

Factors Affecting Attainment of Ideal Retirement Income among Retirees

**Chong Shyue Chuan*, Sia Bee Chuan, Cheong Wah Wan
and Farah Waheeda Binti Jalaludin**

Universiti Tunku Abdul Rahman, Jalan Universiti Bandar Barat, 31900, Kampar, Perak, Malaysia

ABSTRACT

The objective of this study is to identify factors affecting the attainment of ideal retirement income among retirees in Selangor, Malaysia. This study adopted Maslow's hierarchy of human needs to show the relationship between attainment of ideal retirement income and health level, assets owned, financial satisfaction, financial knowledge and will preparation. This was achieved through a survey and stratified sampling of respondents aged 50 years or in Selangor. Results from multiple regression analysis revealed that health level, assets owned, financial satisfaction, financial knowledge and will preparation are positively related to the attainment of ideal retirement income. The findings confirm those of previous studies and offers useful insight for future studies on this topic.

Keywords: Assets, retirement income, financial knowledge, financial satisfaction, health, Maslow's hierarchy of human needs

INTRODUCTION

Today's retirees are concerned with whether their retirement savings are sufficient to

maintain their lifestyle after their retirement. High inflation rates and health problems among others may result in depletion of retirement savings and income. According to the Employees Provident Fund (EPF) of Malaysia, 8 out of 10 contributors have insufficient retirement savings to sustain their lifestyle post retirement. In order to ensure the well-being of retirees, from January 1, 2017 onwards, EPF has set a new Basic Savings quantum of MYR950 per month (from January 1, 2014 to December

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E-mail addresses:

chongsc@utar.edu.my (Chong Shyue Chuan)

siabc@utar.edu.my (Sia Bee Chuan)

cheongww@utar.edu.my (Cheong Wah Wan)

farah@utar.edu.my (Farah Waheeda Binti Jalaludin)

* Corresponding author

31, 2016, it was MYR 820) for a period of 20 years for its members to accumulate the desired amount in their EPF accounts when they reach the age of 55 (EPF, 2016). The process of senescent is unavoidable due to longer life expectancy and lower fertility rate as well as an increase in median age. The increase in ageing population is a concern too. The removal of state subsidies, for rice, cooking oil and RON95 fuel and the introduction of GST have led to a soaring cost of living. Thus, savings are essential especially for those who are approaching retirement. The current retirement age in Malaysia is between 60 and 65. The previous retirement age of 55 was not feasible for many as they were not able to generate enough retirement savings. Employees in the public sector who have worked at least 33 years are entitled to government pension plan in which the government will provide monthly pension payment equivalent to half of their last drawn salary. In the private sector, employees have the Employees Provident Fund (EPF) as their retirement plan (Ibrahim, Mohamed Isa, & Ali, 2012). However, the question here is whether the amount is sufficient for their future. The objective of this study is to identify factors affecting the attainment of ideal retirement income. This study used Maslow's hierarchy of human needs to show the relationship between attainment of ideal retirement income and health level, assets owned, financial satisfaction, financial knowledge and will preparation.

Previous Research

Maslow's hierarchy of human needs, first proposed in 1943, is based on the premise that the former are motivated by physiological, safety, love, esteem and self-actualisation, (Maruthaveeran, 2010). According to Agaskar (2013), Maslow's hierarchy of human needs, in a pyramid form, can explain financial planning as it relates to financial satisfaction based on the performance of the abovementioned five motivation needs. The theory states that individuals will always satisfy the most basic needs first and then, work their way to the top of the pyramid and ultimately fulfil all their other needs (Kok, 2014). Financially, in order to satisfy the very bottom of the Maslow's pyramid which is physiological needs, they would purchase and invest in protection schemes, such as insurance and medical coverage, to prepare for any uncertainties in the future. In order to fulfil the second category which is safety, most people will indulge in investments such as short term fixed deposits. In order to improve their self-esteem, they will invest in mutual funds or stocks in the market. Finally, they will invest in long term investments, such as real estate and private equity. Lee and Hanna (2015) looking at showed an association between financial goals and Maslow's hierarchy of needs. In fact, some goals were considered more crucial than the others.

