mengkaji faktor-faktor yang akan mempengaruhi tingkah laku perancangan persaraan rakyat Malaysia dengan mewujudkan hubungan antara tingkah laku perancangan persaraan dengan pelbagai faktor yang akan mempengaruhi kelakuan perancangan persaraan. Seramai 137 individu yang bekerja di Kota Kinabalu dalam kumpulan usia 26 tahun dan ke atas telah mengambil bahagian dalam kajian ini. Kajian ini telah menyumbang pandangan yang jelas melalui teori kitaran hayat and teori peranan kerja. Daripada hasil kajian, terdapat hubungan yang nyata antara tingkah laku perancangan persaraan dan beberapa pembolehubah termasuk kesan sosial, kesan rakan sebaya, pendapatan, latar belakang etnik and tahap pendidikan. Walau bagaimanapun, hubungan yang tidak nyata telah berlaku antara tingkah laku perancangan persaraan dan pembolehubah lain seperti penglibatan kerja, pendidikan kewangan di tempat kerja, tahap pengetahuan celik kewangan, umur, status kesihatan, jantina dan status perkahwinan. Hasil kajian ini telah didapati bahawa telah menyokong teori kitaran hayat. Selain itu, hasil kajian ini mempunyai implikasi kepada golongan pekerja dalam membuat perancangan persaraan lebih awal dan golongan pemasar untuk memasarkan produk persaraan yang lebih sesuai bagi kumpulan pengguna yang berlainan bagi membolehkan mereka supaya mempunyai sumber kewangan yang kukuh pada tahun keemasan mereka apabila mereka bersara.*



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## CHAPTER 1

### INTRODUCTION

#### 1.1 Overview

Retirement presents a chance for an individual to reward themselves after a lifetime of hard work. For most of the people, they work for decades of long hours in their jobs or careers in order to provide comfortable lives to their families. After years of hard works, they would feel tired and want to spend more time with their families and friends as well as to enjoy leisure activities which they do not have time to do so during their working lives. From this, retirement could offer the opportunity for these people to fulfill their dreams. However, for most of the people, the big question which arises from here would be: How am I going to pay for all of these expenses once I am no longer drawing income from my career? And realizing these dreams would be more difficult especially if there are uncertain economic times appear, for example, the currency crisis in year 1997 and the financial services meltdown in year 2008. This can be further explained by if an individual starts to plan for the retirement earlier, even if the stock market crashes or the property prices fall, one can still recover his or her lost wealth. But what if these economic downturns occur when an individual are in the cusp of retirement?

In Malaysia, the issue of retirement is still considered as an undefined or not precisely determined among the society (Dahlia Ibrahim, Zuraidah Mohamed Isa and Norhidayah Ali, 2012). Although the government and many private companies have provided various types of retirement products, the awareness of the public in retirement is still low. Ng, Tay, Tan and Lim (2011) also claimed that financial planning and savings for post-working life continue to be one of the main topics in public debate. This is mainly because the world population continues to age. The most common reason for this scenario to happen would be most of the public think that the retirement plans which their organizations have prepared and government retirement plan should be enough to cover their expenses during their golden years.



However, according to Dahlia Ibrahim *et al.* (2012), there are many studies which have been conducted that show money saved in the organizations and government pension plan mostly would not be enough for living expenses in the future after retirement. When this situation happened, most of the retirees will blame that the retirement schemes such as Employee Provident Fund (EPF) in Malaysia due to insufficient savings for the living expenses throughout the retirement years. They would complain that EPF did not perform well with their investments and not providing good enough returns. According to Dahlia Ibrahim *et al.* (2012), after the complaint from the society, EPF have put a lot of efforts and offer some effective schemes to assure that their members will have sufficient savings in the future. For the employees who work in public sector, normally the amount of pension which will be received is half of the last drawn basic salary. This amount of money sometimes can be low, especially for those employees who have lower income during their working life. In spite of that, the result will be even worse for the employees in the informal sector. As we know, some of the employees from this working group have very limited knowledge about the retirement planning and are not covered under any of the retirement products. Consequently, having sufficient savings in their retirement years to cover their living expenses will be far more challenging as compare to those who have appropriate retirement planning.

