



## **Knowledge on Retirement Related Financial Planning Among Employees**

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### **Abstract**

This study was carried out to assess the knowledge on retirement financial planning among IIUM employees. Among factors that were taken into consideration in assessing this are exposure provided by employers either formal or informal on financial planning, personal opinion on best time to start on financial planning for retirement, setting financial goal and type of investment for retirement and assessing respondent opinion on the adequate amount of savings for retirement life. In creating a more meaningful analysis to this study, demographic factors are used to link to the knowledge on retirement related planning. The methodology used in this study was quantitative, involving distribution of questionnaire to respondents to collect primary data. With respect to the knowledge on retirement planning, it was found that 58% of the respondents said that they do not get any formal exposure on financial retirement planning while the remaining claimed getting it on an informal basis. In setting financial goal for financial retirement planning, more than 50% of the respondents felt that the best time to start financial planning for retirement is from between the age of 25-35 years old. Majority of the respondents claimed to have a financial goal when they retire and in achieving it they prefer to invest in unit trusts. The findings also prove that demographic factors such as age, education and income level play an important role in financial retirement planning. It is also recommended that employers and the government should take more initiatives in providing training to enhance the knowledge and awareness of financial retirement planning among employees.

**Keyword:** Retirement, financial planning, retirement planning, IIUM, EPF

### **Abstrak**

Kajian ini dijalankan untuk menilai pengetahuan mengenai perancangan kewangan persaraan di kalangan pekerja IIUM. Antara faktor yang diambil kira dalam penilaian ini adalah pendedahan yang diberikan oleh majikan sama ada secara formal atau tidak formal mengenai perancangan kewangan, pendapat peribadi pada masa terbaik untuk memulakan perancangan kewangan bagi persaraan, penetapan matlamat kewangan dan jenis pelaburan bagi persaraan dan menilai pendapat responden mengenai jumlah simpanan yang mencukupi bagi kehidupan persaraan. Dalam mencipta analisis yang lebih bermakna untuk kajian ini, faktor demografi digunakan untuk menghubungkait kepada pengetahuan mengenai perancangan berkaitan persaraan. Metodologi yang digunakan dalam kajian ini adalah kuantitatif, yang melibatkan pengagihan soal selidik kepada responden untuk mengumpulkan data asas. Berkaitan dengan pengetahuan mengenai perancangan persaraan, didapati bahawa 58% daripada responden mengatakan bahawa mereka tidak mendapat pendedahan rasmi mengenai perancangan persaraan kewangan manakala yang selebihnya mengetahui mendapatkannya secara tidak rasmi. Dalam menetapkan matlamat kewangan untuk perancangan persaraan kewangan, lebih daripada 50% responden merasakan bahawa masa terbaik untuk memulakan perancangan kewangan untuk persaraan adalah dari antara umur 25 - 35 tahun. Majoriti responden mendakwa mempunyai matlamat kewangan apabila mereka bersara dan bagi mencapainya mereka lebih memilih untuk melabur dalam unit amanah. Penemuan ini juga membuktikan

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bahawa faktor demografi seperti umur, pendidikan dan tahap pendapatan memainkan peranan penting dalam perancangan persaraan kewangan. Adalah disyorkan bahawa majikan dan kerajaan perlu mengambil lebih banyak inisiatif dalam menyediakan latihan bagi meningkatkan pengetahuan dan kesedaran perancangan persaraan kewangan di kalangan pekerja.

**Kata kunci:** *Persaraan, Perancangan Kewangan, Perancangan Persaraan, IIUM, EPF*

## Introduction

Merely thinking of retirement can cause some feeling of anxiety and overwhelmed. However, when the time comes, we will still have to face and go through the retirement phase. Mansor, Hong, Abu, & Shaari (2015) define retirement as “a stage of life where involvement in certain social activities and desirable conducts become less or narrow”. According to Sabri and Juen (2014), “Retirement is the stage when an individual permanently leaves the workplace”. When a person retires, inflow from employment income will cease. However, expenses will continue as one needs to continue living and incur daily expenses. During retirement a person will depend on the savings that were accumulated during the employment period.

An article from The Star Online Business News (De Alwis, 2016) stated that a recent global survey reported that 88% of pre-retirees in Malaysia claimed that they are worried about having not enough money to live during retirement days. This shows that the majority of Malaysians are unprepared for life during retirement. In Malaysia, public sectors workers mostly opt for the Government pension plan while some may opt for Employees Provident Fund (EPF) plan (Tolos, 2012). For the majority of government employees who chose the Government pension plans, they have lesser worries on post retirement expenses. This is due to the fact that Government pensioners will continually receive monthly pension payment amounting to 50% - 60% of their last drawn salary.