Past studies have found that savings are inadequate for many retirees in their 50s and

early 60s. Tan and Folk (2011) reported the devotion and dedication to familial support of the old has diminished in many Asian countries. In the 1950s, the average life expectancy in Malaysia was 47 for men and 48.5 for women but it has increased to 72 and 76 for men and women respectively in 2012 (Tan, Folk, & Choong, 2012). As a result, percentage of old age increased significantly from 5% in 2010 to an expected 14.5% in 2040 (DSM, 2016). This means an increasing number of Malaysians are living years or decades after their retirement age. Thus, retirement savings as the amount saved or set aside to be used upon retirement are crucial. The Minimum Retirement Age Act 2012 (enforced on July 1, 2013), increased retirement age from 55 to 60 years. Thus, retirement age is critical in determining the number of years a person has as far as income generation is concerned and to establish future financial security (Tan & Folk, 2011).

Many studies have been conducted on the relationship between retirement savings and its many independent variables. In this study, Maslow's hierarchy of human needs is used as a framework to study the relationship between retirement savings and its independent variables, such as health level, assets owned, financial satisfaction, financial knowledge and will preparation. Planning for retirement savings is crucial for everyone. Gruber and Helen (2009) found that people face risk with regards to their future income due to poor health prior to their retirement. Future health condition is not something one can predict.

Therefore, planning for retirement is a reasonable goal for everyone. Saving as much as possible is a good strategy for consumption in the future (Gruber & Helen, 2009). Johnson, Mermin and Uccello (2006) reported that health problems forces some to retire early which deals a serious blow to retirement preparation and planning. Unexpected medical bills is usually at the expense of their retirement savings. Health problem is common among older people, impacting various aspects of their lives. In a survey conducted in the United States in 2002 on older population, it was discovered that participants, regardless of their marital status, with the poorest health had the worst mean household income, while conversely, better health was associated with higher income (HRS, 2007). High costs are incurred when a serious medical condition develops and insufficient coverage of health insurance aggravates the situation (Johnson, Wermin, & Uccello, 2006). Fronstin and Yakoboski (2005) opine employers must ensure employees understand clearly their retirement package, including the quantum of their retirement savings for their post retirement life. In 2015. Australian Securities & Investments Commission stated that for a couple to live comfortably, they need A\$59,160 per annum while for singles, the amount is A\$43,062 per annum (Australian Securities and Investments Commission [ASIC], 2015). Fronstin and Adams (2012) found that only few companies offer retirement health benefits to their workers. The retirees can increase their retirement savings if

their companies cover health benefits. In the United States, subsidies to purchase private health insurance are available for people with income between 100% and 400% below the poverty level. However, the applicants would have to waive their right to any retiree-only health reimbursement arrangement (HRA) offered by their former employer.

H1: Health level will have a positive effect on attainment of ideal retirement amount

According to Harrison (2006), having an asset can be beneficial as they offer stock of benefits and also as a store of value. Assets can be classified either as tangible or intangible assets. According to Garger (2010), the value of intangible assets, such as licenses, registered trademarks, copyrights, and goodwill, is higher. Tan and Folk (2011) state factors such as when an individual decides to retire, labour and capital markets conditions prior to retirement, expenses prior to retirement, and forecast of income and expenses after retirement determines the amount of savings including assets at retirement. Modugno (2012) found value of retirement assets in US is bigger than other developed countries such as Japan and Canada among others. The amount of assets owned in US is about US\$14,000.00 billion compared with Japan with only about US\$3,000.00 billion in 2010 (Modugno, 2012). In most retired households, property is their largest investment in a single asset. According to Tan and Folk (2011), a house

is not only an asset or an accumulation of wealth that can be passed on to the next generation, it also has a consumption value (from living in it). The retiree has to make a decision on asset allocation between low-risk bond, risky assets, housing and other assets (Yogo, 2016).