Clearly, Ng *et al.* (2011) suggested that personal retirement planning is not compulsory. Instead, it is only an option of personal choice about preparing and managing the financial. Basically, the retirement planning is a simple process. However, not every individual is ready to involve themselves in retirement planning. Joo and Grable (2005) noted that not all the individual are financially prepared for their retirement lives due to their limited savings during pre-retirement lives. The other reason would be due to their low level of income or assets in generating sufficient level of income in their golden years. Likewise, according to the Great Eastern Life Assurance (M) Berhad Executive Vice-President and Chief Marketing Officer, Loke Kah Meng, he reported that from all the Malaysian citizens, 99.90% would withdraw the savings in the EPF once they reach the age of 55 in lump sum



(The Star Online, 4 April 2009). Among the Malaysians, 70% would finish their savings or used up the entire amount in EPF after the withdrawal in three years.

Besides, recently, the changes in retirement age in Malaysia from 55 years old to 60 years old have been discussed (The Star Online, 28 September 2011). Moreover, JobStreet.com has conducted a survey regarding the retirement age extension. The result showed that among the job seekers in this website, 84% of the respondents aged between 18 and 41 supported this change. This is due to these respondents think that they have the need to work until older and tend to obtain higher retirement savings because of the longer life expectancy. According to CIA World Factbook in Index Mundi, 2011, the life expectancy for the total population in Malaysia is 73.79 years old (The Star Online, 27 May 2007). As for male, the life expectancy at birth is 71.05 years while for female, the life expectancy at birth is 76.73 years. Since the average life span of a person has increased to 71 and 76 for male and female respectively, this caused the numbers of years after retirement until the end of the life has expanded much longer. This has eventually become the period with the longest number of years compared to any other stages in an individual's life cycle.

With the increased number of years in old age, it is normally believed that, the added years also would have close relationship with the physical and material resources. For the individual who are retired at the age of 55 years, the most important physical and material resources are the health and financial security. As we can see, a healthy individual is easier to cope with the aging process. So, staying healthy in later life remains a challenge for the older people but this challenge also requires financial resources to cope with. With the expensive and increase in the health care cost, it would appear that income has become the most important resource to ensure the well-being of a person in the golden years. There is a study found out that the elders who have higher income, higher education and wealth are reported to have higher level of psychological well-being, compared to those who have lower income, lower level of education and lower level of wealth (Ng *et al.*, 2011). By maintaining the good health, these older people can save in





medical costs. In other words, good health in older age will help to reduce health care cost.

With people having longer life expectancy at birth, marrying and having children later as well as not saving enough, to face or cope with retirement is an extreme hard process. Though there is a growing awareness of the public about the need of a good retirement plan, it is reported that few people are actually prepared for retirement and fail to take into consideration of the inflation rates and medical costs (Hershey, Jacobs, McArdle and Hamagami, 2008). As we can ascertain, the value of the money and cost of living in 30 years ago is different from today. For instance, with a salary amounted RM1800 in 30 years ago is able to buy an imported car and a single-storey terrace house in Kuala Lumpur. However, with a salary of RM1800 in year 2012, a person is only able to buy a local car. Compared to 30 years ago, the prices of the goods, food, petrol and electricity have all risen up. From here, we can conclude a fact that salary have not risen in tandem with the increase of the cost of living and inflation. More importantly, this trend is expected to continue in the coming years.

