CHAPTER 2
LITERATURE REVIEW

1.1 Introduction

This chapter provides information on previous empirical reviews of the variables that influence financial literacy and gender on pension planning among young adults in Malaysia. This chapter explains the theory of implementation and determines how the independent variable affects the dependent variable and also the proposed conceptual framework used to conduct this investigation as well as the hypotheses established during the study.

1.2 Literature Review

1.2.1 Financial Literacy

The term financial literacy was introduced in the U.S. by the Jump$tart Coalition for Personal Financial Literacy in 1997, defining the concept as ‘‘the ability to use knowledge and skills to manage one’s financial resources effectively for lifetime financial security’’. The actual definition of financial literacy is in fact not clear and has never been universally agreed. Financial literacy means the way individuals manage money can be seen in terms of terms of insurance, investment, savings and in terms of budget preparation (Mahdzan & Tabiani,2013). Financial literacy focuses on three dimensions or three aspects: financial knowledge, financial attitude and financial behavior (OECD, 2012; Atkinson & Messy, 2012).

Financial literacy is a combination of knowledge, attitudes, behaviors, awareness and capabilities required to make financial decisions and for individuals achieving wealth (OECD, 2012). In the literature, the term financial literacy is frequently used to refer to financial education and financial knowledge. However, Potrich et al (2016) stressed that financial literacy is conceptually has a deeper meaning. Financial literacy has been defined as the level of financial knowledge and the capability to use the knowledge to increase financial position (Lusardi & Mitchell, 2014; Huhman & McQuitty, 2009).

Some authors defined financial literacy as financial capability, which refers to the ability to use financial knowledge and perform desirable financial behaviors to achieve financial wellbeing (Xiao, Chen & Chen, 2014). Anjali (2016) posit that financial literacy level of an individual depends on one's financial needs and behavior. Potrich et al. (2016) suggests that financial literacy is a combination of three components i.e financial knowledge, financial attitude and financial behavior.

There have been many studies carried out among young people and students on financial literacy. There is considerable evidence that financial education increases financial literacy and encourages desirable financial behaviors of individuals (Lusardi & Mitchell, 2007). Previous research also shows that higher financial literacy and good financial behaviors benefit the nation (Chen & Volpe, 1998; Lusardi & Mitchell, 2007). Financial education and attitudes are also important predictor of financial literacy. Sholehah et al (2017) found that family influence, financial attitude and financial knowledge have significant positive relationship towards financial literacy. Albeerdy & Gharleghi (2015) showed that financial education, financial socialization instruments and the attitudes towards money had a direct impact on financial literacy of university students in Malaysia. They also found that financial education was the most influential factor of financial literacy.

Previous studies have shown that college students have insufficient knowledge to manage their personal finance effectively (Chen & Volpe, 1998; Sabri & MacDonald, 2010; Cameron et al, 2013; Mohamad Shamsuri et al, 2017). Indeed, the life and financial needs in higher education institutions today are very different from the past. Therefore, financial management knowledge and skills are crucial at university level (Chen & Volpe, 1998). Nevertheless, exposure to financial management is very limited and minimal that students face problems in their university life. Therefore, it is necessary to improve the financial literacy of individuals particularly for final year students who will join workforce so that they have positive financial management attitudes.

1.2.2 Gender

Nujmatul (2013) said that Planned Behavior Theory shows that background such as gender, age, and knowledge will affect a person's confidence in one's financial behavior. This is reinforced by research conducted by Mahdzan and Tabiani (2013) which says that demographic factors influence the decision to save funds by individuals, this is influenced by age, gender, education level, and work experience. Nyoman (2015) said that financial literacy simultaneously affects financial behavior, other influencing factors such as gender, residence, family financial education and others. Gender is defined as one of the factors that influence the financial behavior of students. This statement is reinforced by research by Hair (2006) showing a relationship between sex and the way a person manages and plans his finances. Laily (2013) says that men and women have different motivations in terms of finances. In some studies, men are better at managing their finances than women. (Chen and Volpe, 1998). (Nujmatul, 2013) says men are more financially independent than women. Wagland and Taylor in Nujmatul (2013) say women have low confidence in managing their finances. Nujmatul (2013) says men are more confident, women are more likely to be risk averse. The opinions of the experts above were refuted by Ayu, et al., (2010) found different findings that male students have a lower level of financial management than female students, especially those related to investment, credit, and insurance. Furnham (1999) adds that women are less comfortable in debt than men, therefore women can avoid serious financial problems by avoiding debt.

1.2.3 Retirement Planning

Planning for retirement is an important process to ensure that individuals can have sufficient savings for living a lifestyle that they want upon retirement. It involves an individual’s ability to make decision on when to save, how much to save, when to stop working and also when to start using resources that have been saved initially (Topa, Mariano & Moreno, 2012, p.528). Planning starts from one individual. An individual with sound personal financial plan is able to deal with financial matters wisely (Tan, Hoe & Hung, 2011).

