# CHAPTER 1
# INTRODUCTION

## 1.1 Introduction

This research aims to determine the impact of financial literacy and gender on retirement planning among young adults in Malaysia. Therefore, Chapter 1 begins by explaining the research context, problems and problem formulation, as well as justification for the study. This chapter explains the aims, objectives, research questions, limitations, and importance of research in experimental research. This section concludes with operational definitions of key terminology used throughout the research.

## 1.2 Background of Study

One of the most important issues in the life of a person is retirement. Retirement usually depicts aperiod of rest in a worker or a person's life. This is the period where the person withdraws from the stress and exertion of a job and spends sufficient time with their friends and relatives (MacBean, 2007; Asamoah, 2012; Browne et al., 2019; Tan and Singaravelloo, 2020; Agabalinda and Isoh, 2020; Niu et al., 2021; Safari et al., 2021). According to Aninakwa (2016), beginning retirement could be likened to starting a new job. It is associated with learning new things, new opportunities and challenges as well as new rules and regulations. In this regard, it is imperative to face new personal and lifestyle issues which include financial realities. Retirement is inevitable in both public and private sectors (Kissi, Dai, Boamah, Owusu-Marfo and Asare, 2018). According to continuity theory, retirement will be more stressful for more individuals because of the void left by its former pivotal and significant position, and the overall level of happiness will fall as a result (Forster and Morris, 2012). In addition, this theoretical model assumes that people must maintain the same actions and relationships after retirement so as to maintain existing external (relationship) and internal structures (personality structure, beliefs), remaining active and involved throughout their elder years. It is believed that older people use various mechanisms to maintain this continuity and stay in touch with their previous experiences (Wlodkowski and Ginsberg, 2017). In 2023, Malaysia have a population of 33.4 million people, with life expectancy for women reaching 77.4 years and men 72.5 years (Department of statistic Malaysia, 2023). According to Section 4(1) of the Act, the minimum retirement age in Malaysia is set at 60 for those working in the private sector. Before the implementation of the act, the minimum retirement age in Malaysia was at the age of 55. The Act prohibits premature retirement through provision Section 5(1) states that no employer shall retire their employee before they reach the age of 60. Under the law, before an employee reach their 60th birthday, their employer cannot request them to retire early. Section 5(2) of the Act expressly states that the violation of Section 5(1) is considered an offence, and any employer who commits such is subject to a fine of not more than RM10,000 if found guilty (legaladvice.com 2024). For other problems, can refer to the low public-sector employees' pension payments, this means its is the caused by a pension system that does not provide adequate benefits for retirees. and the inadequate private-sector employees' EPF savings, the gap between rising Malaysian living costs and living standards.

Generally speaking, Malaysians' life longevity, susceptibility to diseases, rising medication and healthcare costs, as well as unavailability (in certain areas) and medical services privatisation. Finally the extended family systems' erosion and the nuclear family units' emergence.

So that a significant component of financial management is retirement planning, particularly for youthful grown-ups who must arrange challenging money related situations in arrange to guarantee their financial security within the future Like numerous other countries, Malaysia has seen developing challenges in keeping up adequate retirement reserves as a result of shifting demographics including an aging population, are putting pressure on the retirement system, changing economic conditions such as slower economic growth and higher living costs, are affecting the ability of individuals to save adequately for retirement, and changing retirement arrangements including changes in pension schemes and employment patterns, are complicating the traditional methods of securing retirement income . In spite of these impediments, youthful persons' retirement arranging behaviors and comes about can be enormously affected by factors like gender and financial literacy.

Luzolo (2016) shows that the government entity in charge of collecting retirement offers inadequate pensions due to lower contributions by workers during active service. It has been found that people who grew up in financially literate homes tend to have more positive social attitudes and a less risk-averse perspective on their own financial planning and management. They think that if they plan ahead for their projects and future expenditures, they will be able to keep their finances healthy and successful. Lin et al. (2017), demonstrates that financial literacy aids in the process of preparing for retirement. Retirement planning is a priority for those who have a solid grasp of personal finance.

Although people of all ages have money problems, young adults may have it the worst because that's when they start using credit cards, have their first experiences with bills and debt, and become more financially independent (Xiao et al., 2009). Young adults should take care of their money because making a mistake now might delay their future financial planning and shape their attitude and behaviour about money for the rest of their lives (Lusardi et al., 2009). With so much at stake, experts have dedicated significant time and energy to finding ways to help young adults better manage their money (Shim et al., 2010). Many different theoretical frameworks have been used in the past to build models of consumer finance (Topa et al., 2018; Farrar et al., 2019; Brau et al., 2019; Rai et al., 2020; Pahlevan Sharif et al., 2020; Sharif and Naghavi, 2020; GallegoLosada et al., 2022).

### 1.3 Problem Statement

This research highlights the challenges faced by young adults in Malaysia in retirement planning, which are influenced by financial literacy and gender differences in financial behavior. Adequate financial literacy is essential for making wise financial decisions, including planning for retirement, but many young adults in Malaysia experience difficulties due to low levels of financial literacy (Chen & Chen, 2023). Additionally, there are significant differences between men and women in this regard, with women tending to have lower financial literacy, which has a negative impact on their retirement planning (Struckell et al., 2022). Factors such as limited access to financial education and traditional gender roles contribute to this gap (Schuetz et al., 2024). This research aims to examine the impact of financial literacy and gender factors on retirement planning, with the hope of developing more inclusive and effective education and policy strategies to increase retirement readiness among young adults in Malaysia.