As for those in the private sector, it is compulsory for every employee to have a retirement scheme by contributing to the Employee Provident Fund (EPF). The total contribution credited into the employees account is 20% of their monthly income. From the total, the employer contributes 12% and the employee contributes 8%. As years go by and people acquire higher monthly salary, through promotion or salary increment, many private sector employees feel that their retirement future is safeguarded by the 20% deductions into their EPF (retirement account). The biggest question and probably worry is whether throughout their golden years the amount saved in the EPF account will be adequate to see them through a comfortable life during their retirement years. The question of retirement adequacy would be of more concern for those in the lower salary category. Statistics, however, have shown that half of retirees in Malaysia spent their entire EPF savings within 5 years. Hence, the need to study the adequacy and retirement planning in Malaysia is important and urgent.

Retirement planning is one of the most important financial goals one will need to undertake. According

to Mansor et.al (2015), “different types of financial planning would lead to different ways of wealth accumulation and lifestyle during retirement. At the same time as retirement planning involves awareness and understanding of the problem underlines in life, individual’s perception is strictly important to achieve the highest retirement satisfaction. Besides, proper planning will improve one’s confidence and self-efficacy towards uncertainty typically in short or long time frame in retirement age”.

With the knowledge on retirement financial planning or financial literacy it is hoped that future retirees will be better prepared to face their retirement years. However, there is the question of whether future retirees have the knowledge on financial planning to help them secure a better livelihood during their retirement years. While it is generally agreed on the importance of financial planning for retirement, there seems to be a lack of urgency to acquire the financial planning knowledge. The adage “failing to plan is planning to fail” should be a reminder that there is an urgent need to start earlier in personal financial planning.

According to an article titled “Financial Planning to Make Our Retirement Years Golden Ones” (Ong, 2014), Steve Ong, Chief Executive Office of Private Pension Administrator Malaysia said that “research has shown that the reason many people around the world do not plan adequately for their retirement and arrive at their retirement with little or no wealth is mainly due to the lack of financial literacy and being woefully under-informed about the basic financial concepts. Financial illiteracy may stunt people’s ability to save and invest for retirement, undermining their well-being in old age”.

While issues on retirement years financial crisis is commonly raised and is a concern especially among the people and the government, there seems to be a lack of recognition on this matter as rarely do employers (public and private sectors) take the effort to provide formal exposure on financial planning to their employees. This point will be further discussed from the findings of the survey carried out in this study.

## Literature Review

Retirement might be envisioned differently by different people. Some looks forward to retirement while others might see retirement as something difficult for them to face. A lot of the feelings and perception towards retirement is closely linked to money or income to sustain life during retirement years. Power and Hira (2004) indicated that retirement planning should begin earlier in an employee’s career.

While the best time to start retirement planning is when we first started working and collect the pay check, many would find it difficult to allocate some of the salary for retirement. During the first few years of employment most people would earn a lower starting salary and sometimes would not be able to cover all expenses, let alone saving some for retirement.

Among the important factors for financial planning is financial literacy. Retirement unpreparedness is partly due to financial illiteracy. Financial literacy could be attained by acquiring knowledge and information on financial tools for savings and investments. Llewellyn (2012) stated “financial literacy is a measure of an individual’s knowledge of financial concepts and their ability to use that knowledge to make critical decisions in the money management process”. Increase in financial literacy goes toward better ability and capacity to make good financial decisions. Garman, & Forgue (2012) defined personal finance in their book “Personal Finance” as “the study of personal and family resources considered important in achieving financial success; it involves how people spend, save, protect and invest their financial resources”. Power & Hira (2004) cited that “the working individuals who received workplace financial education and advice earlier help them to have more confidence towards retirement planning”.

Setting a financial goal for retirement can be a trigger point to start saving or investing for retirement. Stawski, Hershey and Jacobs-Lawson (2007) indicated that “retirement goal clarity is a significant predictor of planning practices, and planning, in turn to predict savings tendencies”. Ameriks, Veres, & Warshawsky, (2001) said that “half of the individuals aging between

25-71 years old will not have sufficient savings to support themselves in retirement”. A major study conducted by Life Insurance Association of Malaysia (LIAM) reported that only 5% of Malaysians are ready for retirement (Habib, 2007). According to another study by the AIA Group, the middle class segment in Malaysia prefers to have RM1.9 million as an average amount for retirement. While the middle class Malaysians prefers to have slightly less than two million for retirement, many rely only on their EPF savings for them to see through their retirement years. Lai, Lai, & Lau (2009) found that to fund a comfortable life during retirement, EPF alone might not be sufficient. Information from the EPF website stated that most EPF members aged 54 in 2013 have savings below RM50,000.