Individuals with lower level of education tend not to plan and save for retirement and individuals also face difficulty to calculate their retirement needs when they cannot perform simple and compound interest calculations (Lusardi & Mitchell, 2006). Individuals with lower income tend to plan their retirement wisely when they are equipped with financial literacy education. Individuals with higher income tend to be aware with basic features of retirement income system, regardless of their measured level of financial literacy (Boisclair, Lusardi & Michaud, 2014). Individuals with higher levels of income and education tend to plan for retirement by having a bigger proportion of saving for retirement (Helman, Greenwald &Associates, Adam, Copeland & VanDerhei, 2014). Thus, the exposure on financial literacy education affects the retirement planning.

1.2.4 Young adults

Young adulthood is a developmental stage characterized by individuals typically aged between their late teens and early thirties, marked by transitions and identity exploration (Arnett, 2000). This period involves significant decision-making regarding education, career, relationships, and lifestyle choices, contributing to personal growth and development (Arnett & Tanner, 2009). Many young adults pursue higher education or vocational training to establish themselves professionally (Arnett, 2015). They also engage in exploring personal interests, hobbies, and social activities, which are integral to their overall development and well-being (Luyckx et al., 2014).

Navigating challenges such as educational and career aspirations, financial independence, relationships, and mental health is common during young adulthood (Schulenberg et al., 2004). Moreover, societal expectations and cultural norms shape their experiences and decisions during this period (Huang & Sum, 2019). Young adults are at the forefront of technological advancements, embracing digital platforms and social media for communication, networking, and entertainment (Lenhart et al., 2015). Their engagement with technology influences trends in consumer behavior, media consumption, and cultural practices (Pew Research Center, 2021).

Young adults in Malaysia form a diverse demographic cohort, spanning from late teens to early thirties, and encompassing students, professionals, entrepreneurs, and those launching their careers (Azizan et al., 2020; Ismail & Alavi, 2019). Education holds significant importance for many young Malaysians, with a notable portion pursuing tertiary studies in diverse fields such as engineering, medicine, business, and information technology (Abdullah et al., 2018). The influence of urbanization is palpable among young adults, as an increasing number opt to reside in major cities like Kuala Lumpur, Penang, and Johor Bahru (Rahman et al., 2017). This urban lifestyle emphasizes a fast-paced environment where career progression, social engagements, and recreational pursuits take precedence (Azman et al., 2018).

Technology permeates the lives of young Malaysians, with widespread smartphone usage and high internet penetration rates (Kamarudin et al., 2019). Social media platforms such as Facebook, Instagram, and Twitter serve as avenues for communication and self-expression, while online shopping, gaming, and streaming services are immensely popular (Ng & Tan, 2019).

Culturally, Malaysia's diverse populace contributes to a vibrant tapestry of traditions and customs that shape the identities of young adults (Tan et al., 2020). Negotiating between various cultural influences, including Malay, Chinese, Indian, and indigenous cultures, adds layers of complexity to their perspectives and interactions (Koh & Wong, 2018). Economically, young adults in Malaysia confront challenges like escalating living expenses, unemployment, and underemployment (Chin et al., 2019). Many aspire to secure stable employment with avenues for advancement within a fiercely competitive job market (Lim & Lim, 2017). In summation, young adults in Malaysia constitute a dynamic demographic group shaped by an interplay of cultural, social, economic, and technological forces, as evidenced by scholarly research in the field.

1.3 Underpinning Theory

1.3.1 Theory of Planned Behavior (TPB)

The theory of planned behavior (TPB) has been used successfully to explain and predict behavior in a multitude of behavioral domains, from physical activity to drug use, from recycling to choice of travel mode, from safer sex to consumer behavior, and from technology adoption to protection of privacy, to name but a few (for metaanalytic syntheses of some of this research, see e.g., Albarracin, Fishbein, & Goldestein de Muchinik, 1997; Armitage & Conner, 1999; Hagger, Chatzisarantis, & Biddle, 2002; Hirschey et al., 2020; McDermott et al., 2015; Riebl et al., 2015; Winkelnkemper, Ajzen, & Schmidt, 1919). The following description of the TPB is adapted from Ajzen and Kruglanski (2019).

In recent years, Ajzen's TPB (1991) has emerged as a solid conceptual framework to explain volitional financial behaviors, i.e. saving or investing, which involve planning and future-orientation (Castro-Gonzalez et al., 2020). It establishes that an individual's mindset toward an action, his or her motivation to act concerning what others expect and the perception of control over such behavior can predict the intention to execute that specific action (Ajzen, 1991).

