

# CHAPTER III

## THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

### 3.0 Introduction

This chapter explains the sources which have given rise to 11 research problems, together with 11 hypotheses. A theoretical framework is also inserted to conceptually cover the issue of filial piety and financial learning/literacy as well as their interrelationships, all of which are expected to have a direct or indirect impact on the outcome of Malaysian people's retirement financial planning. The sources of the problems are related to the high consumption expenditure, post-retirement living standards and high costs of public healthcare and medication. These problems would confront many people in this ageing Malaysian society, unless they have taken appropriate steps to adequately prepare themselves for their retirement. Note that the problems are more serious than generally expected, when efforts are made to take into consideration the implications of the country's consumer price indexes (CPIs), which had, on an annual basis, steadily increased on an uptrend for the period (2000-2008) as indicated below: 2.66 (00), 2.79 (01), 2.73 (02), 2.74 (03), 2.70 (04), 2.72 (05), 3.38 (06), 3.50 (07) and 3.49 (08). These CPF figures, though looking comparatively small, might be tolerable but could eventually lead to struggling for survival in retirement, if people were financially unprepared or inadequately prepared. The next few pages explain how the respondents might perceive these problems and they would attempt to resolve them through proper retirement financial planning based upon, *inter-alia* two key factors, namely: (a)

financial learning and literacy, (b) the contribution of filial piety to retirement resources adequacy, and (c) the combined effect of both filial piety and financial learning/literacy on the overall outcome of the retirement resources adequacy.

### **3.1 Racial Grouping and Work Classification**

The study's main purpose is to gain a deeper insight into the issue of the respondents' retirement income sources and the financial planning strategies adopted in preparing themselves for their retirement years. In particular, the study adopts a four-pronged approach to delve into the different areas which are deemed to have direct or indirect effect on retirement financial planning. Evidence has shown that the effects of traditional and cultural influences have significant effects on people's financial behaviours. The respondents (comprising the three ethnic groups, namely: Malays, Chinese and Indians) are cross-culturally categorised into (a) the public sector employees (mostly civil servants with a DB retirement saving plan), (b) the private sector employees (essentially, EPF contributors to the DC retirement saving plan, and (c) the large informal Sector of some 49 percent of the Malaysia's working population, who have had no known income sources for want of reliable information. Notwithstanding their inherent weaknesses, these three ethnic groups essentially form the study's basic sampling frame from which the required number of respondents is drawn for the purpose of obtaining the requisite data for this study. Because of the expected limited income resources, the indigenous people could have been unintentionally left out in the sampling frame but, by extrapolation, they could also be assumed to have been included in the aforementioned informal sector through the stratification process. However, the distribution systems for despatching the questionnaire are such that these indigenous people

would have been automatically excluded by virtue of their remote location. Notwithstanding this, the overall result of the study would not be significantly affected by virtue of the fact that most of these indigenous people, if not all, would fall within the category of the hard-core poor class.

The need for this study is clear for the following reasons. First of all, the quantum of pension currently only available for the public sector civil servant has remained almost static for the present category of pensioners already in retirement as they had not benefited from any salary revisions which would have proportionately increased the level of their pension. Without any periodical significant upward adjustments, the DB or pension scheme would not obviously provide adequate retirement resources for many current and future pensioners, unless they have had sufficient savings, investment income and housing wealth which could supplement their monthly pension receipts. Secondly, the EPF or DC saving scheme has also been found inadequate for retirement purposes (Caraher, 2000; Ong, 2005), while the conversion of this DC saving scheme into an annuity payment system has not been enthusiastically received by the EPF contributors. Finally, the informal sector people (the majority of them remaining anonymous in the underground economy) are also the targeted Malaysians who, for obvious reasons, might badly need financial planning to prepare themselves for retirement. It is against this backdrop that the respondents are first asked whether they have started saving for their retirement (given their present financial circumstances), and, if not, when and why. This is done for purposes of examining their conventional financial planning strategy unaffected by the influence of filial piety and financial learning/literacy. In the second step, the study looks at the various aspects of financial learning and financial literacy to see how these variables contribute to the respondents' financial planning for retirement. Prior research has indicated that financial