H2: Number of assets will have a positive effect on attainment of ideal retirement income

Financial satisfaction relates to how well establish a person is financially. The well-being of a person can be easily identified through financial satisfaction of the individual (Chong, Lim, & Sia, 2013). Financial satisfaction is maintained through a discipline act of regular savings and future planning of investments as only through accumulation of financial wealth can financial satisfaction be achieved easily. In the case of retirement savings, it is essential that certain amounts of savings are set aside for retirement savings. Financial satisfaction, the coexistence of financial status and life outlook with health of an individual can be related to this. A person's financial satisfaction has various influences in order to establish how financially satisfied a person is (Chong, Lim, & Sia, 2013). Financial satisfaction encompasses a person's state of wealth and health, plus his or her outlook in life (Rautio et al., 2013; Wooden & Li, 2014). The level of one's financial satisfaction is greatly affected by demographic and socio-economic characteristics such as

health condition, income, and ownership of fixed assets (DePianto, 2011; Garrett & James III, 2013; Sahi, 2013). Diligently depositing some money in the bank and investing in other financial assets like stocks are crucial for retirement planning because of the diminishing source of income for retirees in the future (Yao, Xiao, & Liao, 2015). The most important element in the definition of success by the older population was life satisfaction and it had strong relationship with financial satisfaction among older adults (Voicu & Vasile, 2014). The linkage between wealth and happiness was financial satisfaction and financial satisfaction significantly influenced the overall well-being of an individual (Erber, 2013). Seay, asebedo, Thompson, Stueve and Russi (2015) suggested that a strong relationship existed between income and financial satisfaction. The authors also discovered that the presence of financial assets was positively associated with financial satisfaction, as individuals with emergency funds, separate retirement plans, and stock holdings reported higher levels of financial satisfaction. Delafrooz and Paim (2011) revealed that consumers, educators and financial practitioners possess superiority in increasing the financial satisfaction of individuals by increasing the individual's level of financial behaviour. Individual financial applications, such as cash management, credit management, budgeting, and etc. had the most significant impact on an individual's financial satisfaction level. Seay et al. (2015) indicated that retirees with higher

tolerance for financial risk experience higher levels of financial satisfaction. Additional, retirees who calculate their retirement needs prior to retirement have higher levels of financial satisfaction. DePianto (2011) and Sahi (2013) point to that socio-economic attributes such as social standing, health condition, affluence, and ownership of fixed assets were significant variables in depicting the level of financial satisfaction. Ownership of assets constitutes a strong variable in depicting the degree of a person's financial satisfaction (Christelis, Jappelli, Paccagnella, & Weber, 2009). Moreover, a person's health status also played an important role in determining the level of heir or her financial satisfaction (Rautio et al., 2013; Stutzer, 2004). An unhealthy individual will deplete his savings and other financial assets in order to pay the medical bills at the expense of other necessities, hence adversely diminishing his level of financial satisfaction (Karlsson & Klohn, 2011; Yilmazer & Scharff, 2014). A survey by Power and Hira (2004), showed most of the respondent retirees were satisfied or very satisfied with all aspects of their retired life which among others include overall financial resources, employer-provided retirement services, and retirement fund growth.