This study uses the TPB to analyze young adults in malaysian profiles according to their intention to pursue four nonmutually exclusive planning for retirement strategies. The income source expected at older ages defines each of them: pension funds, earnings from selling or renting a property, government subsidies and family or friends' altruism. The former two refer to using savings, investment or a private pension plan to prepare for retirement. The latter depend on public programs or the assistance of others. Respectively, these intentions correspond to what Niu and Zhou (2018) call active planning and passive planning. An individual may choose one of these, a combination, or none of them at all.

1.4 Conceptual Framework

Independent Variables Dependent Variables H1

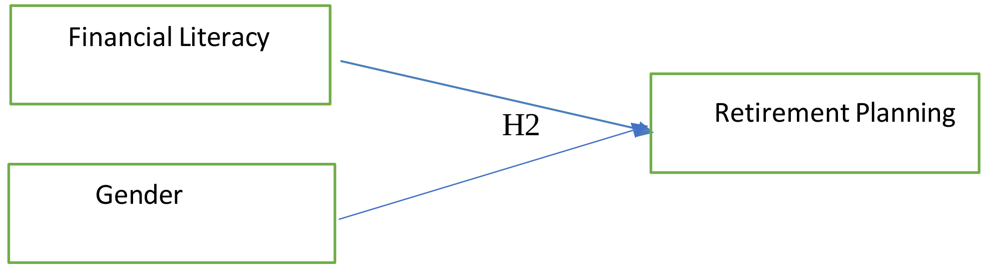

Figure 2.1: Framework for the impact of financial literacy and gender on retirement planning

1.5 Hypotheses Development

1.5.1 The Impact of Financial Literacy on Retirement Planning

According to Botha et al. (2014), retirement planning consists of three stages. The first stage is planning for retirement, in which the individual works and makes financial provision towards his/her retirement age. The second stage is planning at retirement, in which the individual deals with issues such as the tax implications of withdrawing benefits immediately prior to retirement. The third stage is planning after retirement (post-retirement stage), in which the individual needs to ensure that he/she has adequate capital and preserves it during the retirement period (Botha et al. 2014:957). One of the most prevalent reasons that people fail to properly plan for retirement is that they have low levels of financial literacy. In their investigation of the relationship between financial literacy and retirement planning, Lusardi and Mitchell (2011:2) found that financial literacy is strongly and positively associated with retirement planning. It was also found that it was found that those who have a better grasp of compounded interest and who understand risk diversification have higher wealth holdings (Lusardi & Mitchell 2011:15).

Financial literacy increases the likelihood of planning for retirement and higher level of wealth (Lusardi, Mitchell, 2007), Results of a study done to investigate whether financially literate people are more likely to plan for retirement shows that financial literacy increases the likelihood of planning for retirement. Financial literacy is the ability to make informed decisions and take the necessary steps towards the good use of the money (Schangen, Lines 1996). However the exact process of how literacy changes the level of decisions made to save are not clear (Maki, 2004). Cude in 2010 examined effective factors on people's financial literacy. His results showed that higher levels of education, risk appetite, higher age, more work experience, family income, parental occupation and attending in training classes will increase financial literacy. In this research it is expressed that people with higher financial literacy are more successful in their business and personal lives. Their financial concerns were well lower and they had longer -term savings and investments and triggered a better future with more long-term vision. Hence, it is predicted that the relationship between financial literacy towards retirement planning is significant.

Hypothesis 1: Financial Literacy has significant impact towards retirement planning

1.5.2 The Impact of Gender on Retirement Planning

Gender is a major factor for retirement planning as men and women will generally act and think different Yakoboshi and Dickemper (1997). According to Lusardi & Mitchell, 2008 men are ready and better prepared compared to women due to lack of financial resources when compared to men. This is due to lower wage, gender prejudice, limited accessibility and career options (Glass & Kilpatrick, 1998). Sunden and Surette (1998) noted that gender together with marital status have significant relationships when it comes to retirement planning. These factors will generate different level of assets distribution among women and men in retirement planning (Sunden & Surette, 1998). Therefore, the gender can be hypothesized as below:

Hypothesis 2: Gender has a significant impact towards retirement planning

1.5.3 The impact of Financial Literacy and Gender to Retirement Planning

High financial literacy and gender equality are crucial factors in effective retirement planning (Harahap et al., 2022). Good financial literacy enables individuals to make smart investment decisions, manage finances wisely, and make optimal use of various financial products (Muthia et al., 2021). On the other hand, gender influences retirement planning through differences in income, life expectancy, participation in the workforce, and approach to investment risk (Harahap et al., 2022). Women often face additional challenges such as lower salaries and career interruptions for family care, which impact their accumulated retirement funds.

Hypothesis 3: Financial Literacy and Gender has a significant impact towards retirement planning