

6. DISCUSSION AND CONCLUSION

6.1 Introduction

As stated in Chapter 1, the study would use several key areas: age cohorts, demographics, parental retirement planning, confidence in the economy, consumption, current financial resources, orientation towards financial planning, expected retirement age and financial planning as the determinants to evaluate how Malaysians would generally plan for retirement and securing their financial security in the post-retirement period. The whole study was focused around and dependent upon the test results of the 12 main hypotheses which were either formulated by reference to the research questions in Chapter 3 (3.2) or deduced by inference to the possible combined influence, which the key areas might have on Malaysians' financial planning strategies.

For purposes of obtaining an in-depth knowledge of the more complicated areas, some of the hypotheses were appropriately split into a number of sub-hypotheses which were used for practical reasons in substitution of the original hypotheses. The hypotheses were examined using either ordinary or hierarchical regression approach. The final results have shown that 24 of the hypotheses or sub-hypotheses were accepted and 34 rejected (see Table 5.71, Chapter 5, for further details). A detailed discussion on the relevant findings with reference to the literature is tabulated below.

6.2 Findings and Discussions

6.2.1 Hypotheses (H1.1 to H1.10)

Efforts were made to examine the possibility of any relationship between age cohorts and financial planning preparation via 10 sub-hypotheses (H1.1 to H1.10). The purpose of this approach was to ascertain whether there would be age cohort effects between the two variables which might eventually have an effect on Malaysians' financial management strategies and ultimately on their financial planning for retirement. The first step involved eliciting respondents' financial planning preparation status using regression analysis. The next step was to determine the relationship between respondents' age cohort, to ascertain the effect of the relationship (if any) in question. On both counts, the testing results showed that, of the 16 demographic variables used in the questionnaire, age cohorts between 26 to 35 years old, ethnicity, marriage, educational level, spouse health, and home ownership were very significant predictors of financial planning preparation variables. Management status and spouse aged below 65 years old were only slightly significant predictors of financial planning preparation.

For all age cohorts, there is strong evidence to suggest that Hypothesis 1 (age cohort has a positive impact on financial planning) is fully supported and, therefore, accepted as a valid statement. These findings are in line with those by Cutler and Devlin (1996), Lusardi and Mitchell (2007) and Tan *et al.* (2012). As suggested earlier, consulting with financial advisers and planners will be useful for Malaysians in their financial planning for retirement. Previous research has demonstrated the effectiveness of financial advisers and planners on retirement savings as well as individuals'

knowledge, attitude and behaviour towards financial planning (Bernheim and Garrett, 1996; Heath, 1996; Fletcher *et al.*, 1997; Gorbach, 1997; Tan *et al.*, 2012).

6.2.2 Hypotheses (H2.1 to H2.5)

As an important part of this study, attempt was made to examine the relationship between age cohorts and orientations towards financial planning from the perspective of confidence in the economy. This methodological approach was premised on the financial models previously used by Porter (1990) and Joo (1998). The regression results revealed that confidence in the economy was supportive of the hypothesized statements (Table 5.23 to 5.27, Chapter 5). With the aforementioned findings, there is therefore evidence to support the hypothesized statements that Malaysians would generally relate confidence in the economy to orientation towards financial planning regardless of the age cohort effects. The theory has the general support of other researchers (Feuerbach and Erdwins, 1994; Sorensen and Pinquart, 2000; Ekerdt and Hackney, 2002; Tan and Folk, 2011).

6.2.3 Hypotheses (H3.1 to H3.5)

As a more direct approach to the relationship between age cohorts and expected retirement age, further efforts were made to examine the issue of confidence in the economy with a view to ascertaining its mediating effect on Malaysians' expected retirement age. This was also done through the testing of five sub-hypotheses (H3.1, 3.2, 3.3, 3.4 and 3.5). The modified approach was based on financial models previously adopted by Porter (1990) and Joo (1998). For age cohort 1 (H3.1), gender, ethnicity, employment and spouse aged over 46 years old was found to have some mediating relationship between demographic variables (Model 1) and expected retirement age and, with the input of age cohort variable (Model 2), the relationship

had become not positive and not significant. The R^2 change (Model 2) did not have any mediating effect and similarly the R^2 (Model 3) also did not have mediating effect. Based on the initial regression results which were insignificant, it is unjustifiable to say that confidence in the economy mediates the relationship between age cohort and expected retirement age. In concluding the discussion on the relationship between age cohort and expected retirement age, it may also be mentioned that, in addition to the relevant literary works quoted in the earlier section, confidence in the economy was found to have (i) a weak, and not significant impact on retirement savings (DeVaney *et al.*, 1995), and (ii) a long-term effect on personal financial wellness (Bernheim *et al.*, 1997; Beh and Folk, 2012). These two factors make an impact on the expected retirement age of Malaysians. Regardless of the economy, the young age cohort may not be thinking so far ahead towards when they are planning to retire. Older age cohorts with much more savings may start feeling more confident to commit to a retirement timeline.

6.2.4 Hypothesis (H4.1 to H4.2)

The following was the investigation into the relationship between children's financial planning preparation and their parents' retirement planning by regression analysis into the relevant data. The financial planning variables were investigated from two perspectives: (i) Financial Planning by Own Self (FinPISelfIndex), and (ii) Financial Planning using Professional (FinPIProIndex) through the testing of sub-hypotheses (H4.1 to H4.2). In the course of investigating into the "Parental retirement planning" from the children's perspective, this was found not to be a significant predictor, with the R^2 change (=0.009) and F change (=3.758) (see Table 5.33, Chapter 5). In the second hypothesis, this was found to be a significant predictor, while the R^2 change (=0.023) and F change (=7.069) were also significant (see Table 5.34, Chapter 5). The

first hypothesis was at the edge of significance. As such, the regression results have provided some basis to reject the null hypothesis and to confirm the theory that, from the children's perspective, there appears to be adequate retirement support from parents to their children. According to Luescher and Pillemer (1998), the parent-child relationships are ambivalent resulting in incompatible normative expectations which would require contradictory attitudes and behaviours (Merton and Barber, 1963). The finding in this study seems to have the support of previous research. For example, Morgan *et al.*, (1991), (Lye, 1996) and Folk (2011) are of the opinion that parents and children are closely related to the contact and support exchange as they would assist and care for each other over the life course.

