

## CHAPTER 1

### INTRODUCTION

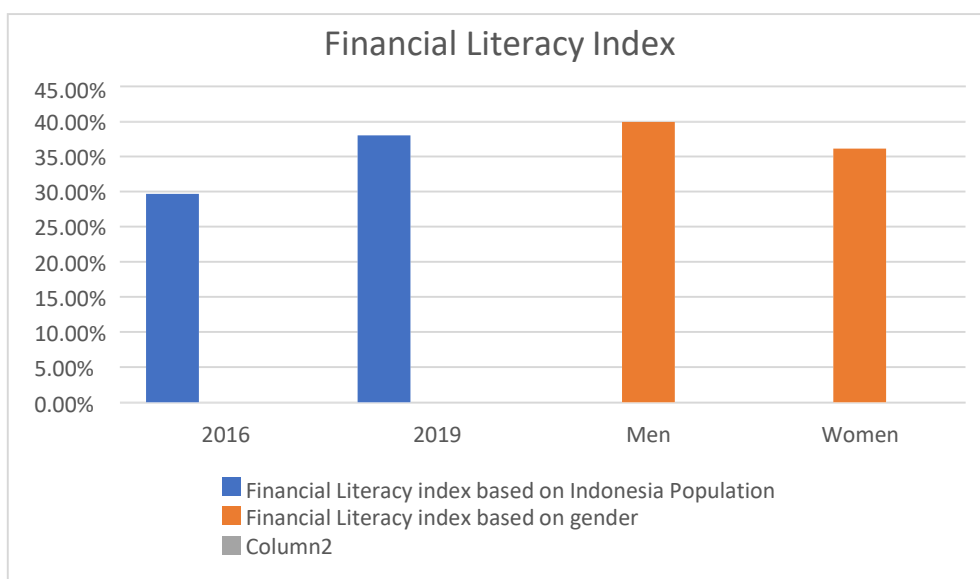
#### 1.1 Background of the study

Every person must learn how to properly manage his or her own money. Funds and loans for the short term are important, but so are financial strategies for the long term, such as retirement savings. People who can make good financial decisions will be less likely to run into financial difficulties in the future, will exhibit excellent financial habits, and will prioritise their necessities over their wants (Chinen & Hideki, 2003). Financial literacy can help people better manage their money in order to secure a more consistent income in the future.

An understanding of financial concepts such as financial literacy is necessary for individuals to make wise financial decisions, which includes their retirement life (Braunsten and Welch 2002) Furthermore, according to Nyamute and Maina (2010), financial literacy is a key factor in a successful pension fund management strategy. According to Lussardi and Mitchel (2008), financial knowledge is a component of financial literacy, and money has a substantial impact on financial well-being after retirement. When making investing selections, this financial expertise comes in handy. Financial literacy is directly linked to financial management, and the stronger a person's financial literacy, the better his or her financial management will be.

An investigation into the amount of financial literacy existing across the community was carried out by the Financial Services Authority. The results of the third National Financial Literacy Survey, which was carried out by OJK in 2019 and used the same indicators as the previous survey, which was carried out in 2016, namely knowledge, skills, beliefs, attitudes, and behaviours, revealed that the

financial literacy index of the Indonesian population in 2019 reached 38.03 percent, which is an increase from 29.7 percent in 2016. As a direct consequence of this, there has been a rise in the level of financial literacy among the community over the course of the past three years, from 2016 to 2019. Then, taking into account the gender distribution of the population in Indonesia, the financial literacy index for women is 36.13 percent, while it reaches 39.94 percent for men. This indicates that the low level of financial literacy that women have will be a barrier for them when it comes to managing their finances.



**Table 1.1 Financial Literacy Index**

A person's lifestyle is their way of life as expressed by their activities, interests, and income in terms of spending money and allocating time. Social interaction shapes one's lifestyle. Lifestyle refers to a person's way of life, which includes activities, interests, attitudes, consumption, and expectations. Financial management with a high lifestyle is also an example of how a person behaves when faced with financial decisions that must be made. A person who is capable of making financial

decisions will not face difficulties in the future and will exhibit healthy behaviour in order to determine the priority scale for what their needs and desires are.

Minor and Mowen (2002: 282) define lifestyle as "how people live, how they spend their money, and how they allocate their time." A person's lifestyle influences their behaviour, which in turn influences their consumption (Sugiono, 2016). Lifestyles such as purchasing luxury goods, shopping, taking vacations, and socialising can encourage people to better prepare their retirement funds so that when they retire, they can continue to enjoy their current lifestyle.

According to Sundjaja et al. (2015), when an individual enters retirement, it is necessary to prepare well, particularly economically or financially, because when he retires, the income obtained decreases while the costs to meet the necessities of life remain and may increase due to rising commodity prices. Furthermore, as we age, we incur costs to maintain our health, which may rise with age. A number of funds must be set aside in advance to cover various types of costs. The ability of an individual to live a comfortable life in retirement is defined as having enough money to pay basic expenses, health costs, long-term care costs, and preparation for retirement through special retirement savings and investing through the purchase of financial products (Helman, Copeland, & VanDerhei, 2010).