### Methodology

A quantitative research methodology using structured questionnaire approach was adopted for this study. A series of questions was designed hovering around topics regarding money attitude and retirement planning. Questions formulation were basically structured around formal and informal knowledge acquired on retirement related financial planning, best time (age bracket) to set financial goals and the amount felt adequate to save for retirement life.

Respondents were asked to indicate their responses based on a mix of given answer choices and some open ended responses to illicit respondents’ opinion. Responses were then tabulated in a excel spreadsheet to derive at the findings.



Figure 1: Research Framework

### Results

#### Formal Exposure on Financial Retirement Planning

Responses to questions on formal exposure from employers on financial retirement planning shows that 58% of the responses claimed that they were given formal exposure on financial retirement planning as illustrated in Figure 1 below.

In figure 2 below, based on those who claimed to get formal exposure on financial retirement planning, the majority (56%) said that their employers provided them with reading materials on financial retirement planning. This is followed by 32% who mentioned company websites as another form of formal exposure provided by their employers. 24% stated their employers provided them with some form of training on financial planning for them. 16% of the respondents

claimed getting the formal exposure via company reports and publications.

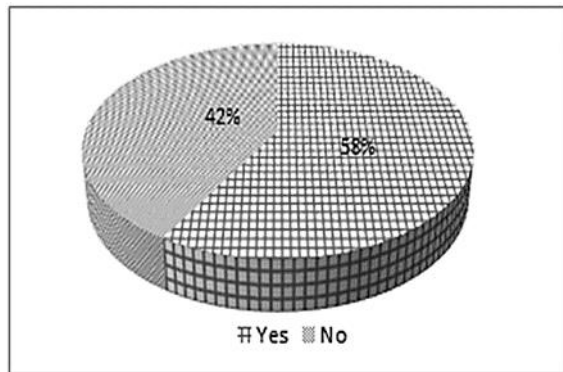


Figure 1: Formal Exposure Given by Employer on Financial Retirement Planning

For the 41.5% of the respondents who claimed to have informal exposure on financial retirement

planning, the sources of informal exposure that they got are largely through personal reading and discussion with family members and friends. While there are also those who got informal financial information from consultants, reports, colleagues and seminars.

### Setting Financial Goal

With regards to the importance of financial planning for retirement as discussed earlier, setting a financial goal is considered an important aspect of financial planning. Respondents were asked if they set any financial goal for themselves for their retirement in order to gauge their seriousness towards retirement financial planning.

As shown in figure 4, the response received was quite encouraging with the findings showing more than half of the respondents (57%) claimed to have set a financial goal.

Figure 2: Financial Retirement Planning Exposures Given by Employer

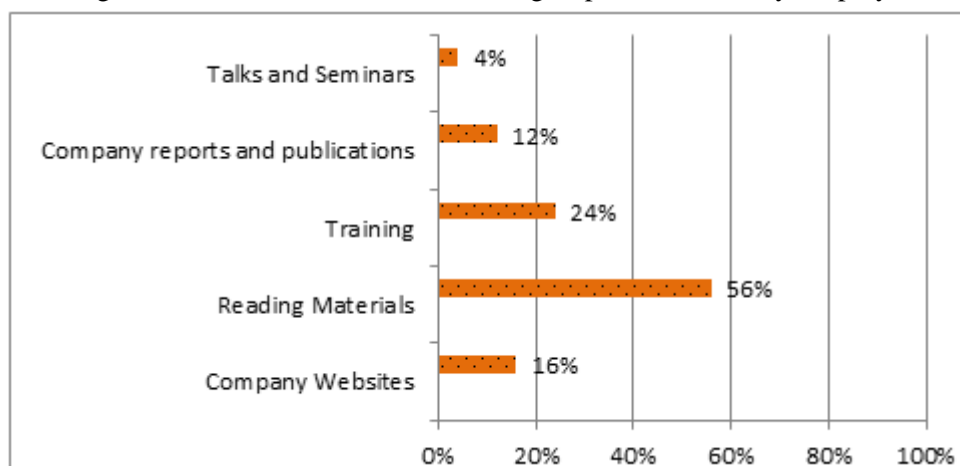
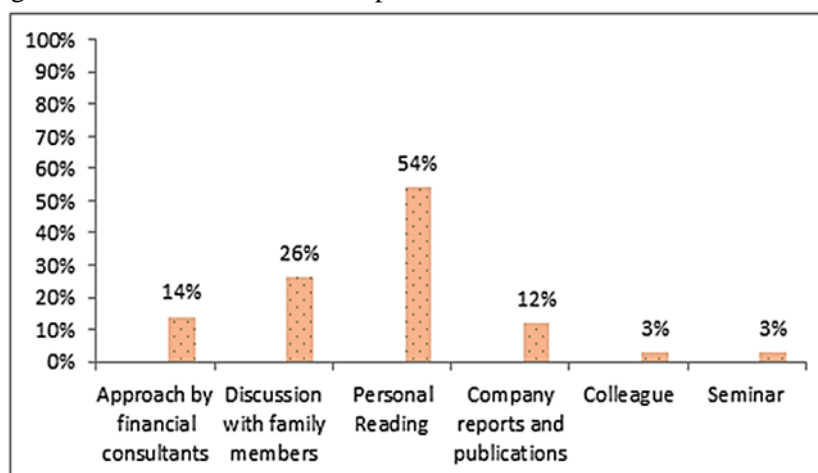


