Original Research Paper

Management

INFLUENCE OF FINANCIAL BEHAVIOUR ON RETIREMENT CONFIDENCE AMONG WORKING ADULTS

Dr.P.Shanmugha Priya | Assistant Professor, Happy Valley Business School

ABSTRACT To have a financial stability after retirement, financial planning is essential. An understanding on the concept of retirement confidence has been found to be low in many working adults. This study aims to examine the influence of financial behaviour on retirement confidence and influence of various socio-demographic variables on the retirement confidence of employees working in the IT sector. Multiple regression analysis was applied to determine the predictors of retirement confidence. One way ANOVA and independent t-test are used to study the impact of various socio-demographic variables on retirement confidence. This study concludes that financial behaviour is the major forecaster of the retirement confidence among the IT employees. The findings of the study have a practical suggestion for financial advisors in helping employees to be more aware of their retirement life financial needs and to prevent them from debt trap in later years.

KEYWORDS : Retirement confidence, Financial behaviour

1. INTRODUCTION

Retirement is the stage when an individual forever leaves the workplace. This means that the income of the retirees will come to a close instantly upon retirement, their expenses will persist and they will need to keep on their lives depending exclusively on their accumulated savings (Russell, 2011). 'Retirement confidence' can be defined as an individual's mind set towards the retirement and self-reliance towards retirement and confidence towards preparation for retirement'(Kim, 2005). The term "Retirement confidence", "Retirement planning behaviour" and "Retirement attitude" have been used interchangeably by many researchers in their research studies. (Kim,2005, Moorthy,2012). Past research has recognised number of predictors of retirement confidence. For instance age, gender, occupation, marital status, wealth, income, savings, education level, financial behaviour, retirement planning are the significant contributors of the retirement confidence (Joo, 2002, Kim, 2005).

As the main sources of retirement income are savings, it calls for proper financial forecast and planning during the pre-retirement stage are necessary for safe and sound retirement life. For healthier retirement planning, the retirement confidence is the root. Understanding that the retirement planning is a defensive factor for retirees, there are various type of investment alternatives available to employees, which includes public provident fund, national saving certificates, mutual funds, life insurance, bonds, properties, chit funds, bank deposits, shares, gold, silver etc. Inadequate retirement funds can be a disaster for retirees and put them into a lot of insecurity and financial distress. However, the idea of retirement confidence is relatively new among IT employees.

2. NEED FOR THE STUDY

IT industry is a booming and upcoming industry in India. The IT sector in India is generating 2.5 million direct employments. India is now one of the biggest IT capitals of the modern world and all the major players in the world IT sector are present in the country (Kamdar, 2006). So there are many employees working in this sector; an especially number of adult's workers is more in IT sector. IT employees are the people with high income, low job security and saving behaviour. Normally they show a low level of retirement confidence. The study aims at an impact of financial behaviour on retirement confidence of employees working in the IT sector. It also tries to understand the various socio-demographic variable affect the retirement confidence of IT workers.

3. LITERATURE REVIEW

3.1 Retirement confidence

Kim et al (Kim, 2005) stated that retirement confidence is based on the individual's attitude and planning for future retirement. People who are fulfilled with their retirement funds will report higher retirement confidence. Based on the Aegon Retirement Readiness Survey 2015, Indian workers score 6.98 out of 10 on the ARRI, the highest score of all countries surveyed and compares to a global average of 5.86. The survey has also found that Indians overwhelmingly have positive perceptions of retirement.

Figure 1: Retirement readiness index

Source: Aegon Retirement Readiness Index
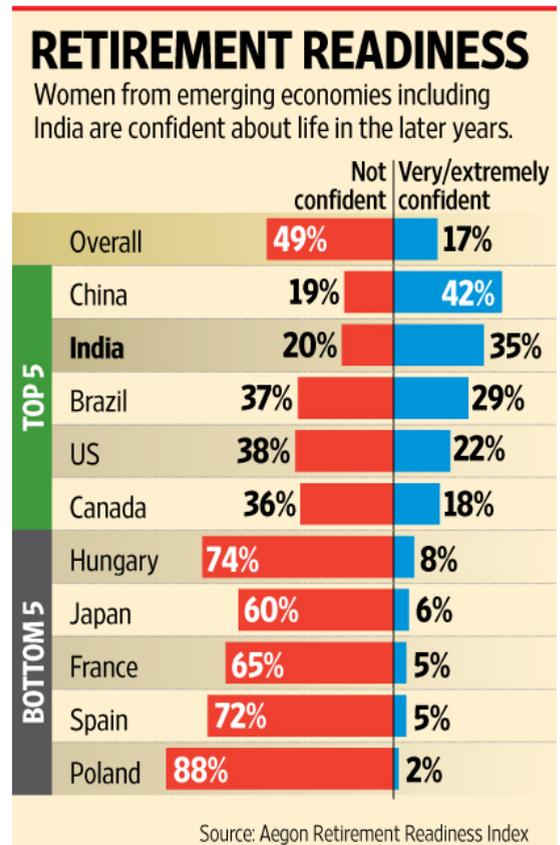
The positive trend of retirement confidence has attracted the attentions of researchers. Various studies have been conducted in the area of retirement confidence. (Joo, 2002, Kim, 2005, J.J, 1995, Moorthy, 2012). The following sections will review the factors that will influence retirement confidence based on early literature, namely financial status, financial literacy, saving behaviour, and financial management.