knowledge and money management skills were indispensable to making good financial decisions (DeVaney, 1995; DeVaney *et al.*, 1995, 1996; Hira *et al.*, 1993; Titus *et al.*, 1989a), especially long-term retirement financial decisions (Bernheim and Garrett, 2003; Salisbury and Jones, 1994), and that the effectiveness of self-directed financial learning and the role of good financial management practices were also important factors between financial learning (with financial satisfaction) and satisfaction with career progression (Hiemstra, 1994; Loibl and Hira, 2005). In the third step, through the same questionnaire, respondents are requested to answer questions relating to the intricacies of the filial responsibilities and filial expectations with a view to verifying the relationships for intergenerational transfers, which could be deemed as directly or indirectly contributing to their elderly parents' retirement resources. In this particular area, there is an abundance of evidence clearly indicating that filial piety was a fundamental basis of a social organisation in Korea, Japan and China (Deuchler, 1977; Hsu, 1971; Osgood, 1965), and that filial piety was also a Confucianism concept, under which the roles of family members are clearly defined with the family structure (Deuchler, 1977) which has, in turn, formed the established structural and cultural patterns of intergenerational relationships (Solberg, 1966).

All things being considered, this study is timely, given the fact that in recent years there have been heavy demands on funds and personal financial planning strategies to counteract high costs of financial services and funds, high costs of healthcare and medications, high inflation, and low/negative returns on investments.

## **3.2 Research Problems**

There are real problems plaguing the Malaysian ageing society, with which both the government and the Malaysian people should be equally concerned or worried about (see discussions below). The study intends to focus its attention particularly on how people are planning to cope with their retirement years and how they would fare in terms of old age financial adequacy, based on their personal efforts, personal financial planning strategies and/or through children's filial obligation. Given the limited scope of this study, tentative (research) problems would be centred only on the following critical areas: (a) The gap between high consumption expenditure (brought about by rising prices and inflation rate) and an acceptable living standard for retirees (in tandem with the country's economic growth) is expected to widen, over time; (b) Older peoples' inherent problems (i.e. their susceptibility to diseases, regular healthcare and medical attention) are expected to further deteriorate over time, given the rising costs of these healthcare facilities and medicines; (c) The inaccessibility to public sector healthcare services in certain areas of the country and also the government's continuous 'inconsiderate' attempt to privatize some sections of the medical services – all of which are also expected to pose serious problems not only to the people concerned but also to families with older members in regular need of healthcare services; (d) Consequent upon the country's higher literacy, the effects of financial education and financial literacy will have on helping the respondents in their personal financial planning strategies for retirement, given some of the negative impacts referred to in items (a), (b) and (c) above; and (e) The practice of the Confucian-driven filial piety (e.g. the discharge of filial obligations/responsibilities) may have a positive impact on the level of financial assistance and emotional support given by the respondents' adult children to their elderly parents, wherever appropriate, bearing in

mind the gradual erosion of the extended family system or the emergence of the nuclear concept, among other adverse factors.

### **3.3 Research Questions and Hypotheses**

Below are relevant research questions (with some literature review, wherever appropriate, and hypotheses) to cover the specified issues, which are the focal points of this study.

Financial learning and literacy were found positively related to sound decisions on making investments and savings accumulations (Grable and Lytton, 1997; Hersley *et al.*, 2001) and also positively related to retirement planning (Ekerdt and Hackney, 2002; Mitchell and Moore, 1998). By reference to the problems outlined in items 3.1 (a), 3.1 (b), 3.1 (c) and 3.1(d) above, and given the positive effect of financial learning and literacy on investment and asset accumulation, the first Research Question would be: “Do Malaysians improve their financial literacy by learning so that they can enhance their knowledge on money management skills especially in retirement financial planning?” This has automatically given rise to the need to formulate the following Hypothesis 1.

