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A STUDY ON ROLE OF FINANCIAL EDUCATION IN RETIREMENT WELLBEING

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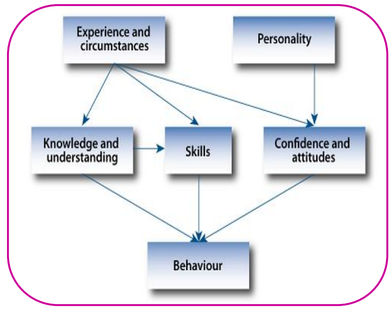
ABSTRACT

Traditional economic theories assume that every individual is well informed and make optimum rational decisions in terms of consumption, saving and investment. This assumption suits to major extent in case of short-term financial management and planning however in case of long term financial planning, its validity keeps fading as the time horizon increases. Psychological and behavioral theories indicate that majority of people are either misinformed or ignorant or do not pay due attention to their long term financial planning specifically towards retirement financial planning.



Retirement planning is a multi period and lifelong saving & investment issue. Since final reward is far away, it becomes difficult to maintain consistency and motivation for retirement financial preparation. During such a long period, many obstacles and deviation may breakdown an individual's tempo. Therefore, this study is an attempt to know how periodical information dissemination and financial education can play its role in boosting the pace of retirement wealth accumulation and its appropriate management. This study also intends to find out effect of financial education programs on saving intentions and behavior of individuals.

KEY WORLD : *Periodical supervision, inertia, procrastination, Minimum guaranteed return, Retirement Saving Satisfaction, Financial management behavior*.

1. INTRODUCTION

Retirement is just an another phase of life when people change the track of their daily schedule from superfast to relaxed one. Although retirement means absolute leisure and liberty of choice to do things of personal interest but at this stage two things must be extra taken care of, physical fitness and financial security. After retirement, growing age and its effect are usually major concern regarding physical fitness on the other hand from financial point of view the biggest change is discontinuation of regular monthly salary. Both of these essential need of life demands long-term commitment on individual's part. Physical fitness can be achieved through well balanced diet and regular exercise where as financial security can be achieved through regular savings, prudent investment and periodical supervision.

Every retiree wishes to maintain the same standard of living and independency as before. With the significant changes in family structure and social norms, retirement financial planning has become way of life. Since retirement financial planning is lifelong and continuous process, many multidimensional factors affect the ultimate purpose of it that is retirement corpus at the retirement age and post retirement regular periodical income. Previous studies show that when it comes to long terms financial planning such as retirement, most of the people face "bounded rationality problem" and due to this dilemma, they are not able to take right financial decision at right time. Lack of will power, inertia and procrastination are most common barriers associated with retirement planning **(Shefrin, 2002).**

In such a scenario, financial education program may transform retirement saving status of people. Financial educational programs not only encourage goal oriented saving and general saving but motivate for money management also. Periodical information dissemination about performance of financial assets provide chance to participant for switching into better performing assets. However, in reality, large population is under informed about basic knowledge required to make prudent saving and investment decision. This study is an attempt to understand Consequences of financial education towards retirement planning. This study also intends to measures how people make their saving decisions, how they collect the information for making these decisions, and whether they possess the financial skills required to make these decisions. Simultaneously this study also aims to evaluate whether people try to figure out how much they need to save for retirement and whether they devise a plan.

2. REVIEW OF RELATED LITERATURE

Miles (2004) showed that people get puzzled while dealing with loan amount, installments and interest rates. Most of the people are ignorant about essential saving schemes and things become more sophisticated when it is related with long-term financial issue such as home loan or retirement planning. He found some positive relationship between family income, education and financial awareness test performance. Shockingly, large numbers of respondents are not able to understand interest calculation of their own loan account.

Moore (2003) conducted a survey and established that participants have only vague idea about saving schemes and avenues. In general, people do not know the opposite relationship between interest rate and prices of debt instrument. The widespread area of unawareness is mutual fund schemes and stock market. It is very surprising to know that many people think, mutual fund is a guaranteed return yielding investment. **Lee (2005)** related the lack of education with deprivation of financial services. In his studies he found that majority of respondents who did not have any kind of saving accounts are people with low education. On the other hand, respondents with higher or specifically financial education are more likely to plan their savings for retirement.

Campbell (2006) observed impact of financial education on financial behavior of respondents. People who understand consequences of compounding and interest rate are less likely to borrow. He accredited reason of differences in financial behaviors to age group also. The closer to retirement a person is; the better financial knowledge he has. However, savings for retirement have to chalked out from the early age of working life.