6.2.5 Hypothesis (H5)

As a further issue of the orientation towards financial planning, the relationship with current financial resources was also discussed on the basis of the hypothesis that "Current financial resources have a positive impact on orientation towards retirement planning" (H5). The regression analysis has revealed that the demographic variables of spouse aged 56 to 65 years cohort, spouse health, spouse employment, home ownership, life expectancy, management level, marriage and age cohort 56 to 65 years old were significant and the R^2 change (= 0.037) and F change (= 6.618) were significant at the 0.01 level (see Table 5.35, Chapter 5). Hence, there is therefore evidence to substantiate the hypothesis as valid.

6.2.6 Hypotheses (H6.1 to H6.10)

The following discussion was concentrated on the relationship between current financial resources and expected retirement age. Essentially, the relationship issue would be examined under the hierarchical regression method in the context of two different perspectives, viz.: the "Portfolio distribution" perspective, and the "Savings

in value term” perspective. Under the hierarchical regression method, the independent variables enter the equation one at a time (Kinnear and Taylor, 1987). In the study of the relationship from the “portfolio distribution” perspective, the regression has not revealed any significant demographic variables at the 0.05 level with the exception of the expected retirement age cohort of less than 56 years (H6.1) which was just significant (see Table 5.36, Chapter 5). Other demographic variables making an impact were gender, ethnicity, employment level, spouse employment, age cohorts 36 to 65 years old and spouse aged of less than 36 years old were also significant at the 0.05 level. In conclusion, this would mean that Malaysians who relate current financial resources to expected retirement age tend to have an expected retirement age of up to 56 years old. This may be due to the historical legacy left behind by the British over 50 years ago whereby retirement age was set at 55 years old. However, the legal retirement age has been increased to 60 years old for the public sector effective from 2012 and the private sector starting in 2013. There will be a period of adjustments to adapt the mindset of the people to this new retirement age.

6.2.7 Hypotheses (H7.1 to H7.10)

The relationship between age cohorts and financial planning preparation from the perspective of current financial resources was discussed. The discussion would be centered upon two different areas, viz.: financial planning by own self “FinPISelfIndex” and financial planning with professional help “FinPIProfIndex” by reference to Tables 5.45, 5.47, 5.49, 5.51 and 5.53 (Chapter 5), and Tables 5.46, 5.48, 5.50, 5.52 and 5.54 (Chapter 5) respectively. Ethnicity, educational level, spouse health, management level, age cohort 26 to 35 years old and spouse aged below 36 years and 56 to 65 years old were the demographic variables significant at the 0.05 level. The overall regression models for all the 10 sub-hypotheses were not significant

at the 0.05 level. These regression results are indicators of the non-mediating influence of current financial resources on financial planning preparation. In this regard, Hasher and Zacks (1984) had demonstrated in their research that individuals would register information in their subconscious mind unintentionally, truly and automatically. On the other hand, with regard to the current financial resources, it was observed that the results were insignificant results. Hence, there was no mediating effect. There is, however, sufficient evidence to support the fact that age cohorts have a strong effect on financial planning preparation.

6.2.8 Hypotheses (H8.1 to H8.2)

The following is a further discussion on the relationship of confidence in the economy on the one hand, and financial planning preparation, on the other (H8). The results from the hypothesis testing under the regression analysis method showed that the same demographic variables as noted in case of the earlier hypothesis testing (H7), namely educational level, ethnicity, spouse health, age cohort 56 to 65 years old, and home ownership were significant at the 0.05 level. The outcome of the whole hypothesis testing process has, therefore, indicated that there was a strong relationship in the area of confidence in the economy on the one hand, and the financial planning preparation, on the other.

6.2.9 Hypotheses (H9.1 to H9.5)

As part and parcel of the study, there was a need to discuss the effect of the personal orientation towards financial planning and the expected retirement age (H 9). Personal orientation within this context is defined as an attitude about responsibilities towards financial planning emphasizing the importance of protection and building a “nest egg” for the post-retirement period. In this case, the discussion was focused on the perception of the respondent’s retirement needs, not so much on the types of need.

However, the term “retirement need” in this context may generally be interpreted to include, inter alia, financial need, healthcare need or leisure need. The regression results revealed that there were six demographic variables i.e. age cohort over 36 years old, gender, ethnicity, marriage, spouse aged over 36 years old and employment type which were significant at the 0.05 level, and that the overall model ($\Delta R^2 = 0.140$, $\Delta F = 1.974$, $p < .01$) was significant at the 0.01 level (H9.3). With the exception of H9.3, the combined regression results were generally weak, indicating a weak relationship between personal orientation towards financial planning and expected retirement age. Furthermore, this finding also has the support of previous research findings which had concluded that personal orientation towards financial planning and expected retirement age does not go hand in hand (Hanson and Sauer, 1985; Stein, 1993; Tan and Folk, 2011).