*H1: Controlling for demographic attributes, financial learning makes a significant contribution to financial literacy level.*

Financial knowledge and money management skills are vital to making sound financial decisions especially long-term financial decisions such as retirement planning as indicated in various research papers (Bernheim and Garrett, 2003; Lusardi and Mitchell, 2006,

2007, 2008; Salisbury and Jones, 1994). Given these relevant research findings and the financial learning and financial literacy referred to earlier in item 3.1(d), the study has proceeded to tackle Research Question No. 2 as follows: “What types of strategies would Malaysians employ to achieve the desired level of their post-retirement living standard and at what stage of their lives would they commence making such planning strategies?” In turn, this research question has led to Hypothesis 2.

*H2: Controlling for demographic attributes and financial learning, financial literacy makes a significant contribution to the economic well-being.*

The importance of financial knowledge and money management skills described earlier has also led to the formulation of, the next research question or Research Question 3, which reads: “How do Malaysians currently fare in terms of (a) financial satisfaction, and (b) ability to make sound investment decisions, long-term financial goals and so forth?”. This would obviously have some degree of mediation on the relationship between financial learning and financial or well-being. Hence,

*H3: Financial literacy will mediate the relationship between financial learning and economic well-being.*

By traditional and cultural practices, many Asian people such as the Chinese, Indians, Japanese and Koreans have followed the filial piety concept in providing financial, emotional and exchange support to their parents (Blieszner and Hamon, 1992; Lew, 1995; Pyke, 1999; Takahashi, 1995). However, given the emerging trends of the nuclear family unit concept (or erosion of the extended family system), the traditional intergenerational relationships have

been, to some extent, affected by financial and structural factors such as socio-economic status, higher income, social network, parents' needs for assistance and living proximity (Bengtson and Kuypers, 1985; Ikkink *et al.*, 1999; Ishii-Kuntz, 1997; Rossi and Rossi, 1990). Given the effect of these prevailing changing trends on the one hand, and given the impact of filial obligations as discussed earlier in item 3.1 (e), the following question or Research Question 4 is relevant to ascertain the respondents' current view and practice in this particular area: "How do Malaysians perceive the question of intergenerational transfers under the filial piety concept, given their own current family structure and financial commitment?" This compound research question has given rise to three different hypotheses, namely:

H 4: *The more frequently the children are in contact with their parents, the more support they give.*

H 5: *Parents with financial resources are less likely to co-reside with their children than those with little financial resources.*

H 6: *The longer the children are away from the parent, the lesser would be the filial support given to them.*

According to Lee *et al.* (1994) study, there was reciprocity between ageing parents' filial responsibility expectations and the financial assistance given to children (Eggebeen and Davey, 1998; Ingersoll-Dayton and Antonucci, 1988), while the parents have certain expectations about filial responsibility from their adult children in certain circumstances (Hanson and Sauer, 1985; Stein, 1993). These research findings plus the filial responsibility referred to in 3.1 (e) discussed earlier have invariably given rise to the occasion to formulate the next research question i.e. Research Question 5: "How do Malaysians view the relationship of filial responsibility and financial assistance between parents and children?" which leads to the formulation of the following hypothesis.



H 7: *The support given by parents to children influences the support they receive.*

On the one hand, there is the general practice for children to show their filial duty to their parents as part of the cultural traditions of filial piety (Connor, 1976; Nakano, 1990; Yanagisako, 1985) and contrary to the extent to which adult children are expected to give assistance to their elderly parents over their own needs (Seelbach, 1984). On the other hand, there are other factors such as geographical dispersion and growing trends for small household units (Caraher, 2000), adverse effects industrialisation, urbanisation and interregional migration (Pramualratana, 1991; Yang and Chandler, 1991), which could affect family integration. Additionally, research has also indicated that erosion of filial piety by Westernisation through the globalisation process (Caldwell, 1980; Martin, 1990) and working adult children have also prevented them from providing activities of daily living (ADL) to their needy parents (Dwyer and Coward, 1991; Lee *et al.*, 1994). Based on all the above research findings and based on the filial piety concept outlined in item 3.1 (e) above, a strong possibility has provided the impetus to formulate another question i.e. Research question 6: “Do the adult Malaysian children carry out their filial responsibilities, given the aforementioned factors and changing circumstances?” with the following complementary hypothesis.