## 1.4 Research Objective

RO 1 : To analyze the effect of gender on retirement planning

RO 2 : To analyze the effect of financial literacy on retirement planning

RO 3 : To analyze the effect of financial literacy and gender on retirement planning

## 1.5 Research Question

RQ 1 : What is the effect of gender on retirement planning ?

RQ 2 : What is the effect of financial literacy on retirement planning ?

RQ 3 : What is the effect of financial literacy and gender on retirement planning?

## 1.6 Definition of key terms

### 1.6.1 Financial Literacy

Financial literacy is knowledge, planning, and managing personal or family finances is one of the developing economic behaviors in society, consciously or unconsciously carried out for years" (Siahaan, 2013). financial literacy is an important factor for everyone in managing their personal finances. A person's ability to read, analyze and Manage financial conditions when making something financial decisions will spare a person from financial problems (Rio et al, 2014).

The Presidents Advisory Council on Financial Literacy (PACFL, 2008), defines financial literacy. Financial literacy is a the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.

Theoretically, according to Lusardi & Mitchell (2007) Financial Literacy can be interpreted as financial knowledge, which has a goal to achieve prosperity. Mugo (2016) Knowledge is power and when the power is in the financial sphere it will be a tool that can generate returns and minimize financial risk.

### 1.6.2 Gender

The definition of gender according to Fakih (2008:8) defines gender as a characteristic inherent in men and women which is constructed socially and culturally. Meanwhile, according to Muhtar (2002), gender can be interpreted as social gender or the connotation of society to determine social roles based on gender. The term gender is distinguished from the term sex. Oakley, a British sociologist, was the person who first differentiated the two terms (Saptari and Halzner, 1997:88).

### 1.6.3 Retirement Planning

Retirement planning should carefully plan with financial literacy education. By having financial literacy, the individual can manage their financial resources effectively using adequate knowledge and skills especially in making the sturdy financial and economic decisions. Financial literacy also comprises the forming of financial knowledge, abilities, and methods that affluent by transfer of attitudes, motivation, practical skills and values. The acquirer of financial knowledge and ability are the two main components in financial literacy. These two components can build up using the individual’s education or experience on concepts and products finances. So, it can be concluded that the more increase the financial education, will reflect the increase of financial literacy. Retirement planning should follow by sufficient financial knowledge (Selvadurai, 2018).

The knowledge for retirement planning relates to the cognitive acumen to cope with escalating living costs, make investment decisions and manage income. In order to develop the knowledge about retirement planning, the understanding of investment risk, inflation risk, and longevity risk are very important. In reality, household spending may decrease throughout retirement. However, healthcare cost needs more years for retirement. Usually, the portfolio investments made for retirement need to generate income to support the lifestyle and inflation risk (Nga & Yeoh, 2018).

### 1.6.4 Young Adults

Young Adults There are a wide range of descriptions of young adults that may be derived from the many studies that have been conducted. According to Skrzynski and Creswell (2020), "young adults" are those whose mean age is between 18 and 30 years old or whose samples have a majority of individuals who are 30 years old or younger. In another opinion, the definition of young adulthood varies by state, region, and country. While according the Department of Statistics Malaysia (DOSM) classifies individuals as "young adults" if they are between the ages of 15 and 24. Young Adults of today represent a generation that is qualitatively distinct from those of earlier generations. Emerging adults, twixters (those between adolescence and adulthood), Generation Y, and Generation Z are some of the terms that have been used to characterize persons between the ages of 18 and 30 who have not yet adopted full adult roles Therefore, for the study to be examined, the researcher will take the young adults' ages to be between 18 (born in 2005) and 30 (born in 1993) years old as of 2023.

## 1.7 Significant of study

The impact of financial literacy on retirement planning is very significant because adequate financial literacy is the basis for individuals to make appropriate and wise financial decisions. Financial literacy includes an understanding of basic financial concepts such as savings, investing, and debt management, all of which are important for planning a safe and stable retiremen (Martini et al., 2024). For young adults, having good financial literacy means they can start saving and investing early, harness the power of compound interest, and avoid debt traps that can hinder their ability to plan for retirement effectively (Sunday, 2024). Thus, increasing financial literacy among young adults could result in a population that is better prepared financially for their retirement.

The impact of gender on retirement planning is important because there are significant differences in financial behavior between men and women that influence their retirement readiness. Women often have lower levels of financial literacy than men, which can be caused by a variety of factors including education, traditional gender roles, and differences in access to financial resources (Schuetz et al., 2024). This results in women being more vulnerable to financial losses in retirement. Additionally, women tend to have more advanced careers and lower incomes than men, which also affects their ability to save and invest well into retirement (Komalasari1 & Mulyadi, 2023). Therefore, understanding and addressing gender gaps in financial literacy and financial behavior is an important step to ensure that all individuals, regardless of gender, have an equal opportunity to plan a safe and comfortable retirement.

Financial literacy and gender provide more comprehensive insight into the challenges young adults face in retirement planning. A deeper understanding of how low financial literacy and gender differences influence each other can help in designing more effective financial education programs and more inclusive policies (Komalasari1 & Mulyadi, 2023). For example, educational programs specifically designed to increase financial literacy among women can help reduce the gender gap in retirement planning. Additionally, policies that support gender equality in the workplace and increase women's access to financial resources can also improve retirement readiness(Kumari, 2024). Thus, this research not only provides a better understanding of the factors that influence retirement planning, but also provides a basis for action that can improve future financial well-being for the entire young adult population in Malaysia