6.2.10 Hypotheses (H10.1 to H10.2)

The discussion was held on the evaluation of how the respondent’s expected retirement age would translate into more opportunities for financial planning preparation (H10). This has involved looking into the expectations upon retirement and when they prefer to retire through a series of hypothesis testing. In the course of examination, it was found that age cohort 56 to 65 years old, educational level, ethnicity, spouse health, and home ownership were significant at the 0.05 level, and that the overall model for financial planning by own self ($\Delta R^2 = .192$, $\Delta F = 2.571$, $p < .01$) was significant at the 0.01 level, while the overall model for financial planning using professional ($\Delta R^2 = .141$, $\Delta F = 1.389$ $p = .093$) was not significant at the 0.05 level. (for clarification of the relevant regression results, see Table 5.62, Chapter 5). In the light of these aforementioned regression results, it would not be appropriate to state that, for whatever reasons, expected retirement age would

automatically translate into more opportunities for financial planning preparation. This initial assumption should be taken as an opportunity for further research into the area. In this regard, previous research findings have, however, indicated that when people are financially comfortable, their expectation of retirement is more positive (Greenwell and Bengtson, 1997; Folk *et al.*, 2012). People who financially plan for themselves will also set a target for their retirement age whilst people who rely on professional financial advice may be more likely to take things for granted thinking that there is someone else planning for them.

6.2.11 Hypotheses (H11.1 to H11.3)

As mentioned in the relevant subsections in Chapter 5, the purpose of introducing the above-captioned hypotheses was to assess the interrelationship effect, if any, on respondents' confidence in the economy and the level of personal consumption although these are two different areas of study, each of which was already proven to have a direct or indirect influence on the overall retirement planning strategies in their own rights. Invariably, this involved the use of 16 different demographic attributes (gender, age, spouse's age, ethnicity, management type, health, spouse's health, life expectancy, education level, employment, spouse's employment, income level, employment type, marital status, home ownership and number of children). The following are detailed discussions on these variables.

(a) From the "low value consumption" perspective (H11.1), the regression results (Table 5.65, Chapter 5) indicated that gender, ethnicity, educational level, life expectancy, employment, and home ownership were significant at the 0.05 level and that the overall Model 1 concerning demographics was significant at the 0.01 level. However, the overall Model 2 (with the input of confidence in the economy variable)

was significant at the 0.05 level. These regression results would further imply that confidence in the economy does influence the level of consumption. That is to say, people still need to consume for their needs or in some cases, 'wants' from their own perspective.

(b) From the “medium value consumption” perspective (H11.2), the regression results (Table 5.66, Chapter 5) showed that the demographic variables, educational level and life expectancy were significant, and that the overall Model 1 for demographics ($\Delta R^2 = 0.165$, $\Delta F = 1.837$, $p < .01$) was significant at the 0.01 level. The regression results (Table 5.66, Chapter 5) further showed that, with the insertion of the confidence in the economy variable, the overall Model 2 ($\Delta R^2 = .000$, $\Delta F = .000$, $p = .999$) was not significant at the 0.05 level. As such, it might be appropriate to summarise that the respondents in this study had reflected that despite the fact that they are not confident in the economy, consumption which are slightly higher in cost may still need to be expended as education can be considered as a prerequisite to higher income and hence more savings and better standard of living. In other words, they had invariably taken into account their current financial resources and the perception of the future based on the economy.

(c) From the “high value consumption” perspective (H11.3), the regression results (Table 5.67, Chapter 5) indicated that ethnicity, educational level, and homeownership not only had a significant beta coefficient but also was a relatively more significant predictor of the satisfaction with financial situation. The results (Table 5.67, Chapter 5) also indicated that (a) the overall Model 1 on demographics ($\Delta R^2 = .125$, $\Delta F = 1.461$, $p = 0.074$) were not significant at the 0.05 level; (b) that, with

the input of confidence in the economy variable, the overall Model 2 ($\Delta R^2 = .000$, $\Delta F = 0.005$, $p=0.945$) was even more insignificant at the 0.05 level.

Arising from the discussion on the interrelationship between confidence in the economy and consumption at the different value range, the overall results have revealed that the respondents would have in mind the importance of their perception of the economy in their decision-making process when planning for their consumption spending. Once again, there appears to have no specific research studies on this multi-approach to financial management and retirement financial planning. There is, however, a large body of literature relating to the issues of the respective effects of different degree of consumption when people are not confident of the economy. Apart from the earlier references in this chapter, there are research studies on (i) consumption behaviour (Bernheim and Garrett, 1996; Garman and Leech, 1997; Joo, 1998), and (ii) the relationship between confidence in the economy and consumption (Ekerdt and Hackney, 2002; Tan *et al.*, 2012).

6.2.12 Hypotheses (H 12.1, 12.2 and 12.3)

The following discussion was concentrated on the relationship between current financial resources and the different consumption levels. Essentially, the relationship issue would be examined under the ordinary regression method in the context of the three different perspectives, viz.: the “low value consumption” perspective (H12.1), the “medium value consumption” perspective (H12.2), and the “high value consumption” perspective (H12.3). In the study of the current financial resources-consumption relationship from the “low value consumption” perspective (H12.1), the regression revealed that ethnicity, health, income, and savings were significant demographic variables at the 0.05 level (see Table 5.68, Chapter 5). Similarly, the

regression model in total was also significant at the 0.01 level. In conclusion, this would mean that current financial resources have strong influence on the consumption of low value items.

According to previous studies, a person's consumption habits are determined by his financial resources (Lawton *et al.*, 1994; Tan *et. al.*, 2012). In the examination of the current financial resources-consumption relationship from the "medium value consumption" perspective (H12.2), the regression has demonstrated that there was no demographic variable significant at the 0.05 level and that the coefficients in the Model was not significant at the 0.05 level (see Table 5.69, Chapter 5). Under the circumstances, current financial resources do not have any influence on the consumption of medium value items. This conclusion appears to coincide with the findings of previous studies on a person's level of consumption being determined by his financial resources (Mancini and Bliesner, 1992; Tan and Folk, 2011). In the course of dealing with the current financial resources-consumption relationship from the "high value consumption" perspective (H12.3), the regression has shown that the savings and income variables were significant at the 0.05 level, and that, the current financial resources coefficients in the Model were significant at the 0.01 level (see Table 5.70, Chapter 5). These results are sufficient to confirm that current financial resources affect high value consumption.

