

## CHAPTER 2

### THEORETICAL AND EMPIRICAL LITERATURE

#### 2.1 Introduction

People, in particular, are under-prepared for retirement. Retirement preparation is a state in which individuals are prepared to face the changes that will occur as a result of no longer working, resulting in a decrease in income earned, and the preparation aims to achieve a comfortable life in retirement. Every person who works strives to meet all of life's necessities. As an employee, it is important to have retirement preparation for prepare in retirement because it is not always an individual will work. Retirement preparation could be defined as a condition in which people have enough money to meet their needs and live comfortably in retirement, specifically by having enough money to pay expenses and having a great work plan for retirement. A specialist who has done retirement needs calculations is more likely to have the next reserve funds rate than one who has not.

The body of academic research indicates that financial literacy has a beneficial effect on the desire of households to plan for retirement. A person's level of financial literacy can be measured by their capacity to make educated choices

regarding the allocation of their resources and the administration of their finances. A person's activities, interests, and opinions on how they should spend their money and how they should manage their time are all expressions of the lifestyle that they lead.

## **2.2 Theoretical Literature**

### **2.2.1 Perception Retirement Preparation**

Retirement preparation is intended to provide an overview of employees who will retire so that they can plan what they want to do when they retire. Retirement is a subset of personal finance that deals with financial preparation and requirements in later life. Retirement preparation can be viewed as a multifaceted concept that includes retirement trust, retirement preparation, long-term financial preparation, and participation in private retirement plans. Retirement preparation refers to goal-oriented individual behaviours such as preparation and preparing for retirement (Yeung and Zhou, 2017). Preparing for retirement while still productive is one of the keys to success in facing retirement. Someone who is preparation for retirement is more likely to succeed because he can adapt to changes in the environment.

Fardila et al. (2014) define retirement preparation as "a form of acceptance, alertness, and willingness by individuals due to changes that are no longer working, manifested in the form of behaviour." According to Ismulcokro and Sutarto (2008), those who have retired but have certain activities or continue to work can obtain several benefits, including the ability to achieve a longer, healthier, and more prosperous average age in retirement than those who have retired but have no substitute job or activity.

### **2.2.2 Aspects of Retirement**

According to Ismulcokro and Sutarto (2008), there are four main needs in preparing for retirement, and while each individual's retirement preparation varies, these are fundamental similarities. Whereas these four aspects must be combined to form a unified whole, namely:

1. Financial material preparedness in the form of a variety of supporting supplies such as savings, insurance, asset deposits, and additional income from business activities in addition to the monthly pension income received.
2. Physical preparation, namely, with increasing age, physical ability decreases, so that in order to stay awake, maintenance is carried out by implementing a healthy lifestyle.
3. Mental and emotional preparation, namely the strength and ability to adapt to all changes that occur as a result of their inability to work.
4. The preparation of the entire family, namely family members, who must prepare themselves by making new lifestyle adjustments.

### **2.2.3 Financial Literacy**

In order to live a prosperous life, people must pay attention to financial knowledge when managing their finances. According to Margaretha and Pambudhi (2015), income sources must be managed effectively and appropriately when making financial decisions, which can be realised if individuals have prior knowledge and skills in financial management. Where an individual must pay attention to short-term financial decisions such as savings and loans as well as long-term financial decisions such as retirement preparation and preparation education

costs for their children, it is critical that an individual has financial knowledge so that he does not make financial decisions later that are incorrect. Individuals with a high level of financial literacy, according to Lusardi and Mitchell (2011), tend to plan for retirement so that the individual is better off in his old age, so increasing financial literacy is very important to obtain retirement welfare.

According to the Financial Services Authority (2017), financial literacy is a series of processes that increase knowledge, skills, and beliefs that influence an individual's attitudes and behaviour to make financial decisions and manage their finances with quality in order to create a prosperous life for themselves. This series of processes helps an individual increase their knowledge, skills, and beliefs about how they can create a prosperous life for themselves. The Financial Services Authority has divided the ability to make sound financial decisions into four distinct categories, which are as follows:

1. The highest level of literacy is known as being well-literate. The individual possesses knowledge and beliefs about financial service institutions and financial service products, including characteristics, benefits and dangers, rights and obligations, and how to utilise financial products and services. At this level, the individual is able to use financial products and services.
2. Sufficiently literate, which means that the individual only possesses knowledge and beliefs about financial service institutions and service products financial statements regarding features, benefits and risks, rights and obligations, but lacks the skills necessary to use these financial products and services.

3. The individual has a lower level of literacy, meaning that they are just knowledgeable about financial organisations, products, and services related to finance.

4. Not literate is the lowest level, and persons who indicate that they are at this level show that they lack information and beliefs regarding financial service organisations, financial products, and services, as well as skills in using these financial products and services.

#### **2.2.4 Lifestyle**

According to Karlina (2015), in his research, employees can have a lifestyle that is an identity or identity that cannot be separated in modern society. Especially now, a lifestyle that can support all activities while dealing with sophisticated technology and evolving trends is required. Furthermore, there are demands for individuals' views on professionalism that can be seen in their needs, lifestyle, and career. Individuals' lifestyles will differ from one another. Furthermore, the way of life of individuals and community groups will evolve over time. However, because this lifestyle does not change rapidly, it becomes relatively permanent at some point. A group's identity can be defined by its lifestyle, and each group's lifestyle has distinct characteristics (Setiadi, 2010). To maintain their lifestyle in retirement, it is critical to raise community awareness and to be able to prepare themselves for retirement as early as possible. This is done so that people can enjoy their retirement without being concerned about their financial situation (Sundjaja et al., 2015).