H3: Financial satisfaction will have a positive effect on attainment of ideal retirement savings

Financial literacy refers to the capability of a person to accomplish simple financial

computations and to have basic financial knowledge and understanding of related concepts. According to Lusardi and Mitchell (2011), most Americans do not comprehend some critical financial concepts and very little financial literacy (Lusardi, Michaud, & Mitchell, 2011). These concepts include things such as interest compounding, inflation rate, and risk diversification. These problems appear to be far more pervasive among the less educated and among women. Haveman and Smeeding (2006) conclude that higher education provides a platform to improve lifestyles of those of the lower and middle-class members. They further emphasise the importance of education by urging the government to implement policies that create opportunity to the students of lower income and middle-income class a chance to further their education in the tertiary level. They strongly believe that education is the stepping stone to reduce income inequality in society. Delafrooz and Paim (2011) indicate that Malaysian workers with better investment and financial knowledge displayed superior financial behaviours, revealing the positive effect of financial literacy on financial behaviours. Yoong, See and Baronovich (2012) revealed strong association between respondents' financial readiness and their age, education level, and investment practices. As they age, they accumulate more accurate knowledge of their expenditure, cost of living and their future retirement expenditures. This in turn enables them to figure out when they will be ready for retirement, financially. The study also showed that education level

strongly affects the financial readiness for retirement of Malaysians. On the other hand, financial knowledge, financial conducts, financial pressure, financial wealth and risk acceptance, as well as demographic variables such as income are important variables and could significantly explain the level of financial satisfaction of an individual (Xiao, Chen, & Chen, 2014). Delafrooz and Paim (2011) also stipulated that higher financial literacy, better individual financial conducts, and lower financial pressure levels increase a person's financial health.

H4: Financial knowledge will have a positive effect on attainment of ideal retirement income

According to Nardi and Yang (2014), bequest motives encourage the accumulation of savings for retirement. Furthermore, the implication of bequest as something luxurious only provides further motivation for people to increase their savings rate. According to online dictionary Investopedia, bequest involves the relinquishment of one's personal properties, shares, bonds, jewellery, and cash to a person or organisation via a will or estate plan. Bequests can be made to parties such as family and friends. It is called a "devise" if real estate is inherited through a will. A will is a legal process and it allows a person to state the choice of his bequest upon his death (Hayati, Noryati, & Faziatul Amillia, 2012; Keown, 2013; McKeown, Kerry, Olynyk, & Beal, 2012). According to the Laws of Malaysia, when a person dies without a

will or in testate, his or her bequests will follow the Distribution Act 1958 (Act 300) as amended on 1 January 2006, to their beneficiaries. However, the Distribution Act 1958 only applies to non-Muslim citizens in Peninsular Malaysia and Sarawak but is not applicable to Malaysian Muslims, indigenous groups in Sarawak and non-Muslim citizens in Sabah. For Malaysian Muslims, they are strictly governed by the Islamic Inheritance Law or the "Faraid Law." Regardless of whether Muslims have written a will or not, their bequests follow the Faraid Law (Hayati et al., 2012). Faraid protects the rights of heirs with predetermined set of privileges of bonfire inheritors while bequest/Wasiyyah permits Muslims to pass on up to one-third of the estate to non-heirs. In addition, they can settle for Hibah if unlimited delegation is their ultimate concern. Donation to charity is called Waqf which represents a Muslim's devotion to Allah to gain payoffs in the afterlife (Ghul, Yahya, & Abdullah, 2015). Consequently, Wasiyyah (bequest), Hibah (gift) and Waqf (charity) are property organisation devices that can be utilised by Muslims to accommodate the laws of inheritance. If a Malaysian Muslim has decided to leave a bequest (wasiyyah), he or she can dispose until thirty-three per cent of his or her accumulated wealth or assets net of debts plus other expenses. However, this one-third of net accumulated wealth cannot be transferred to his or her legal heirs (Alma'amun, 2012). People usually would feel uneasy not leaving a will upon their demise. Will is a legal process and document