Figure 3: Sources of Informal Exposure on Financial Retirement Planning



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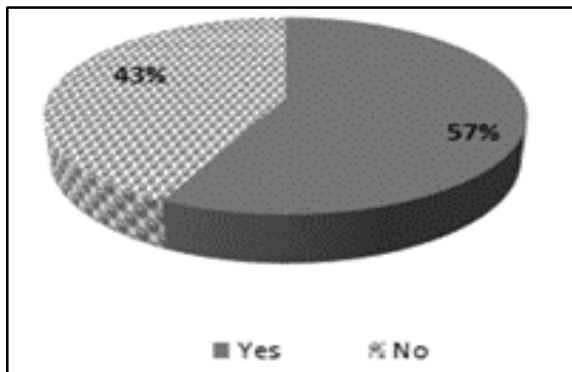


Figure 3: Setting Financial Goal for Retirement

Among the 57.4% of the respondents who claimed to have set a financial goal for their retirement, they were asked further on actions that they have taken to achieve the financial goal set. The most common response given was to save and invest followed by having a business to generate income in order to achieve their financial goal, as depicted in figure 5 below.

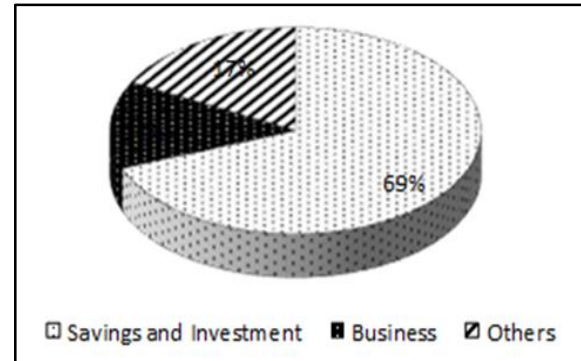


Figure 4: Actions Taken to Achieve Financial Goal

### Age Bracket

Respondents were then asked the age bracket that they felt is the best time to set financial goal for retirement. The age groups were broken down into 5 years age brackets within the age of 25 to 60 years old. Figure 6 illustrates the results.