Financial education and awareness programs are primarily restricted to corporate interest of program endorser. This trend should be shifted towards unbiased and generalize approach. Schools, colleges, Public sector financial institution and workplace could be a right place for such educational programs. If directed properly, financial education and awareness program could have a great bearing on general savings and retirement financial planning as well **(Volpe, Chen, and Liu, 2006).**

3. OBJECTIVES

4.1 To identify how people try to figure out how much they need to save for retirement and devise a plan to reach it out.

4.2 To know what are the most common financial tools for retirement planning in the studied region.

4.3 To assess the relationship between financial education and retirement planning based on age of a person.

4.4 To evaluate the impact of financial education on Retirement saving satisfaction.

4.5 To evaluate the impact of financial education on personal financial management behavior.

4. METHODOLOGY

Data source and questions

This study aimed at finding whether retirement planning and financial well-being can be improved by inculcating financial education among people. In order to measure level of financial awareness and retirement financial planning status of respondents, a multi dimensional survey questionnaire covering various aspect of retirement preparedness, demographic factors and basic investment & saving elements was prepared after reviewing related literature on subject matter. Opinions from people having experience in this field have also been taken for preparing final questionnaire.

Responding to this kind of questionnaire requires some prerequisite quality; therefore, a purposive (administered) sampling technique has been used. A pilot testing was conducted before finalizing the questionnaire. In all 130 questionnaires were received from respondents and out of them 122 were complete in all aspect. Questions about estimation of retirement income needs, tools for such assumption, preferred investment tools, knowledge about financial terminologies, financial products and financial behavior have been asked. Demographic questions and some other question were measured on nominal scale and rests of the questions were measures by using five point likert scale.

Descriptive Statistics

	Mean		Std. Deviation	Variance
	Statistic	Std. Error	Statistic	Statistic
Gender	1.21	.037	.411	.169
Age	2.10	.075	.827	.684
Education	1.44	.051	.561	.315
Marital Status	1.84	.034	.372	.138
Employment Sector	1.92	.050	.554	.307
No of dependents in family	1.56	.045	.499	.249
King of Family	1.59	.045	.494	.244
Income Details	2.13	.086	.953	.908

Descriptive statistics components like mean, standard deviation, variance, kurtosis and skewness were calculated to have a comprehensive understanding of the collected data. Highest mean was observed in income and lowest mean was observed in education. It was observed that 39 % respondents were female and 61 % were male.

Reliability Statistics

Cronbach's Alpha	N of Items
.746	32

The Cronbach's Alpha value is 0.746, which shows higher level of consistency for the scale used in this study.

Analysis and Interpretation

Hypothesis	Test	Sig. Value	Result
H_o 1 There is no significant Impact of financial education on investment avenue selection.	Regression Model	0.031	**Rejected**
H_o 2 There is no significant relationship between financial education and retirement income needs estimation.	Independent Samples t test	0.984	**Accepted**
H_o 3 There is no significant relationship between financial	One way		

education and retirement planning based on age of a person.	Anova	0.016	**Rejected**
H_o 4 There is no significant impact of financial education on Retirement saving satisfaction.	Regression Model	0.000	**Rejected**
H_o 5 There is no significant impact of financial education on personal financial management behavior.	Regression Model	0.000	**Rejected**

Hypotheses 1 suggested that financial education is a decisive aspect in investment avenue selection for retirement financial planning. Those who are financially educated, have notably different set of investment avenue choices than those who are not. Shapiro- wilk test was used to test the normality of data and with min sig. Value 0.074 (> 0.05) data was found to be normally distributed. Homogeneity of Variances was checked through Levene Statistic test and with sig. Value 0.876 (> 0.05) assumptions of Homogeneity sustained.

Multiple correlation coefficient which is a standard of quality of the forecasting of the dependent variable, was calculated as 0.751, indicated a good level of forecasting. The R square, coefficient of determination, which is the proportion of variation accounted for by the regression model above & beyond the mean model, measured as 0.362. Estimated model of coefficients calculated the constant value 1.030 and 0.831 (financial education) for dependent variable, investment avenue selection. The F ratio, which checks the goodness of fit of data for the model yielded the value, F (0.05, 8, 113) 2.218 which is higher than the F table value 2.0164, supports significance of results. At last P value 0.031 (< 0.05) confirmed the rejection of null hypothesis which states there is no significant Impact of financial education on investment avenue selection.

Assessment of hypothesis 2 reveals that retirement income needs estimation is not significantly related to financial education. Thus, there is no assurance that if a person is financially educated, he/she is better expected to estimate his retirement income needs. In contrast, majority of respondents make their retirement financial plan based on their current income rather than based on their post retirement need. A T test was run to check this relationship. Normality of data was checked by Shapiro-Wilk's test as p = 0.281 (p > .05). Observation of boxplot reveals that there were no outliers in sample data and there was no statistically significant difference between means as p = 0.984 (p > .05), therefore, null hypothesis stands accepted.