to avoid unnecessary conflict among family members after the passing of a person and at the same able to alleviate concerns (Chamberlain, 2011). Studies have shown that people o avoid talking about death-related issues such as leaving a bequest or a will (Kahler, 2011), and it is partly because of the norm and culture within a society. In Malaysian and Muslim context, leaving a Wasiyyah is not a plain sailing undertaking. The first obstacle is the rules and regulations in relation to estate management and resolution. In Malaysia, a dying person with a valid will and someone without a valid will is handled under dissimilar regulations and authorities. There is no guarantee that the process of estate management and resolution will be smooth in spite of the participation of diverse jurisdictions and adherence with the provisions of regulations (Ghul, Yahya, & Abdullah, 2015). In addition, demographic background such as ethnicity, sex, age, health status, marital status, income and level of education were important factors in explaining the practice of leaving a will. In general, an individual is more likely to leave a will when his or her age increases (Rossi & Rossi, 1990) and if she or he has assets and strong finances (Greenberg, Weiner, & Greenberg, 2009; Palmer, Bhargava, & Hong, 2006). For those who have experienced major life-cycle events, they have a higher probability of writing a will in the presence of a witness (Palmer et al., 2006). This was because major life-cycle events could bring about either negative or positive changes to a person (Greenberg et al., 2009). For example, negative life-cycle

events include a change in marital status from a married person to a widower and being diagnosed with critical illnesses. On the other hand, positive life-cycle events would allow an individual to experience a positive and significant changes in his/her financial wealth and well-being (Sargeant & Shang, 2008).

H5: Bequest will have a positive effect on attainment of ideal retirement amount

METHODS

A survey involving 760 respondents aged 50 years and above from nine districts in Selangor was carried out in the first half of 2011, with a margin error of less than 5%. To ensure a representative sample of the older population, the sample locations are based on probability proportional to the population size procedure at the sub-district level. Within each sub-district, the locations were selected to provide adequate representation of the urban and rural areas as well as the different ethnicities. The dependent variable was the retirees’ attainment of ideal retirement savings in percentage. The independent variables were health level (Likert scale: Very Poor [1] to Very Good [7]), assets owned (Number of assets owned: property, estate, motorcar, van/lorry, motorcycle, jewellery, cash, unit trust and company shares), financial satisfaction (Likert scale: Very Unsatisfactory [1] to Very Satisfactory [7]), financial knowledge (Likert scale: Very Poor [1] to Very Good [7]) and will preparation (Dummy variable: 0 [No] and 1 [Yes]). The sampling frame

was based on the Census of Malaysia, 2010. Stratified random sampling was used. Details of the descriptive information of the respondents’ profiles are shown in Table 1.

Table 1
Respondents’ profile

Profile	Total (100%)	Profile	Total (100%)
Sex		Marital Status	
Male	47.0	Married	73.0
Female	53.0	Single/ Separated/ Divorced/ Widowed	27.0
Ethnicity		Level of Education	
Malay	36.8	Non-formal education	14.9
Chinese	40.8	Primary education	32.1
Indian	22.4	Secondary education and above	53.0
Total (%)	100.0		100.0
Sample size	760		760

FINDINGS

To avoid any contravention of the assumptions of normality, linearity, multicollinearity, homoscedasticity and autocorrelation, preliminary analyses were conducted. To ascertain whether the five predictors were statistically significant, multiple regressions were administered, $F = 44.314$ at 1% level (Table 2). The model as a whole explained more than 20% of the variance in retirees’ attainment of ideal retirement amount. The study found that all the five independent variables possess high positive beta values while all the co-efficient

values are larger than 1. Consequently, all the five independent variables (health level, assets owned, financial satisfaction, financial knowledge and will preparation) have positive significant relationships with the dependent variable (attainment of ideal retirement amount) at either 1% or 5% level (one-tailed).