## **1.2 Problem statements**

A person's financial behaviour is also closely linked to their financial literacy. People's financial behaviour is influenced by their beliefs about money, according to a new study. Financial attitudes influence a person's ability to carry out certain

financial actions. When it comes to making financial decisions, someone with a positive financial outlook is more likely to succeed. People who have strong financial attitudes tend to have an optimistic outlook on money, especially when it comes to their outlook on the future (Sobaya, Hidayanto, and Safitri 2016).

Today's society's way of life has also changed dramatically. People didn't think much about appearance and lifestyle in the past, but as the times have changed and social media has evolved, so has lifestyle. Social media is one of the factors that influence the development of a lifestyle; on social media, everyone competes to show off their lifestyle, appearance, hobbies, and so on. Individuals must prepare the right lifestyle for retirement, which is different from when they are still working and earning, based on these activities when preparing for retirement. Some workers view retirement as the time they have been waiting for, while others view it as a time of worry, as they do not know what they will do when they retire. Some of the factors that contributed to his anxiety include: not knowing what he will do at home, the income he will receive will be less than his current income, opportunities to meet with coworkers have been eliminated, those who have positions will no longer receive special "treatment" (such as the various facilities they experienced while still working), and so on. Individuals who experience such things are said to be suffering from Post Power Syndrome, which is an anxiety disorder experienced by those who have lost power. According to Bridging the Retirement Gap with HSBC the Gap survey, at least 70% of 1,050 people in various regions of Indonesia have stated that they have not saved for retirement. Only 30% of respondents expressed concern and were moved to prepare their pension funds. Nonetheless, the majority of survey

respondents were concerned about their finances when they retired. As many as 86 percent are concerned about their ability to live comfortably, 83 percent are concerned about rising health-care costs, and 77 percent are concerned about running out of pension funds. The level of financial literacy in Palembang in the survey of the Indonesian Financial Services Authority in 2019 was 40% and it is still relatively low so I chose Palembang as a sample.

That nearly 9 out of 10 Indonesian employees are not financially prepared for retirement. (Kompas daily, 25 April 2011) According to Nicky Theng, CFP, FLMI, FSAI Chairman of the Association Financial Institution Pension Fund, most employees do not prepare financially for retirement early. New employees in their 50s are beginning to consider how to deal with his welfare in retirement. (Welcome to the launch of Kasir Iskandar's Tips for Prosperity in Retirement, March 2009). Many employees who have reached retirement age are facing financial difficulties. They believe that the burden cost of living and lifestyle is increasing, and that healthcare costs are increasing due to the age factor, while income is routinely decreasing.

Each employee must plan for his or her retirement later in order to create a sense of security and comfort and to be able to enjoy retirement. So it is critical to understand an individual employee's level of understanding in terms of managing the obtained finances so that they can make sound financial decisions and plan for future needs, including retirement.

### **1.3 Research Objective and Research Question**

The aim of this paper is to find out financial literacy and lifestyle is it has effects on Retirement Preparation on Palembang employees. The objectives of this study to determine :

1. To find out the effect of financial literacy on the preparation of employees in Palembang
2. To find out the effect of lifestyle on the preparation for retirement of employees in Palembang

The research conducted within this paper aims to solve the following research questions:

*RQ1.* Is there an effect of financial literacy on the retirement preparation of Palembang employees?

*RQ2.* Is there an effect of Lifestyle on the retirement preparation of Palembang employees?

#### **1.4 Significance of the study**

The study reveals to employees in Palembang, Indonesia, that concrete steps are required to improve financial literacy and lifestyle knowledge in order to increase the awareness of retirement preparation in institutions related to the retirement preparation of employees. This is necessary to ensure that operational activities can run smoothly in accordance with the goals that have been set because employees feel that they will be prosperous and secure in their retirement.

#### **1.5 Scope of Study**

The purpose of this study was to examine the influence that factors such as financial literacy and lifestyle have on an employee's preparation for retirement in Palembang. The researcher chose Palembang as the location for the target sample because, according to a survey conducted by the Indonesian Financial Services Authority in 2019, the level of financial literacy in Palembang was only 40 percent. This indicates that the level of financial literacy in Palembang is still relatively low. In addition, there has been no research conducted in Palembang on the impact of financial literacy and lifestyle choices on employee preparation for retirement. For the purpose of this study, the researcher decided to narrow their focus to employees who not only work in Palembang but also live there.

## **1.6 Thesis Organisation**

The remainder of this paper is organised as follows: Chapter 2 presents the related theoretical and empirical literature toward continuance usage of financial literacy, lifestyle and retirement prepared. Chapter 3 presents the study methodology. Chapter 4 present the data, analysis data and findings by using SPSS. Chapter 5 present the summary of findings, recommendation and limitation of this study.