Hazel Ong Archibald, the Financial Consultant of CIMB Wealth Advisors has explained the impact of the inflation rate towards the retirement planning. She gave an example of the cost for three meals per day. Today, it will cost us around RM20 for three meals per day. But after 20 years, assuming that there is an inflation rate of 6% a year, we have to pay around RM64 for three meals per day. So, let say an individual has RM500,000 in the EPF or retirement saving account. This amount seems should be enough to cover the lives expenses in later years. Nonetheless, she added that if we do not invest the money in the retirement saving account to make it grow at a higher rate than the inflation rate, after 20 years later, with the inflation rate of 6% a year, the value of the money would only worth RM145,053 in purchasing power. As for medical inflation, it is easily 15% each year, according to Tan Kar Hor, the CEO of Prudential Assurance Malaysia Berhad. Tan compares the medical bill as a "hole" which would eventually leak away the entire retirement savings.



In the meantime, Thomas Wong, the Chief Marketing Officer of Prudential Assurance Malaysia Berhad also mentioned that from the surveys which he has done, he found out that although Malaysians have a high tendency to save with 72% claimed that they do save for retirement, 41% of them actually do not have a concrete plan on how to build their retirement fund (The Star Online, 4 April 2009). Moreover, he added that Malaysians have the attitudes showing that they just save as much as they can for now and hope that they will have sufficient money to cover their lives after retirement. Among the Malaysians who do save for their retirement, 77% of them are investing their money in low-yield savings instruments such as bank fixed deposits and saving accounts to pile up their nest egg. Besides, he also said that generally, it is not a good idea to save the retirement savings in these kinds of savings vehicles. This is because sometimes, the interest rates of bank deposits can hardly outrun the inflation.

According to Joo and Grable (2005), they found out that research in the factors related to an individual's likeliness of setting aside assets or opening a savings account for retirement is required more today as compared to any other time in the past. Even though nowadays, the public is paying more and more attention towards the participation in retirement planning, the process of the individuals have undertaken in establishing and making the retirement savings programs is actually in little known. In January 2010, according to the Statistics of Labor Force in Malaysia, January 2010- series 7 / March 2010 found out that the number of the employed individuals has increased from 10.817 million to 11.1875 million, by 3.4 percent as compared to January 2009 (Moorthy, Chelliah, Sien, Leong, Kai, Rhu and Teng, 2012). The number of the pre-retirees will increase in the future if this situation continues. Presently, retirement planning and saving has become a concerned issue throughout the globe. For the youngsters, the word "retirement" may seem to be very far off in the future and they should put most of their time in money earning. They think that the retirement planning is a burden because it involves long-term planning (Moorthy *et al.*, 2012). Instead, in order to have adequate savings to support their living, planning and saving for retirement should be considered and taken into account in present lives.



## 1.2 Problem Statement

This topic is considered to be a growing concern among Malaysians (Dahlia Ibrahim *et al.*, 2012). At some point, Malaysia is a country with multiracial cultures (Ng *et al.*, 2011). This means that there are different ethnics or races which consist of different culture beliefs, different lifestyles, different religion and different habits. Racial differences exist in beliefs about money and poverty. This means that different races or ethnics have various spending and savings patterns. Besides, there is only limited study to propose that other races such as Asian and Arabian demonstrate the same behaviors, attitudes and beliefs as the Western's respondents used in the study: African-Americans. Dissimilar to the general study about the personal financial planning in previous studies, the present study concentrates more specifically on retirement planning. Since many of the previous studies are done in other countries, due to the difference in many aspects, the attitudes, perceptions or behaviors of the consumers would be differ and might not be alike.

In Malaysia, the pre-retirees and workers are unprepared for their golden retirement years (Moorthy *et al.*, 2012). These people found out that they save just one-third of their salaries in order to retire comfortably. In fact, half of the individuals aging between 25 to 71 years will not have sufficient savings to support their later lives of their retirement especially during their golden years (Warshawsky and Ameriks, 2000). In spite of that, many households are still unfamiliar about the most basic economic concepts needed for making saving and investment decisions (Lusardi and Mitchell, 2007). The young and older working individuals in Malaysia are under-informed about basic financial literacy such as the concepts, implications for saving, retirement planning, mortgages and other financial decisions (Moorthy *et al.*, 2012). Malaysians employees are very much lacking in terms of the knowledge concerning the retirement (Dahlia Ibrahim *et al.*, 2012). Consequently, due to low financial literacy, Malaysians are said to have no proper saving planning for their afterlife of retirement. As a whole, the problem statement for this study is the unclear or undefined determination of the factors or variables influencing the retirement planning of an individual.