This study has answered the research questions posed in Chapter 3 (3.2). Age cohorts definitely have a strong influence on financial planning. There are five distinct phases in an individual's financial life-cycle. Starting at a relatively young age (age 26 years or younger), a career minded person typically will pass through different phases in

their life-cycle en route to his or her retirement and the post-retirement period. These five phases and their corresponding age ranges are:

- Early career – age 26 (or younger) to age 35;
- Career development (age 36 to age 45):
- Peak Accumulation (age 46 to age 55);
- Retirement (age 56 to age 65); and
- Elderly (age 65 and above).

Together, these five phases span a person's entire financial life-cycle. Although some people may not experience all of the phases or will spend more or less time in any one particular phase, the vast majority of career-minded people will go through all five phases. The study indicates that Malaysians achieve their peak savings in the accumulation phase of 46 to 55 years. In general, there is significant evidence that Malaysians tend to smooth consumption across their lifetimes and manage any big downward swings in their standard of living. From this perception, their financial planning strategies consist of transferring consumption across time and across contingencies, throughout the entire life-cycle of the individual. Regression tests in Hypothesis 12 have indicated that basically whatever current financial resources one has had a positive impact on consumption for low and high value items. Consequently, when one has less financial resources, then the respondents tend to spend less. On the other hand, medium value items such as rental accommodation, car installments, food and drinks, still need to be maintained regardless of low savings. Similarly, results in Hypothesis 5 have indicated that the level of financial resources that one currently has will enhance the level of orientation towards financial planning that one will initiate. This means that the individual will be more proactive in his or her financial planning.

This includes smoothing out consumption. From the results of Hypothesis 9, it can be concluded that personal orientation towards financial planning for retirement does not affect their expected retirement age for most age cohorts except for age cohort 46-55. This particular age group probably know that they are nearing retirement age, hence the need to reassess the adequacy of current financial resources to retire. As most of the other age cohorts do not consider their expected retirement age as having any correlation to the adequacy of their current financial resources, then the other side of the equation is consumption. This means that one will need to adjust or “smooth” their consumption pattern to meet their needs, given the limitation of their financial resources at different points in time.

More often than not, Malaysians depend on their children to provide financial assistance in their old age (if the need arises) as part of the Asian cultural and traditional values. The act of saving for retirement shifts consumption from the high earning years to years when the individual is no longer in the workforce. From a life-cycle investing point of view, preparing for retirement thus requires investing savings in sound investments to the extent that is appropriate for the individual’s personal circumstances, and insuring or otherwise addressing the risk of catastrophic losses, such as poor health or uncertain longevity. There is no consensus on the amount of savings that Malaysians will target to save as it depend on their own station in life and exercising financial prudence, to smooth their own consumption pattern.

Generally, financial advisers and planners attempt to advise their clients determine how much to save for their retirement. The typical financial advice given to people is put in terms of whether a savings plan will achieve the perceived standard of living

for the individual during retirement. Although the life-cycle savings model does not seem to describe consumer behavior well at the household level (Thaler, 1990) or at the aggregate level (Mokhtari, 1990), it is still a rigorous model designed to provide a prescriptive answer to the question of how much the individual should save. The objective of financial planning is to determine the most appropriate or optimal wealth management strategy that meets an individual's retirement goals. When faced with multiple strategies, it is important for a financial planner to assess how well each potential strategy would meet the overall retirement goals and preferences through the assessment of benefit outcomes, costs, and investment risks. The asset allocation strategies of Malaysians appear to be optimizing the asset allocation of financial wealth. They attempt to invest in assets whose returns have a low or negative correlation to the return on human capital (wage growth). A high correlation will lead to a painful scenario when both human and financial capital falls and should, therefore, be avoided. However, the appropriate asset allocation of financial wealth is highly specific to the individual, particularly with different risk appetites.

One major factor which influences an individual's financial planning activity is confidence in the economy. Hypothesis 8 demonstrated that confidence in the economy do affect financial planning activities. This together with Hypothesis 5 on current financial resources influences orientation towards financial planning activities. Basically, expected retirement age will affect their financial planning activities if they do the financial planning on their own as demonstrated in Hypothesis 10. This could be taken to mean that should confidence in the economy or their financial resources deteriorate, their expected retirement age may change over time to suit their needs. Hence current financial resources and their expected retirement age will influence

their asset allocation strategies. Combined with their propensity to smooth consumption over times when the need arises, the asset allocation is most likely biased towards income generating type assets like property rental or capital-guaranteed type unit trusts that pays regular dividends or even in blue chip shares that pay good regular dividends. This is contrary to many of the approaches currently used that determine a suitable asset allocation based simply upon a combination of age and a simple measure of risk tolerance. Unexpected shocks in the global financial and capital markets such as the US subprime mortgage crisis and European countries (Greece and Spain) can have a major impact on one's risk tolerance at different stages of their life-cycle (Singh *et al.*, 2010).

In conclusion, it would be opportune time to restate that great efforts had been made to assess the effect (if any) of the interrelationships between age cohort and respondents' financial planning preparation from different perspectives i.e. (1) Confidence in the economy, (2) Consumption, (3) Current financial resources, (4) Personal orientation towards financial planning, (5) Parental retirement planning, and (6) Expected retirement age. Consequently, it was observed that, with the demographic variables being included in the overall models, nearly half the hypotheses have shown some positive effect. These effects mainly involved: the orientation towards retirement planning, expected retirement age, confidence in the economy, current financial resources and financial planning preparation. There is also evidence to indicate that the interrelationships between age cohort and orientation towards financial planning generally have some degree of mediating effect from Malaysians' confidence in the economy which may affect their plan for securing their post-retirement financial security.