One way Anova was run to test hypothesis 3, which predicted that financial education strongly affect retirement planning irrespective of the age of the person. With F value 2.483 which is higher than the F table value 2.0164 and p = 0.016, null hypothesis, there is no significant relationship between financial education and retirement planning based on age of a person, was rejected. Highest mean 2.29 was measured among age group of 20 years to 25 years age group out of all respondents. Levene Statistic sig value was 0.531 and Shapiro-Wilk's test min sig value was 0.149 thus both the assumptions, normality of data and homogeneity of variance were met before running the test.

Assessment of hypothesis 4 reveals that Correlation between financial education and retirement saving satisfaction is 0.54, which is above 0.5, and p value is 0.000, (< 0.05). These values show that there is significant association between the two variables. Since r, confirm a positive relationship between the variables, regression analysis was used to model this relationship further. Squared value of coefficient of correlation is 0.292, which shows that 29.2 % variation in retirement saving satisfaction is affected by financial education. Durbin Watson value is 2.028, which indicates absence of any positive or negative autocorrelation because it is close to 2.

Significance value in anova table is 0.000, (< 0.05) that further shows there is significant association between compared variables. Thus, financial education has considerable bearing on retirement saving satisfaction.

With the help of table of coefficients, a regression equation was developed as:

Retirement Saving Satisfaction = 0.765 + 0.436 * Financial Education

Hence, null hypothesis, there is no significant impact of financial education on Retirement saving satisfaction, is rejected.

For hypothesis 5, test of normality and homogeneity of variances were run to check whether assumptions are fulfilled. Based on the r 0.714 and p 0.000, it can be concluded that there is significant relationship between the two variables. Further r square explains 51 % variation in personal financial management behavior due to financial education. Durbin Watson value is 2.347 which the indication of non-auto correlation. Significance value in anova table is 0.000, which is less than 0.05 that further shows there is significant association between compared variables. With the help of table of coefficients, a regression equation can be developed as:

Personal financial management behavior = 0.817+ 0. 858 * Financial Education

Hence, above hypothesis, there is no significant impact of financial education on personal financial management behavior, is rejected.

5. FINDINGS AND IMPLICATIONS

1. It was found that most of the respondents have not attended any seminar related to retirement financial planning so far. Employers can organize such seminars at least once in a year so that value of retirement planning can be reinforced to employees. Such programs may be helpful to increase employee retention on employer's part along with employee's own benefits. It was also observed that if employees have chance to attend financial education program, they are least likely to do it until it is mandatory because they underestimate its importance.
2. The evidence in this study also suggests that people generally try to avoid discussing retirement issue until they are very close to retirement age. This is major drawback for retirement planning because the early one starts saving for retirement, the better chance he/she has for retirement wealth accumulation. Retirement planning should be a cultural norm among people just like other necessary activities.
3. The implications that flow from this study include that as of more and more people are using smart phones, PFRDA or any other authentic agency can develop "retirement planning facilitation" mobile app. This app can be used to disseminate information about various retirement financial planning products suitable for various groups, schemes run by govt. to help senior citizen, senior's citizen's rights and many more.
4. It was also identified that majority of respondents are not able to figure out their post retirement income needs and those who does it, their most familiar reference source is their present income. It was also noticed that bank F Ds are still highest preferred investment avenue among participants but for better return and diversification they need to invest in other asset class also.
5. This study identifies several groups of respondents who fail to engage with the financial education provided to them when it comes to managing their retirement savings. Females and younger individuals are the key groups identified as less likely to utilize the educational information offered to them by the retirement fund. These results are consistent with the literature that continually shows that women are comparatively less concerned for long term financial planning than males and therefore less likely to

adequately plan for retirement (ANZ 2008; Lusardi & Mitchell 2008): and that females were more likely to find retirement decisions more difficult than males (Clark-Murphy & Gerrans 2001; ClarkMurphy, Kristofferson & Gerrans 2002).

6. CONCLUSION

Financial educational and awareness program significantly transform retirement planning process and saving-investment behavior of people. Different modes of financial awareness have different magnitude of influence but all these means leads to better post retirement wellbeing. The most encouraging aspect of appropriate retirement planning is that it not only perk up post retirement life but give confidence to present working life also. Adequate retirement planning with accurate financial education smoothes consumption and saving or in other words balances pre and post retirement life of individuals.

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