### **1.3 Research Questions**

Two questions are used to guide this study:

- a. What factors are related to an individual's planning for his or her retirement?
- b. Are there any differences of retirement planning behavior in the aspect of demographic factors such as gender, marital status, ethnic background and education level?

### **1.4 Objectives of the Study**

The major objective of this study is to examine the factors which influence the retirement planning of the Malaysians. The specific objectives are:

- a. To determine the factors that influences the decision for retirement planning of the Malaysians.
- b. To determine whether there are any differences of retirement planning behavior in the aspect of demographic factors such as gender, marital status, ethnic background and education level.

### **1.5 Significance of the Study**

From this study, it seeks to obtain perceptivity into Malaysians' attitudes and behavior in retirement planning on the basic social protection or social security during their golden years after they retire. The result gained from this study should be able to add a new insight and knowledge for the existing cognition regarding the Malaysians' behavior in planning for retirement as well as the reason or purposes which they assume in having a retirement planning. Besides, this study serves as important topic to both the individuals and the policy makers. It can aid the individuals in producing consciousness and understanding about the importance and relevance of retirement planning (Moorthy *et al.*, 2012).

Moreover, this topic helps the policy makers in policy decisions as what has been observed and debated that Malaysian is ageing and income protection in the future years while they have stopped working is significant in order to assure the quality of their lives and well-being. Likewise, through the result of this study, the marketers from the financial institutions who offer the retirement products would

also gain benefits from this. The research result can be used as a tool in creating more quality and better products which can truly fulfilling the needs of the consumers. Furthermore, it can also aid the marketers in targeting for better market segment, also in designing marketing communications.

Hence, the study is carried out to better understand the Malaysians would respond the same way as the residents in other countries in their retirement planning. After all, the results and findings gained from the study later on are crucial in creating the readiness and awareness of the public about the significance of the retirement planning in later lives. It is now necessary to have a need for this planning as well as helping in outlining the strategies in early retirement preparation. Thus, it is very important to know and find out the factors or variables which will eventually influence an individual in planning for his or her retirement.

## **1.6 Scope of the Study**

This research aims for Malaysians who age from 26 years and above residing in Kota Kinabalu, Sabah. The reason for choosing this age group is because generally, the individuals in this age group are the people who may start to think about the retirement as compare to the younger age group (Tan and Folk, 2011). Planning for retirement should also begin at a very much younger age and the age of 26 years old reflects the awareness of the employees who are as well ready for retirement planning in old age. With financially capable and risk taker, this age group is considered as more ready to invest in retirement products.

## **1.7 Definition of Terms Used**

### **1.7.1 Retirement**

People have different definitions of retirement. Retirement has been identified either as a transition that is accompanied by psychological distress or as a time of continued, or even enhanced, subjective well-being (Kim and Moen, 2001). Smeeding (1990) defined retirement as the withdrawal of oneself from the office, service or business which eventually leads to a less structured lifestyle with ample free time. Retirement is simply defined as when an individual chooses to leave the workforce or being able to permanently exit the workforce in old or retirement age.

Retired is said to be what follows after an individual is no longer capable of work or no longer capable of doing much of anything (Fisher, Johnson, Marchand, Smeeding and Torrey, 2005). Retired is a time period of fun which starts roughly at the age of 55 where the retired individual starts to do all the things he or she has been putting off or did not have extra time to carry out while he or she still busy with the career.