6.3 Study Limitations

This study has its limitations. First, this dissertation was undertaken as a cross-sectional study. This cross-sectional study involves studying respondents from different age groups at the same point in time. The study cannot measure change in the variables over time. The findings and conclusions capture only a snapshot of the financial planning, retirement expectations and plans of adult Malaysians at a particular point in time. Nevertheless, this shortcoming is mitigated by studying the five different age cohorts from age 26 to above 65 years old as proxies representing the different age groups in the life-cycle; evidence of change is inferred from differences between the different age cohorts. The reciprocal relationships between the life-cycle factors affecting the financial planning outcomes are examined principally on a multivariate basis to obtain information and measure the influence of the many variables identified. However, the cohort effect in different age groups may show trends particular to a specific group and not true development changes.

While longitudinal studies would benefit from studying the respondents over a particular time period and thus allowing the observation of development over the respondents' life-cycle, the extensive time span, coverage problems, and costs involved in studying a large group of respondents (over a life-cycle) would be prohibitive and override the benefits. The second limitation of this study concerns the geographical coverage in relation to the sample population. Sampling was restricted to adult Malaysians working and living in the Klang Valley area. As described in Chapter 4 (4.6), this study used a sample population in the Klang Valley as representative of the Malaysian population.

6.4 Implications and Recommendations

To the extent of respondents' willingness to seek for outside guidance, financial advisers and planners should identify their niche market in order to dispense their professional services on retirement planning strategies especially in areas of high-yielding and sound investments with tax advantages. While personal perception of their retirement financial adequacy is prevalent in most people, the implication was that not only should their individual perceptions of retirement planning become an increasingly important part of people's long-term commitment throughout their life-cycle, financial planning must also assume the role as a self-directed life-long learning process, in view of the ever-changing and complicated financial environment. In the circumstances, Malaysians must be self-directed in absorbing the enormous amount of relevant information on financial and risk management so that they could generate a higher income level and minimize the risks in applying investment planning and strategies in order to achieve better retirement goals.

Another implication is that the anticipated pattern of real income in the future is a very crucial part of optimal consumption patterns. People who are certain of substantial increases in real income have less need to start saving a substantial portion of their current income than people who expect constant or declining real income. It requires additional analysis, however, to determine optimal or at least plausible levels of emergency funds to accumulate for precautionary purposes. Even a non-mathematical analysis of the saving versus spending question should suggest that some households may find it better not to be overly thrifty at particular points of the family life-cycle. For example, in the years just after children are born, family income

is often reduced due to decreased labor force participation by the spouse to look after the children, or increased spending for child care.

For better retirement financial planning strategy, research efforts should also be made to further examine the relationships between other variables including income from part-time employment, insurance planning, age of initial investment, and legal structure. Some of these variables were briefly discussed earlier with no conclusive results due to life-cycle time constraint and other limiting factors. Such enquiries are expected to help determine more common demographics of retirement, while contributing to the body of knowledge. Respondents generally perceived themselves as financially prepared for retirement, but their income sources during their semi-retirement phase and eventual retirement were not revealed or fully determined. The revelation of these “unknown” income sources might be the ultimate solution to problems for future researchers in this area. If greater details of these unknown retirement income sources could be clearly identified, respondents in similar circumstances might be able to check the status of their financial retirement security adequacy at a certain point in time. If a 25 year old individual thinks it highly likely that real income will increase substantially, and does not plan to retire until age 65 or later, then it may be rational to defer most saving for retirement, as retirement is 40 years away.

In general, the more uncertainty there is about future income prospects, the higher the level of saving (or lower the level of borrowing) there should be (Fan, Chang and Hanna, 1993). Bae, Hanna and Lindamood (1993) found that, all other things being equal, more educated households are more likely to overspend in a year compared to

less educated households. This result cannot be explained by other models, but it is consistent with the life-cycle model. More educated households are more likely than less educated households at the same income level to expect increases in real income. Consideration of the current net asset level of a household, and other factors affecting the real interest rate faced by a household, may also be important in understanding family financial behavior. The basic life-cycle model is limited, however, in evaluating situations where uncertainty is important.

At the same time, it might be useful to look into the circumstances as to why many Malaysians are not seeking professional assistance for their financial planning for retirement as revealed in the study. Are they feeling sufficiently equipped and competent to take care of their own financial management without any professional help? Or are they simply ignorant of the importance of financial planning for retirement, given the fact that they might not be financially prepared in old age or their adult children might not be able to look after them when the time come for a variety of reasons? With more elderly people and retiring individuals joining the fast-rising Malaysian aging population, this may indicate enormous opportunities for professional financial advisers and planners in providing financial planning for retirement.

The findings in this study have strengthened those found in previous studies in the field of (1) age cohort effect and its contribution to life-cycle financial planning; (2) the personal orientation towards financial planning and its contribution to retirement planning adequacy; (3) confidence in the economy and its strong psychological effect on the individual's financial planning perception; and (4) finally the combined effect

of both current financial resources and consumption on financial management and retirement financial planning (see Literature Review in Chapter 2 and references to research studies in this chapter).

To the extent that age cohort has any effect on financial management and financial planning for retirement, the study has revealed that those with an early start in investment for retirement purposes have reflected their goals on strategic planning, and this has given them a clearer road-map of how and when they would be able to achieve those goals. In planning for their retirement preparedness, they had also taken into account the form, pattern and quantum of their life-cycle consumption and current financial resources adequacy as revealed in previous research findings by Dykstra and Knipscheer (1985), Hanson and Sauer (1985), Bengston and Roberts (1991), Stoller (1994); and Tan and Folk (2011).