H 8: *There is a relationship of support exchanges between parents and their children and opportunities to give support.*

Among the good virtues enshrined in Confucianism is the giving of unconditional financial and emotional support by children to parents (Kitagawa, 1969; Liu, 1986; Osako and

Liu, 1986). The above findings and the filial responsibility briefly discussed earlier in 3.1 (e) above have provided an appropriate basis to produce another question on emotional and financial support from the parents' perspective. The relevant question i.e. Research question 7 would read as follows: "What do Malaysians think of the issue of filial piety firstly in terms of filial responsibility to parents and secondly in terms of financial support, familial care and income security for retirement?" This lengthy question has in turn provided the proper basis for constructing two separate hypotheses as follows:

- H 9: *There is a positive relationship between children and parents on expectations about filial responsibilities, sharing the view that children are obligated to provide support if their parents need it,*
- H 10: *Adult children who have higher family income and a high level of filial obligation will provide more opportunities for support to their parents.*

The study has, thus far, covered the key issues of filial piety and the key issues of financial learning as two major separate areas directly or indirectly affecting the adequacy or otherwise of the retirement income. No consideration was given to their combined effects on the overall result. Finally, attempts are now made to cover any possible effects of the interrelationships of these two key issues with the following research questions i.e. Research Question 8 which reads as follows: "Do financially illiterate Malaysians adopt the filial piety concept in planning for their economic well-being?" This has led to the Hypothesis 11 (with four different constructs, namely: subjective perception of personal finance, behavioural assessment of personal finance, satisfaction with financial situation, and perceived financial well-being). Note that the above four constructs are presented in four different sub-hypotheses and tested accordingly (see Chapter IV for detailed explanations). The term 'economic or financial well-being or wellness' notes a level of financial health including satisfaction with

material and non-material aspects of one's financial situation (Williams, 1993) comprising three components, namely: financial adequacy, personal economic well-being, and satisfaction with level of living (Drough *et al.*, 1994). In closing this subsection, Hypothesis 11 is below for ease of reference:

H 11: *Financially literate people adopt the filial piety concept in planning for their economic well-being.*

