

## **CHAPTER I INTRODUCTION**

### **1.1 Introduction**

This chapter contains information on the background of the research, the research problem, research objectives, research questions, significances, scopes, and limitations of the research, the definition of key terms, and structure of the proposal. These will help the reader understand what is to be researched about.

### **1.2 Background of Study**

Employee needs to understand how to properly manage their own money. Short-term funds and loans are critically important, but so are long-term financial planning 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 et al., 2003). Financial literacy can help people manage their finances better in the future, resulting in an increased consistency of income.

According to Yeung and Zhou (2017), Retirement planning is an individual's behaviour that aims to prepare for life in retirement. It would make possibilities for individuals to set specific long-term goals for their post-retirement life and have realistic expectations of the changes they will experience during the transition. According to Larisa et al. (2020), women are seen to be more vulnerable to financial distress than men in the retirement period. Indonesia has retirement planning program regulated by government in the Presidential Regulation of the Republic of Indonesia No. 109/2013, employers are required to offer social security to their employees, as stated in the stipulation of participation in the social security programme. The employer sponsored pension guarantee programme, however, is only required for medium and large scale businesses. According to the Financial Service Authority (2016), Retirement benefits from retirement funds, leasing or selling assets, capital market investment, insurance compensation, and savings kept in bank or other financial institutions can be sources of self- financing for retirees.

An understanding of financial concepts such as financial literacy is important for individuals to make wise financial decisions, which includes their retirement life (Braunsten et al., 2002). According to Nyamut et al. (2010), financial literacy is a key factor in a successful pension fund management strategy. Also a factor of retirement planning that has received a lot of attention and been shown to be significant in many studies is financial literacy.

A person with a good financial literacy tends to do more retirement planning and can do better retirement planning (Lusardi et al. 2017). Financial literacy refers to the understanding of savings, insurance, and investment as well as the knowledge and skills to manage one's finances (Chen and Volpe 1998). According to Wiharno (2015), Financial literacy can be defined as the capacity to manage money, to perceive and assess financial situations that may subsequently have an impact on welfare. Each person's level of financial literacy will have an impact on how they manage their finances. Financial management is more advanced the greater one's level of financial literacy, and the other way around (Wiharno, 2015).

Demographics are statistics that describe populations and their characteristics, a population's characteristics, such as age, race, and sex, are studied through demographic analysis. Statistics expressing socioeconomic information, such as employment, education, income, marriage rates, birth and death rates and more, are referred to as demographic data. From most studies of retirement planning associated with demographical factors, many ignored the influence of psychological factors (Aluodi et al. 2017). State that although demographical factors influence retirement planning decisions, the effect are mediated through psychological factors on the decision to save (Hershey et al. 2007)

According to Sundjaja et.al (2015), It is important to prepare adequately for retirement, especially economically or financially, because as you age, your income declines while the costs of providing for your basic needs remain the same or even rise as a result of the annual increase in the cost of essentials. Additionally, charges associated with maintaining your health as you age may have increased as you grew older. Buy a variety A specific sum of money must be set aside in advance in order

to cover costs. According to Shanmugam et. al (2018), An individual must plan and implement the necessary retirement preparations in order to be prepared for retirement. Employees retirement readiness is a state of being that results from changes in activity brought on by a person no longer working, and it manifests as acceptance, attentiveness, and desire on the part of the person to deal with the changes that arise (Fardila et. al 2014). And also according to Ismulcokro and Sutarto (2008), explains that preparing for retirement in terms of physical preparedness, financial readiness, and mental readiness is a process that begins well before retirement. In order to create a comfortable and prosperous life in old age, which can satisfy all kinds of needs, it is crucial for someone who works and then experiences changes in activity brought on by the person no longer working to make preparations and be able to calculate what needs must be met.

### 1.3 Problem Statement

In the case of Indonesia, data from Statistic Indonesia (2022) show percentage of gender wage gap in Indonesia is 22.09 percent in 2022 increased by 1.7 percent compared to the previous year 2021 at 20.39 percent. In this figure show the average wage for male workers is 22.09 percent higher than female woekers. In detail, the wages of male workers amount to IDR3.33 million and female workers earn IDR 2.59 million.

**Table 0.1 Indonesia Financial Literacy Indeks From 2019-2022**

Index	Gender	2019	2022
Literacy	Male	39.94%	49.05%
	Female	36.13%	50.33%
Inclusion	Male	77.24%	86.28%
	Female	75.15%	83.88%

*Source : Financial Services Authority*

Base on this Figure 1.2, for the first time, the finansial literacy index of women was higher than men at 50.33 percent compare to 49.05 percent. Finansial service authority (OJK) makes women as a priority target in the startegic direction of financial literacy in 2020 until 2022. It is because from 2013-2019 women finansial literacy lower than man. However, compare to the women finansial inclusion indeks, which is at 83.88 percent, the man finansial inclusion indeks is higher at 86.28 percent.