Furthermore, those with higher education were found to be more financially prepared psychologically for their retirement, because of their exposures to wider scope of life experiences and higher level of education, which had given them the advantage to start early in life-cycle financial planning. These revelations are also clearly reflected in other research findings on (i) financial education (Bernheim and Garrett, 1996; Garman and Leech, 1997; Folk *et al.*, 2012); (ii) making retirement savings plan, estimating post-retirement living standard (Gustman and Steinmeier, 2002; Tan *et al.*, 2012); and (iii) continuing education to achieve, inter alia, personal development and occupational status enhancement (Long, 1983; Stalker, 1993; Beh and Folk, 2012). However, mental preparation towards financial planning may not necessary translates into an actual implementation of a financial plan. In this study, the age cohort issue

was examined from the perspectives of confidence in the economy, current financial resources, personal orientation towards financial planning and consumption based on the financial models by Porter (1990) and Joo (1998). These findings have further strengthened the relationship between the age cohort life-cycle and financial planning for retirement. On the confidence in the economy issue, this study has revealed that age cohort has an impact on the orientation towards financial planning, on expected retirement age, on financial planning preparation and consumption. However, there could be a slight bias present in this study, as these variables or construct may indirectly influence one another, which might not have been revealed. Otherwise the study's findings have coincided with those studies where each of these constructs make strong impacts individually (Blieszner and Hamon, 1992).

The study has also indicated that respondents with adequate current financial resources were likely to influence most other determinants in the life-cycle of an individual. The level of household saving is crucial for household security and the amount of total saving has a direct impact on the economy at large (Hira, 1987). Spending less than income is essential in household budgeting because it is the first step toward saving and accumulating financial assets. In contrast to the predictions of life-cycle saving theory, younger couples without children and older households without dependent children are more likely to save than younger single households. Among middle age groups, only the pre-retirees without dependent children are more likely to save than younger single households. Results of the family life-cycle stages imply that middle-age households seem to delay saving until children attain financial independence and they reach the previous conventional retirement age of 55 years. This phenomenon might be partly related to high education costs for children. With

regard to the effect (if any) of the interrelationships between age cohort and financial planning preparation with the respondents' confidence in the economy in mind, the study indicated that the interrelationships generally have some degree of mediating effect on Malaysians' decision to manage their finances or plan for their retirement financial security adequacy.

Additionally, the study has also revealed positive relationships between demographics and financial planning strategies and that, with savings and home ownership, a significant number of the respondents appeared more financially prepared for retirement based on the research findings. Given Malaysia's lack of a comprehensive old age social security scheme, the inadequate retirement security plans (viz. the DB and DC retirement plans), and the escalating prices of petrol and basic necessities, people should, however, be constantly aware of the possible inadequacy and the lack of current social security benefits as retirement income sources in the country. To prevent such an eventuality, they should take an active part in learning about saving opportunities and their own need and responsibility for financial planning for retirement.

As a result of the recent global financial crisis in 2008/2009 (the effect of which had been widely felt), there is also an urgent need to study its financial effects and implications on future financial planning strategies. Results of the empirical analysis provide useful information for developing and implementing personal and family financial management education programs. The low percentage of saving implies that a large proportion of the Malaysian population needs to be made aware of the importance of saving. Low income, less educated, and rural households should be

targeted for financial literacy education. If the goal is to induce households to save, the education programs should emphasize the importance of financial goal setting and long-term perspective in household financial planning. Low income, lower education of the householder and a higher propensity to spend all added up to lower the probability of household saving. The lack of saving makes these households particularly vulnerable to unexpected declines or interruptions in income. Public policies that provide saving incentives (e.g. tax advantages or higher interest rates) may make it feasible for these more vulnerable households to save, thus improving their financial security.

Finally, in view of the increasingly sophisticated financial and investment products, people should consider engaging more professional advice and expertise to help them structure a more effective and efficient financial planning scheme so that they could optimize their investment returns and reap any tax-advantages and savings when deciding to plan for their financial planning and investments. With proper training and continuing financial learning, they should, therefore, talk to financial advisers and planners before adopting better methods to accumulate quality investments and generate greater returns for better retirement preparation. In the absence of a comprehensive old-age social security scheme in Malaysia, some ideas and recommendations are outlined below in order to help the growing number of Malaysian men and women in retirement.

6.4.1 Raising Retirement Age

With increased longevity, Malaysians face the prospect of having to support themselves for a longer post-retirement period. A realistic option is to raise the

retirement age and let more people work longer as their life span increases and the need to accumulate more savings and financial resources for their old age. With the previous retirement age of 55 years for the private sector and 58 years for the public sector, the average Malaysians will need to finance their consumption post-retirement for about 20 years. In this respect, the government has taken the right step to raise the retirement age to 60 years for the public sector from 2012 and the private sector from 2013 (Sukumaran, 2012). In comparison, neighboring Singapore is raising the retirement age from 62 to 65 years effective January 2012, and is considering extending this further to 68 years (in line with Finland). Most developed countries such as Japan and Germany are increasing their retirement age from 60 to 65 years, while Sweden is proposing to increase the retirement to 67 years.

With the changing notion of retirement, people themselves may choose to continue working in some form or capacity by taking up alternative or part-time employment. Delaying retirement increases lifetime earnings by extending the asset accumulation period, help to reduce the period of retirement and allow retirees to better support their post-retirement consumption. Effective 2008, the liability period for mandatory contribution to the EPF for both employers and employees has been extended from age 55 to age 75. This change may indirectly encourage members to continue working after 55 years to enhance their retirement savings.