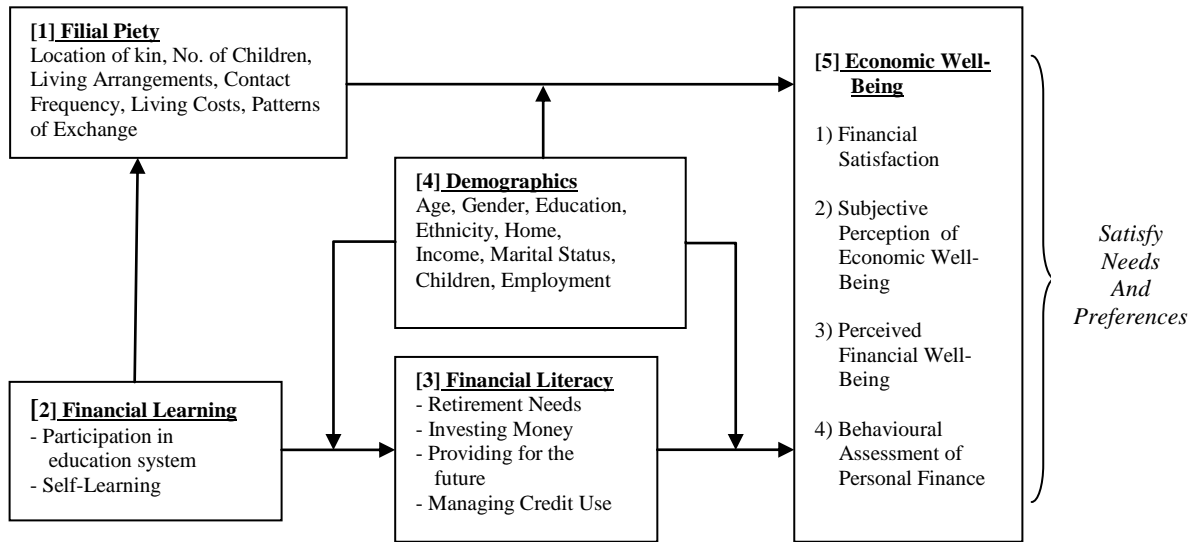
### **3.4 Conceptual Framework**

To recap, the study has included a conceptual framework (Figure 3.1) to help explain the intricacies of the interrelationships (a) between retirement financial planning and the influence of filial piety (Box 1), (b) between financial planning and financial learning (Box 2) as well as financial literacy (Box 3) as a continuation, and (c) between financial planning and demographics (Box 4), all of which are expected to lead to elderly persons' well-being (Box 5) reflecting their perceived personal satisfaction. Brief narrations are contained in the five boxes of the conceptual framework below, and further explanations of the variables contained therein are provided immediately thereafter.

The conceptual framework below contains the dynamics of the following key constructs/variables, namely: (a) filial piety, (b) financial learning and financial literacy, and (c) demographic characteristics as a continuum leading to the successful conclusion of the retirement income adequacy. In the area of filial piety, the variables are identified as the number of children, living arrangement and exchange patterns and so forth, each of which is expected to play a separate role in the intergenerational relationships as revealed

**Figure: 3.1**

**Conceptual framework of factors affecting well-being of the elderly**



by the large body of relevant literature (see discussions earlier). Similarly in the area of financial learning and literacy, participation in financial learning, self-directed or self learning programs would also increase financial knowledge, which would put the respondents in a better position to plan their own investment or asset accumulations as one of the contributory factors to retirement saving adequacy. Extensive research has also been performed on the many aspects of filial obligation/responsibility and intergenerational relationships (refer to early discussions). Investment in education might also be positively linked to the filial piety concept in the shape of similar benefits, as, for example, ‘raising a son (including giving him a good education) was to provide protection for old age’ according the traditional Chinese family (Lan, 2001). The demographic characteristics (Box 4) representing respondents’ personal variables, on their own, are also expected to enhance the retirement income adequacy, subject to the level of their household income, the pattern of their living expenditure, and their other family-related financial commitment. Finally, the

interrelationships between filial piety (Box 1), on the one hand, and financial learning/literacy (Box 2 & 3), on the other hand, are also examined to check any possible contributory effects there might be towards enhancing the outcomes of the retirement security adequacy in this study.

### **3.5 Summary**

The chapter has discussed many aspects of filial piety from the emotional, exchange and financial support. Additionally, it has also touched upon various aspects of financial learning/literacy and demographic variables. All these discussions have led to the framing of eight different research questions, from which 11 hypotheses were financially produced to cover every necessary angle within the parameter of the study. Note that some of the research questions are complex in nature whilst some are simple and straightforward; hence, the formulation of altogether 11 hypotheses which are tested in the study. To further strengthen the foundation for the study, some of the relevant research works, which are closely linked with the subject matter, are further quoted in support of each of the issues involved, as far as possible in order to make the presentation more readable. Finally, all the 11 hypotheses are restated below for ease of reference.

- H 1: Controlling for demographic attributes, financial learning makes a significant contribution to financial literacy level.
- H 2: Controlling for demographic attributes and financial learning, financial literacy makes a significant contribution to the economic well-being.
- H 3: Financial literacy will mediate the relationship between financial learning and economic well-being.
- H 4: The more frequently the children are in contact with their parents, the more support they give.

- H 5: Parents with financial resources are less likely to co-reside with their adult children than those with little financial resources.
- H 6: The longer the children are away from the parents, the less will be the filial support given to them.
- H 7: The support given by parents to children influences the support they receive.
- H 8: There is a relationship of support exchanges between parents and their children and opportunities to give support.
- H 9: There is a positive relationship between children and parents on expectations about filial responsibilities, sharing the view that children are obligated to provide support if their parents need it.
- H 10: Adult children who have higher family income and a high level of filial obligation will provide more opportunity for support to their parents.
- H 11: Financially literate Malaysian people adopt the filial piety concept in planning for their economic well-being.

**Note:** Some of the above hypotheses would be split into a number of sub-hypotheses in order to delve into the research areas (*refer to Table 5.36 details*)