### **1.7.2 Planning of Retirement**

The other social science researchers such as Elder and Rudolph (1999) defined retirement planning as a method which is used as a way of protecting the health and well-being of an individual in later life after he or she has retired. The authors also suggested that with a retirement plan, the planning leads to positive outcomes which include better health, greater satisfaction with retirement and also better adjustment. A successful and sound retirement plan is one in which sufficient resources have been collected and accumulated in order to achieve and maintain a desired or craved standard and quality of living in golden years (Hershey *et al.*, 2007).

### **1.7.3 Life-Cycle Theory**

According to Kim and Moen (2001), they stated that the retirement should be viewed through the lens of a life-course, ecological perspective. This suggested that the process and timing in historical, together with situational contexts, the interdependency of linked lives as well as the human agency should be focused in testing the relationship between retirement and the other variables, for example the retirement confidence, retirement preparedness and well-being. Donaldson, Earl and Muratore (2010) reported that by viewing the retirement transition as one where individual, contextual and psychological factors interact through life course perspective, the researchers and financial planners as well as practitioners would be able to gain a more holistic understanding of the retirement process.

### **1.7.4 Work-role Theory**

The role theory suggested that the degree to which individuals is committed to their work-role influences (Adams, Prescher, Beehr and Lepisto, 2002). The work-

role attachment theory stressed that individuals' desire in remaining as members of the workforce. Generally, this theory consisted of three sub-dimensions: the job involvement, company identification and the professional attachment. In this theory, it suggested that any individual who attached to one of these three sub-dimensions were expected to make their decision in retirement since retirement will represent the loss of a valued set of role activities. In a study done by Wang and Shultz (2010), the authors implied that the role theory have been used to tie the workers' demographic status, work experience, marital life and others. In general, all these factors affect how an individual perceive himself or herself and their roles in the larger societal context.

#### **1.7.5 Environmental Influences**

The environmental influences include the work environment and family environment (Joo and Grable, 2005). Work environment means types of occupations which individual is involved in. As for the family environment, it includes the household size as well as the numbers of the financial dependents which an individual has.

#### **1.7.6 Individual Differences**

As for the individual differences, it refers to the demographic characteristics such as age and races (Joo and Grable, 2005). Besides, it also refers to the individual resources, motivation and involvement, knowledge, lifestyles and personality. Demographic and socioeconomic characteristics of an individual were included in the individual differences. The example for the demographic and socioeconomic characteristics were income, age, gender, ethnic background, education, health and marital status (Joo and Pauwels, 2002).

#### **1.7.7 Psychological Process**

Psychological means the inner state of an individual. For example, the attitudes, the learning process, the behaviors and the information processed of an individual (Joo and Grable, 2005). It is made up of financial and retirement attitudes, financial literacy knowledge level and workplace education.

### **1.7.8 Social Influences**

Social influences in retirement planning mean the influence of the peer effects in making or planning retirement decision through socializing with others (Dahlia Ibrahim *et al*, 2012). Peer effects are considered as an important determinant of retirement savings decisions (Duflo and Saez, 2002). The examples of the peers would be the co-workers, friends and relatives.

## **1.8 Organization of the Study**

This research is organized as follows. Chapter 1 is the introduction of the research. It further consists of the overview of the study, the problem statement of the study, the scope of the study, the definitions of the terms used in this study, the importance of this study and most importantly the objective of the study.

Chapter 2 illustrates the literature review of the study. It is the review of some available literature associating to the topic in one way of the other. This literature review is taken based on the precise literature available information on retirement planning from other relevant resources.

Chapter 3 involves the research methodology which used in this study as well as the methods in data collection. In this part, it includes the research framework, research design, sampling design, the hypotheses and data analysis method.

Chapter 4 presents the results of the study which involves the data analysis in collaboration with the result findings of the survey that was conducted. The findings of the study will be analyzed through Statistical Package for Social Sciences (SPSS) software.

Chapter 5 presents the conclusion or summary of the study which can be gained from the findings or the results of the study from the previous chapters. Besides, the future prospects from current study have been outlined which could serve as assistance in the future study.



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