6.4.2 Consumption and Household Debts

As stated in Chapter 1 (1.7.1 & 1.7.2), private consumption is expected to contribute about 53.6 percent to Malaysia's GDP in 2010. While this has been a boon to the economy on a macro basis, a darker side is the snowballing increase in household debts. In 2009, total household debt in Malaysia has snowballed to 76.6 percent of

GDP, which is the second highest in Asia, after Japan (see Chapter 1, 1.7.2). While the country increasingly relies on domestic demand and private consumption to stimulate the economy, policy makers have to bear in mind the increasing stress on household financial health and future financial security arising from excessive consumption and unsustainable household debts. The household sector is now the single largest sector exposure for Malaysian banks, accounting for 55 percent of banking sector loans at end-2009. Too much focusing on consumer lending can eventually be counterproductive to the economy. This has also given rise to a new phenomenon where increasing number of debt-ridden young adults risk being declared bankrupt because of overspending and failing to manage their personal finance prudently.

The Credit Counseling and Debt Management Agency (AKPK), was set up by Bank Negara Malaysia to provide financial education, credit counseling and debt restructuring services to individuals. As stated in Chapter 1 (1.7.2), 15 percent of the more than 39,600 people enrolled in AKPK's debt management programme are below 30 years old, young adults who risk being declared bankrupt because of credit card overspending and failing to observe sound financial planning and management. AKPK reported that nearly 50 percent of credit card holders declared bankrupt were less than 30 years of age. Therefore, the economy's dependence on private consumption is creating a consumer driven society which is completely contradictory to the need to save and invest for one's future retirement.

Higher repayments for debt taken to buy houses, cars, and for other consumption needs would eventually bite into private consumption and saving for retirement. There

is therefore a great need to balance between consumption and savings, and an even urgent need to promote the practice of financial planning among Malaysians via improved financial literacy. It is timely that the central bank, Bank Negara had in 2012 imposed a set of “responsible lending guidelines” to the banks and financial institutions “to avoid the excessive accumulation of household debt” (Khoo, 2012). Among the possible policy measures to curb the rising household consumption and debts are: (1) the imposition of more stringent Loan-to-value ratios by banks and financial institutions for mortgage loans to finance home purchases; (2) fixing higher minimum income requirement for eligibility to apply for credit cards and personal loans; and (3) limiting the maximum credit limit on credit cards as well as the number of credit cards to be issued to an individual.

6.4.3 Private Pension Schemes

As stated in Chapter 1 (1.9), while there are three potential sources of post-retirement income for Malaysian – pension for retired civil servants, the EPF for employees in the private sector, and personal savings, this study found that there is a lack of a comprehensive social security system to protect Malaysians from social and economic distress in old age. While the private sector in Malaysia offer better salaries and compensation benefits and a lump sum EPF withdrawal upon retirement, it appears that it is the civil servants who tend to have it better after retirement. The public sector employees eligible for a life-long government pension based on 50 percent of their last drawn salary (including survivor and disability pension) are clearly better off than their private sector counterparts who contribute to the EPF. The EPF is a defined contribution plan, and the contributors receive only what they and their employers have contributed over their working lives, together with the compounded annual dividends. This study estimated that about 42 percent of the country’s labour force in

the private sector does not contribute to the EPF (see Chapter 1, 1.9.1). This means that about 5 million Malaysians are not covered by any formal saving or retirement scheme.

It is therefore timely that the government approved the establishment of private retirement schemes in 2012 to facilitate voluntary savings for retirement and complement the mandatory EPF savings for the benefit of private sector employees and the self-employed (Lim, 2012). The private pension scheme is still very much at its infancy stage in Malaysia. Even for the EPF contributors, many people may not realize that their EPF was meant to fund only basic financial needs and requirements during retirement. Two studies have indicated the unfortunate fact that more than 70 percent of EPF members will exhaust their EPF accounts within 10 years of retirement (see Chapter 1, 1.9). The 2008 EPF annual report shows that 90 percent of contributors have less than RM100,000 in their EPF savings, which is insufficient to see them through twenty years of post-retirement. Even for those within the present public sector pension framework, there are questions of sustainable financial security during retirement. Private pensions can complement the current system by providing various options to the public to supplement their current retirement funding. As discussed in Chapter 2 (2.8), Gough and Adami (2008) defined “poor” as those individuals having post-retirement income below 50 or 60 percent of the median income. To measure post-retirement adequacy, generally, the literature recommends an income replacement rates of 70 to 80 percent (Smith, 2003; Munnell and Soto, 2005; Ibbotson *et. al.*, 2007a).

Private pension schemes are becoming an increasingly important source of retirement income in many countries such as the United Kingdom, the United States, Latin America and Western Europe; this has spurred the growing trend towards greater privatization of retirement income worldwide. Two well-known private pension systems are the Chilean and Australian private pension models which have been instituted for some time and can serve as useful reference for both their successes and weaknesses. The mandatory individual account pension systems pioneered by Chile have become the predominant system in Latin American and Central and Eastern Europe (Arenas de Mesa *et al.*, 2006). The Chilean Pension Savings Account is essentially a mandatory second pillar with defined contributions. There is now more than 95 percent coverage of the Chilean economically active population and pension savings are equivalent to more than 65 percent of Chilean GDP (Drimer, 2010). The Chilean private pension system has also benefited enormously the country's financial sector and its capital markets. Investment returns to the Chilean participants have been good; the rate of return (net of administrative costs) has averaged between 7 and 7.5 percent over the past twenty years. By comparison, the average EPF return over the last ten years from 2000 to 2009 is about 5.06 percent (EPF Annual Reports)

On the other hand, Australia has a fully liberalized, three-pillar system: the first pillar is a universal old age pension, means tested on the basis of assets and income. Emphasis is placed on the second pillar which is a superannuation consisting of an obligatory defined contribution scheme. Most employers operate defined contribution schemes, either as separate employer-sponsored arrangements, or under centralized master trusts. The Australian superannuation system has been very successful and is a major reason why Australia now has the fourth largest fund management industry (by

asset) in the world (Drimer, 2010), which is a huge achievement considering that Australia's 22.5 million people is less than Malaysia's 28 million population. Therefore, it is timely to introduce private pension schemes to complement the EPF to strengthen social security coverage, particularly for the private sector employees and the informal sector comprising of the self-employed. There are a number of potential providers to supply private pension schemes to the public, and these could include banks, insurance companies, asset managers and other specialist providers. In addition to strengthening retirement protection and old age security, this will also go a long way to help the country to strengthen the depth of the domestic financial and capital markets.