A lifestyle is a way of life that includes characteristics such as how people interact with their surroundings and how they spend their money and time. According to Priansa (2017), there are several types of lifestyles:

1. Individuals who lead an independent lifestyle are typically those who have a good level of education and are financially secure. Individuals can be separated from the consumerism culture because they are capable of making their own decisions and thinking innovatively and creatively to encourage their independence.
2. Individuals of this type have a close relationship with technology and digital information, so price is not the primary consideration in meeting their needs and desires.
3. Healthy lifestyle, this type is very appropriate to be used where the individual enjoys eating healthy foods and is critical in consuming the product.
4. The hedonic lifestyle is characterised by activities aimed at obtaining the pleasures of life, such as spending time outdoors, playing more, enjoying the hustle and bustle of the city, purchasing expensive items that he desires, and wishing to be the centre of attention.
5. A frugal lifestyle; individuals of this type are concerned with their financial management and will compare prices before purchasing a product. Individuals can prioritise which consumption to prioritise and which to postpone.
6. Free lifestyle, individuals in this type are categorised as consumers who are low in using their cognitive abilities.

### **2.3 Empirical Literature**

Previous research by Lastri (2021) indicates that financial literacy has a positive effect on retirement preparation. Employees with good financial literacy will

be able to make wise financial decisions, control expenses, set aside some income for unexpected expenses, and plan for the future, making individuals wiser in managing their finances and preparing for old age. Furthermore, research indicates that lifestyle has a negative impact on retirement preparation. Previous research conducted by Ori et al (2019) (2019) Financial literacy is beneficial to retirement preparation. The greater one's financial literacy, the better one's retirement preparation. According to Shanmugam et al. (2018), proper retirement preparation and preparation are required to achieve retirement preparation. Individuals who work with a limited amount of savings are deemed unable to face retirement, which is associated with a poor quality of life during retirement. Individuals must work toward retirement preparation in order to face life after retirement with confidence.

Elsa's previous investigation (2021) Lifestyle has no bearing on retirement preparation. As a result, it can be concluded that a person's lifestyle of following fashion or trends is not necessarily a better retirement plan. Financial literacy has no bearing on retirement preparation. As a result, the higher a person's financial literacy, the better the person's retirement plan.

Previous research by Karlina (2015) found that the higher an individual's lifestyle, the less likely they are to plan a retirement fund, and the lower an individual's lifestyle, the more likely they are to plan a retirement fund. This is consistent with the findings of Dewi (2018)'s research, which found that the lower an individual's lifestyle, the better they plan their retirement funds.

## **2.4 Hypothesis Development**

According to Lusardi and Mitchell (2014) financial literacy is an ability and knowledge in terms of managing and using finances owned by individuals with the aim of achieving prosperity and increasing their standard of living. Individuals who have a high level of financial literacy tend to plan for retirement so that the individual is better off in his old age so that increasing financial literacy is very important to obtain retirement welfare (Lusardi & Mitchell, 2011).

According to Kotler and Keller (2008), lifestyle is an individual's daily life pattern which is manifested in activities, interests and opinions. Where the lifestyle describes the personality of an individual as a whole when interacting with his environment.

The purpose of this study is to determine the possible influences of the independent variable that has been determined and the dependent variable that has been determined. This study's independent variable, financial literacy and lifestyle, will be compared against the study's dependent variable, retirement preparation, to determine which is more important. Hypothesis development in this research is:

*H1.* Financial Literacy has a effect on retirement preparation.

*H2.* Lifestyle has a effect on retirement preparation.

## **2.5 Conceptual framework**

In this study, analysts utilize the hypothetical structure. This hypothetical system comprises one dependent variable and two independent variable. The over



figure appears the relation between dependent and independent variables within the proposed conceptual structure.

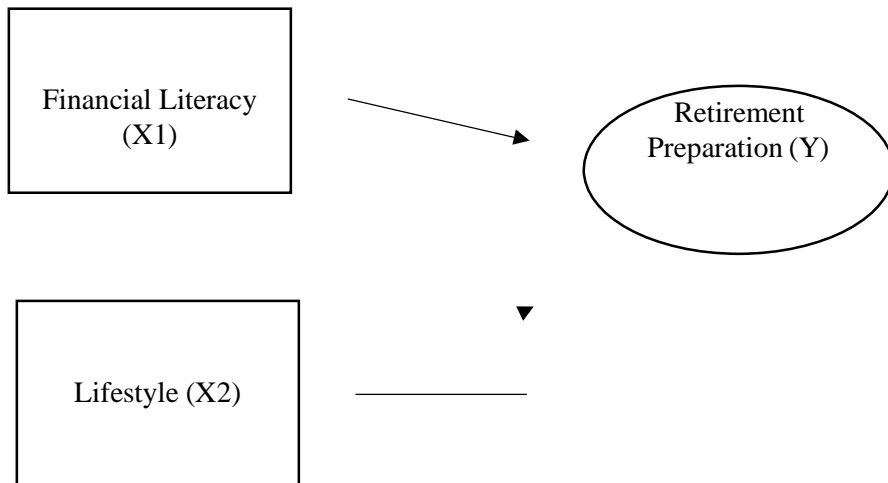


Figure 2.1 **Conceptual Framework**

## 2.6 Conclusion

Retirement Preparation is a situation in which persons are prepared to confront the changes that will occur as a result of no longer working, resulting in a loss in income and a desire for a comfortable life in retirement. Financial literacy is the skill and knowledge to manage and use one's personal finances in order to achieve wealth and improve one's level of living. A person's everyday activities, hobbies, and opinions reflect his or her lifestyle. Where lifestyle describes the personality of an individual as a whole when interacting with his environment, it demonstrates that the higher a person's lifestyle, the less likely they are to plan for retirement, and vice versa, the lower a person's lifestyle, the better in terms of retirement preparation preparation.