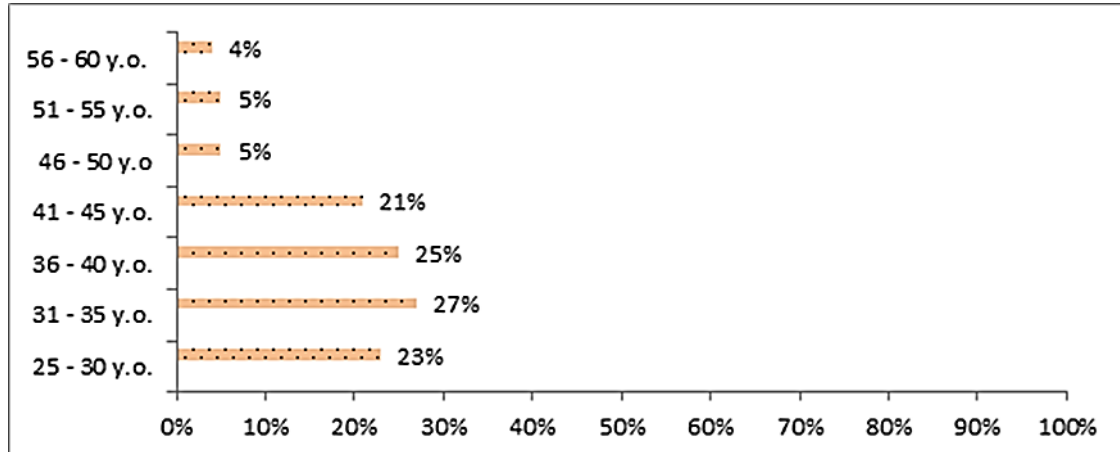


Figure 5: Best Age to Set Financial Goal for Retirement

Exactly half of the responses (50%) stated that the best age to set financial goal for retirement is between ages 25 to 35 years old. This is again a very encouraging response to prove that many are aware of the importance to set a financial goal early in their working life in order to achieve that target set. However, quite a big percentage (21%) felt 41 – 45 years old as the best time to set a financial goal for their retirement. Further study is probably required to gain understanding into this group of people as to the reasons behind having the mindset of wanting to start

setting the financial goal for retirement much later in life.

The chart above depicts responses derived when posted the question on respondents' opinion on the minimum amount of savings that they felt adequate for retirement life. A majority of them felt that RM500,000 to RM1 million is the amount of savings that will be adequate for their retirement life. This is followed by 20% who felt that RM400,000 to RM500,000 would be adequate for them. In conclusion, 58% percent felt that RM400,000 to more than RM1 million as the adequate amount of savings required for retirement life.



### Amount of Savings Felt Adequate for Retirement Life

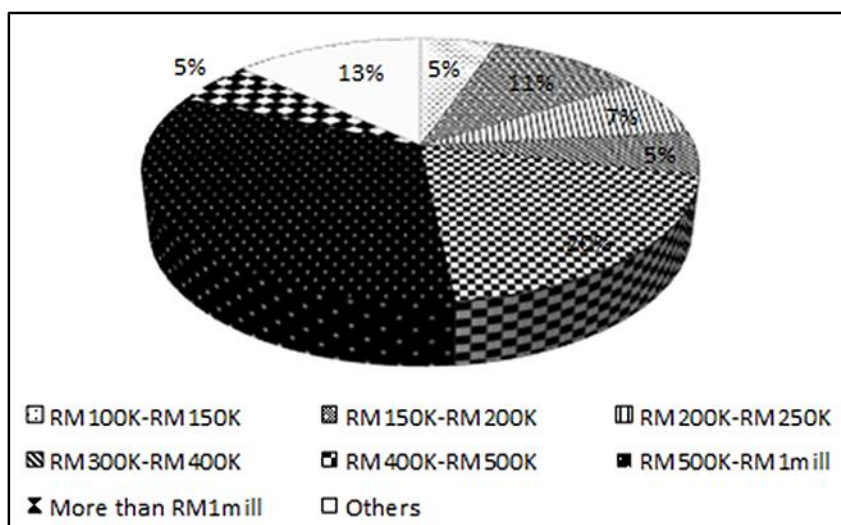


Figure 6: Minimum Amount of Savings Required for Retirement

### Conclusion

The findings from this study concludes that while exposure to knowledge on financial retirement planning is highly important in order to prepare for a comfortable life during retirement, employers do not provide enough formal exposure to their employees regarding this matter. In addition, employees do seek informal knowledge on retirement financial planning on their own accord. This would most probably be based on their own awareness regarding the importance of acquiring the knowledge in order for them to secure a better retirement life in the future.

From the study, we can also conclude that financial literacy is high among respondents. Respondents registered encouraging response in setting a financial goal for retirement and also a majority seems to set the goal at an early age bracket. However, as discussed earlier in this paper, it could be the urgency to start to save and invest or where to invest is the real issue behind the procrastinating to start investing for retirement.

While the preferred amount of minimum savings for retirement among the middle class seems unrealistic compared to the current situation with the pension fund (EPF) records, this suggested that there is ambition to save more than their actual accumulated savings in EPF. Therefore, more effort is required from employers to assist their employees in their retirement savings and planning.

### Recommendation

The findings from the study suggested that as knowledge on financial retirement planning on a formal basis especially from the employers is lacking, it has to be given a serious priority by the employers

and the government. Therefore, a more structured approach towards financial planning education needs to be drawn out for the working class regardless from the public or the private sector. As most Malaysians tend to rely only on their accumulated savings in EPF or public pension fund, people have to make better financial planning, because as stated earlier, studies (Lai, Lai, & Lau, 2009) found that EPF alone may not be sufficient to fund a comfortable living after retirement.

Setting a realistic financial goal at the onset of one's career is another important element that needs to be given serious attention. Likewise in setting up training to enhance knowledge on financial retirement planning, part of the curriculum should include the importance and the quantum of retirement fund needed using predictive financial tools.

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### **Article History**

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