6.4.4 Medical Care in Old Age

The aged population in Malaysia in 2009 stand at 4.6 percent (see Chapter 1, 1.8), i.e. there are now about 1.3 million Malaysians aged 65 years and above. The estimate of older Malaysians is projected to rise to 3.4 million by 2020. There is an urgent need to address the concerns about rising healthcare costs, long term care costs, prescription drug and other medical expenses, etc. attributable to these demographic changes. Failure to address the health needs of the elderly population could post a costly problem for both the retirees and immediate family members. With escalating costs of medical and healthcare products and services today, few people can afford to become seriously ill.

Apart from financing post-retirement consumption, the biggest risk in financial planning for retirement is the risk of ill health and the escalating healthcare costs. Many retirees have stated that the unpredictability of personal health is the biggest

risk in retirement planning. Life-cycle financial planning therefore should include provisions for lifetime healthcare coverage to provide for medical expenses during retirement and long term care. Retirement planning should cover for medical insurance and providing investments for old age care. However, escalating healthcare costs make it increasingly difficult for individual Malaysians to finance their own medical costs. A concerted effort is necessary from the Government to provide medical and old age care subsidies and assistance, and tax incentives to make private health and medical care affordable.

For example, the role of Socso can be expanded to provide a universal health care coverage for Malaysian employees and their family members. One successful model is Singapore's Medical Savings Accounts or "Medisave" introduced in 1984. Medisave is a compulsory national health care savings program designed to help citizens meet their individual responsibilities and to supplement funds drawn from their own savings (Massaro and Wong, 1996). Medisave accounts are individually owned accounts used to pay health care expenditures; the fact that people are spending their own money helped to curtail Singapore's health care costs. Medisave contributions range from 6 to 8 percent according to the worker's age. This is supplemented by: (1) the Medishield Program to pay for extraordinary hospital expenses for those under 70 years of age; and (2) the Medifund Program to cover the low-income workers' medical expenses (which may not be adequately covered by Medisave and Medishield). The Singapore model is efficient and effective as the national investment in health care is surprising low, while hospitals and physician incomes are relatively high (Massaro and Wong, 1996).

6.5 Concluding Remarks

The life-cycle hypothesis postulates that consumption depends primarily on expected total resources or life-cycle income, and not on transitory income fluctuations. It is observed that younger people have lower income but greater spending commitments. These include investments in their human capital through education and training, getting married and having children, purchasing a home and financing their children education. In their earlier years, younger people do not earn enough and often borrow to finance their financial shortfalls. As they get older, their income generally rises and their consumer and mortgage debts are paid off as they rise along their financial life-cycle. Their children may have completed their education and moved on. Savings and investments increase as they reach the peak of their working career and as retirement approaches.

People make expected or unexpected transitions and adjustments in the course of their lifetimes. For example, shocks such as sudden economic downturns, natural disasters, job loss, excessive longevity, disability, health issues due to old age, sudden death of a spouse will change their lives in every way. These contingencies could cause financial shocks and involve a reduction in economic resources and change needs for household management like decreased household work time. Financial markets are responsible for unexpected fluctuations in wealth causing increasing uncertainty and concern and indicating new retirement timing. Other problems identified by several studies are myopia – people are absorbed in their daily routines or prefer not to think of their own old age, and fail to see what lies in the distant future, and the lack of self-control to save and insure adequately.

Some problems in retirement that have been identified are the lack of knowledge about good retirement planning practices, financial literacy, dearth of investment products, employment status, changes in marital status, the need to care for children and aged parents, low level of income and education. Widowhood may steer a woman towards poverty in old age, if a husband dies after retirement. If the husband's retirement income is not sufficient, the widow could find herself financially destitute, if her own retirement income is not adequate. As women live longer than men, she may experience poverty for an extended time period. Nevertheless, today's retirees have more options open to them; while some people retire and go into a new career, others may choose to extend their leisure activities. The decision to retire or not to retire will impact not only the individual or his immediate family but the community at large. Retirees leaving their work places may result in vacant positions in some specialized areas, while there may be people still staying at work when they are considered no longer productive. The retirement of baby boomers will affect society at large and many sectors of the economy, ranging from product manufacturing to financial services.

To be able to retire from active employment, people must have sufficient income to support themselves during the post-retirement period. Retirement income in Malaysia comes from a combination of pension income (for civil service workers and members of the armed forces), and in the case of employees in the private sector, EPF contributions, personal savings and investments, and support from family members. Several studies of people nearing retirement (in their fifties and early sixties) have found that their savings levels are insufficient and are not in congruent with their expected retirement age (Bernheim, 1992; Lusardi, 1999). In many Asian countries,

the commitment to familial support of the elderly has been found waning. In Japan, South Korea, and Taiwan, the percentage of elderly living with their children has declined substantially in recent years (Feeney and Mason, 2001). To ensure financial security in their post-retirement period, it is critical that Malaysians plan for their own financial retirement needs. Ultimately, it is the responsibility of the individual to prepare for his or her own retirement.