Table 2
Regression of the attainment of ideal retirement amount

Variable	Unstandardized Coefficients		T	Sig. (one-tailed)	Collinearity Statistics	
	B	Std. Error			Tolerance	VIF
(Constant)	-8.224	3.664	-2.245	0.013		
Health level	1.175	0.628	1.871	0.031	0.876	1.141
Assets owned	4.695	0.553	8.487	0.000	0.728	1.374
Financial satisfaction	2.499	0.721	3.464	0.000	0.730	1.370
Financial knowledge	1.092	0.601	1.817	0.035	0.746	1.341
Will preparation	5.414	2.359	2.295	0.011	0.913	1.095

R Square = 0.227; Adjusted R Square = 0.222; F = 44.314* (p-value = 0.000)
Durbin-Watson = 1.573
Dependent Variable: Attainment of ideal retirement amount

This study revealed good health, assets owned, financial satisfaction, financial knowledge and will preparation are related to the attainment of ideal retirement savings. Health level affects one's capability to acquire current and future income and therefore, greatly influences the attainment of ideal retirement funds. In worst case scenario, health problems may force some to retire early with insufficient retirement savings to maintain their lifestyle. Therefore, good health has a positive effect on the attainment of ideal retirement amount and hypothesis H1 is significant at 5% level. This hypothesis is supported by other studies (Gruber & Helen, 2009; HRS, 2007).

Retirees face a substantial loss of earnings which translates into lower standard of living if they do not have

adequate savings. Therefore, accumulation of assets during working life is crucial for the attainment of ideal retirement funds as the former can be a source of income to cushion the loss of earnings (Harrison, 2006). On the other hand, measures such as setting aside some money and investing in other financial assets such as property, estate, unit trust and company shares are crucial for retirement planning because of the diminishing source of income for would-be retirees. As a result, hypothesis H2 is supported at 1% level. Therefore, assets owned has a positive relationship with the attainment of ideal retirement funds and this finding is confirmed by other studies (Belke, Dreger, & Ochmann, 2014; Yao, Xiao, & Liao, 2015).

Financial satisfaction has a positive effect on the attainment of ideal retirement amount and hypothesis H3 is significant at 1% level. Consequently, peoples' ability to save and their desire to invest for retirement might be undermined by their financial illiteracy, with adverse effects on their well-being in old age (Voicu & Vasile, 2014; Yao et al., 2015).

Many people lack financial knowledge to plan for their retirement which leads to low level of retirement wealth accumulation. Thus, financial knowledge has a positive effect on the attainment of ideal retirement income. As a result, hypothesis H4 is supported at 5% level and the finding is confirmed by Delafrooz and Paim (2011).

A bequest can be made to various parties such as family and friends and it encourages savings and accumulation of other forms of wealth. Indirectly, it greatly influences the attainment of ideal retirement funds. Therefore, bequest has a positive effect on the attainment of ideal retirement amount and is significant at 5% level which means hypothesis H5 is supported. This finding is consistent with that of Nardi and Yang (2014).

Implications and Limitations

Malaysia will be an ageing country by 2025. Thus, ensuring social security and quality of life for the ageing population is vital. Currently, there is rising concern among the working population that their retirement funds are insufficient to maintain

their lifestyle during old age as a result of high inflation, rising household expenses coupled with low household income and high medical expenses which may their retirement savings. Thus, EPF may have to consider revising the contribution rates of either the employee or employer or both every three to five years to ensure the well-being of retirees during their old age. In addition, it may also consider allowing employees to withdraw their money from Account 2 to purchase medical insurance for themselves and their spouse in order to reduce the risk of high medical expenses during the end of their life. These actions may directly or indirectly stimulate growth of the insurance and medical industries.

The first limitation of this study is its cross-sectional data. A longitudinal research may capture more valuable and useful information on the attainment of ideal retirement funds. In addition, a comparative study between rural and urban retirees would be useful to gain insights whether it is cheaper for retirees to live in rural areas.

CONCLUSION

This study had used Maslow's hierarchy of human needs of to examine the relationship between the attainment of ideal retirement income and health, assets, financial satisfaction, financial knowledge and will preparation as independent variables. The results showed all these five independent variables are positively related to the attainment of ideal retirement income.

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