

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter is intended to review the exiting literature regarding the factors influencing retirement planning. It begins with a review of the relevant empirical studies and theoretical underpinning for the research. The empirical review concentrates on research on factor influencing retirement planning. The underpinning theory concentrates on theories relating to factors influencing retirement planning. The section in concluded by developing a suitable research framework for the research.

2.2 Empirical Review

2.2.1 Financial Literacy

Financial literacy is the knowledge of finances from a financial perspective, as well as the proficiency with using financial products and the capacity to make wise financial decisions in order to achieve financial success. Financial well-being and retirement planning both benefits greatly from financial literacy. To manage all of his income, spending, and improve the effectiveness of a management plant, each person can use their financial literacy. People who are financial literate tend to be more confident of their retirement preparation as compared to those who are not financial literate (Mullock et al. 2012). This is because people who appreciate the value of retirement planning and will therefore acquire wealth in preparation for retirement. In contrast, people who are financially illiterate tend to overestimate their saving and pension income (Alessie et al.2011). Although their saving and pension income are low, they still believe that they are able to afford expenses during retirement (Alessie et al.2011).

The financial Services Authority (2017) has devided the capacity for wise financial decision-making categories are, the highest level of financial literacy in known as being well- literate. The individual posseses knowledge and beliefs about financial service institutions and financial service product, including characteristics, benefits and danger rights and obligations, and how to utilise financial product and services. At this level the individual is able to use financial and services, sufficiently literate, which means that the individual only possesses

knowledge and beliefs about financial service institution and service products financial statement regarding features, benefits and risk, right and obligations, but lacks the skills necessary to use these financial product and services, the individual has a lower level of financial literacy, meaning that they are just knowledgeable about financial organisation, products, and services related to finance, 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 organizations, financial products, and services, as well as skills in using these financial products and services.

2.2.2 Employees Readiness

Every person who works tries to meet all of his or her personal needs. Because people don't always work, it's critical for employees to be prepared for retirement in order to exist in later life. According to Helman et. al (2012), employees retirement readiness refers to having enough money to cover basic necessities, pay for medical costs, have retirement savings, and have a decent work to prepare for retirement. It also refers to having enough money to pay for retirement savings. Employees that have performed computations pertaining to retirement needs typically have higher savings rates than non-calculators.

Retirement ready 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 (Fardila et. al 2014).

The authors draw the conclusion that retirement readiness is a state in which people have made preparations to deal with the changes that will occur as a result of the fact that they are no longer working, so that the income earned has decreased, and the preparations aim to achieve a comfortable life in retirement.

2.2.3 Retirement Planning

According to Yuh et. al (1998), When a person's savings are sufficient to cover their living expenses after retirement and are greater than or equal to their income during productive years, that person is regarded to be ready to retire. 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). For some people, retirement planning is a condition they are concerned about. People must be able to support themselves financially in retirement and take care of their fundamental necessities. Individuals frequently don't prepare their assets or have assets during their retirement. People don't understand the need for a pension fund until after their productive years are over because of the unforeseen huge costs that will arise. Additional sources of pension funding include retirement savings and investments like stocks, bonds, and deposits.

According to Stawski et. al (2007), Measuring retirement planning involves asking for information and advice about retirement life, gathering and organizing financial records, monitoring and analyzing assets, identifying future plans, planning and preparing with family members or professional assistance, and setting aside the necessary savings.

2.3 Underpinning Theories

2.3.1 Theory of Planned Behaviour

The TPB is a general model of human behaviour that contends that the intention to engage in a particular behaviour, which is a function of one's attitude, subjective norm, and perceived control over the behaviour (with the relative importance of each depending on the population and behavioural domain), determines the likelihood of engaging in that behaviour. The definition of one's attitude towards a behaviour is their personal assessment of that behaviour based on the predicted benefits and drawbacks (behavioural beliefs). One's subjective norm, which is based on the perceived normative expectations of significant referents (normative beliefs), indicates the perceived societal pressures to engage in or refrain from a particular behaviour. A person's apparent capacity to carry out a certain behaviour is referred to as perceived control, and it is based on views about the circumstances that may help or hinder that capacity (control beliefs). It is

common practise to treat perceived control as a direct predictor of behaviour as well as a predictor of intention because it frequently mirrors actual control. The impact of intention on behaviour may be greater when perceived control is high, according to later iterations of the TPB. This is because perceived control may interact with intention to affect behaviour. The TPB stipulates that, consistent with the principle of suitability (Ajzen and Fishbein, 1977; Fishbein and Ajzen, 1975), each of the four TPB constructs be measured at a level of specificity consistent with the behavior under examination. As an illustration, if the objective is to predict treatment completion, attitudes, subjective norms, perceived control, and intents pertinent to treatment completion should be evaluated (rather than, for instance, change readiness).

2.4 Research Framework

Based on the literatur review above, this study proposes a conceptual framework as illustrated in Figure 2.1.

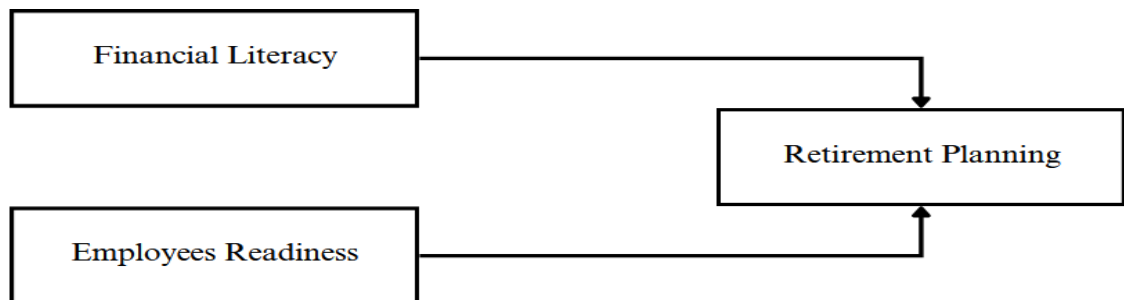


Figure 2.1 Research Framework

Figure 2.1 illustrates that each independent variable influence on the dependent variable used in this study.

2.5 Research Hypotheses

This study used one dependent variable and three independent variables. Based on the research framework have, finansial literacy, future time perspective, finansial risk tolerance.

H1 : Finansial literacy has an positive effect on retirement planning

H2 : Employees Readiness has an positive effect on retirement planning

2.6 Chapter Summary

This conclusion, this chapters contain the factors that influence retirement planning, theories that related on retirement planning. Furthermore, this chapter also present the research framework for this study and the development of the study hypotheses.