According to National literacy survey and financial inclusion , the data which is performed every three years show reveals that the financial literacy of indonesians is 49,68 percent, increase from the previous years only 38.03 percent. While the financial inclusion index 2022 increased from the 2019, when it was 76.19 percent, to 85.10 percent. In 2022, it is stated that, out of 100 residnets in Indonesia, only 49 people are well-literate. As for financial inclusion, out of 100 Indonesian resident, only 85 people have access to financial services/product (Financial Services Authority. 2022).

**Table 0.2 Indonesia Financial Literacy Indeks From 2019-2022**

Index	2019	2022
Literacy	38.03%	49,68%
Inclusion	76.19%	85.10%
Gap	38.16%	35.42%

*Source : Financial Services Authority*

Based on this Figure 1.1, we can conclude that there has been increase. We can see in 2019 has 38.03 percent of Indonesian people are not well literate compared to 2022 49.68 percent and Indonesian people have a good progress in financial literacy. Base on a survey from (Financial Service Authority. 2022), it shows that only 49.68 percent of indonesian people understand financial management, and can be indicated the level of financial literacy of Indonesia is till relatively low compared to Malaysia is 66 percent, Thailand is 73 percent and Singapore is 98 percent.

## 1.4 Research Objectives

### 1.4.1 General Objective

The purpose of this study was to examine the effect of demographical factors (age,gender, status, level of education, and income), financial literacy and employees readiness on finansial planning employees in Palembang, Indonesia.

### 1.4.2 Specific Objective

The specific objectives for this study are as follows:

RO1 : To analyse the effect of financial literacy on retirement planning

RO2 : To analyse the effect of employee readiness on retirement planning

## **1.5 Research Questions**

RQ1 : What is the effect towards financial literacy on retirement planning

RQ2 : What is the effect towards employee readiness on retirement planning

## **1.6 Significance of the Research**

The result of this study are expected to increase the important of finansial literacy in influencing the retirement planning of employees, whit more employees who are financially literate, there will be a greater understanding of the value of finansial literacy throughout the retirement phase, especially young workers. Worker will be more optimistic about the future because of their finansial understanding, which will make them more worried about arranging their retirement planning.

## **1.7 Scope of the Research**

This research's population consists employees in Palembang, Indonesia. Puposive sampling method are used to determine samples in this study. Thus, in order to determine the sample in this study, the researcher devised criteria for selecting sample with data that meet the needs for the study. Palembang chose as the location for the sample because, according to Indonesian Financial Service Authority (2022), was only 49 percent. This indicate even though its almost 50 percent the level of financial literacy in Palembang is still relatively low.

## **1.8 Limitation of the Research**

In accordance with the background of the reseach that has been mentioned, there are a many of things that need to be resolved in term of determining factors that effect retirement planning. In this case analyses the factor that effect retirement planning such as financial literacy, employees readiness. As a result, its necessary to limit the problem so that the discussion does not deviate from research title.

## **1.9 Definition of Key Terms**

### **1.9.1 Definition of Financial Literacy**

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. From this explanation it can be conclude that financial literacy is a increased persons ability to understand financial concepts that can influence a person to make decisions in managing their finance which will improve financial situation so that his life is prosperous.

### **1.9.2 Employees Readiness**

According to Fardilah et.al (2014) Employee retirement readiness refers to a person's level of acceptance, attentiveness, and willingness in response to changes that result from their decision to stop working and which show themselves as behavior. The ability to reach an average age that is longer, healthier, and more prosperous in retirement compared to others who have retired but have no replacement job or activity is one of the many advantages for individuals who have retired but still engage in particular activities or continue to work (Ismulcokro and Sutarto. 2008)

### **1.9.3 Retirement Planning**

Planning for retirement is defined as taking steps to accumulate wealth to support demands after retirement (Topa et. al 2018). According to Ng et, al (2011), although retirement planning is not a person's primary necessity but rather a life decision that must be made early on, people frequently lack the necessary knowledge and frequently underestimate it. People frequently believe that they are too young to start saving for retirement and that if they wait until it is too late, their efforts would be in vain (Martin et.al 2016).

## **1.10 Structure of the Research**

The composition of this research proposal will be structured into three chapters, with each chapter being detailed as follows:

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## **CHAPTER 2 LITERATUR REVIEW**

This chapter include the review of expert theoretical underpinnings that are relevant to the topics research, empirical literatur review, research framework, and the research hypotheses.

## **CHAPTER 3 RESEARCH METHODOLOGY**

This chapter explain the research methodology, including the population and research sample, data collection methods, data analysis methods, and research variables.

### **1.11 Chapter Summary**

In simple terms, this chapter provides details on background of the research, the research problem, research objectives, research questions, significances, scopes, and limitation of the research, the definition of key terms, and structure of the proposal. As a result, it will be easier for the reader to comprehend the motivation behind this study.