3.1.1 Financial status

"Financial status" in the present research refers to annual income, ownership of the house, asset-to-debt ratio, and financial adequacy. In fact, many researchers have found that income is a good predictor of retirement confidence (Joo, 2002, Moorthy, 2012). People need to have a regular source of income to maintain their lives. The income is an influencing factor in retirement planning. If income is low, it leads to poor retirement planning behaviour.

3.1.2 Financial Literacy

According to Huston (S.J, 2010), financial literacy is an ability that can aid people to make financial decisions efficiently. According to Huston, financial literate individuals have the basic understanding of the financial concepts such as interest rate, inflation rate, compound interest, and risk (S.J, 2010). As retirement planning is a multifaceted process which requires a certain level of financial knowledge. So, the researcher has concluded that there is a positive relationship exists between retirement confidence and financial literacy.

3.1.3 Saving Behaviour

The source of retirement is the income of the retirees. The individual's savings attitude and financial behaviour will play a major role in retirement. Thus, there is a direct relationship between saving and retirement confidence (J, 2013, Kim, 2005). People with higher savings are likely to have higher retirement confidence (Kim, 2005)

3.1.4 Financial Management

Finally, healthy financial management is expected to encourage higher retirement confidence (Kim, 2005). Good financial management should include various financial practices such as cash management, credit management, retirement planning (S.G, 2003, Parrotta, 1998). People who apply financial management in daily life have the propensity to display more positive retirement confidence (Kim, 2005).

4. OBJECTIVES OF THE STUDY

1. To understand the factors influencing the retirement confidence of employees in IT sector.
2. To investigate the relationship between financial behaviour to the retirement confidence.
3. To investigate the relationship between various social, demographic variables and retirement confidence.

5. RESEARCH FRAMEWORK

Below figure represents the research framework for the present study. This study examines the influence of financial behaviour on retirement confidence of employees working in the IT sector in Coimbatore. In addition, the study further examines the influence of various socio-demographic variables such as age, education, marital status, income, occupation and financial status etc on retirement confidence.

Figure: 2 Theoretical Framework
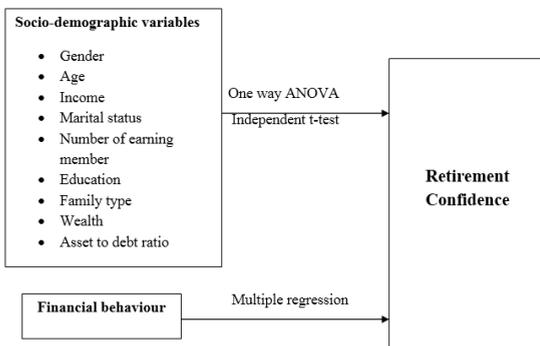
5.1 DATA COLLECTION METHOD

The study uses primary sources of data. The primary data has been collected through the structured questionnaire. Data are collected from the IT employees. To ensure the quality of the data, the researcher personally conducted the survey. The questionnaire consists of the three sets of questions. First part tries to understand the impact of the socio-demographic variables of the respondents on retirement confidence such as age ,marital status, education level, type of family, annual income, the value of wealth, asset-to-debt ratio etc. Other sets consists of series of statement which measure the impact of retirement planning and financial behaviour on retirement confidence, for this purpose series of statements are used to five rating scale. The questionnaire also consists of the various investment alternatives that will be preferred for investments.

5.2 TOOLS AND TECHNIQUES USED FOR ANALYSIS

The analysis part of the research was made by using the various statistical tools tests namely, multiple regression, Factor analysis, One-way ANOVA (analysis of variances) and Independent t-test.

5.3 RELIABILITY ANALYSIS

Cronbach's alpha is the most common measure of internal consistency ("reliability"). It is most commonly used when you have Likert scale questions in a survey/questionnaire that form a scale and you wish to determine if the scale is reliable. Internal consistency is measured with the questionnaire. The following table presents the reliability analysis:

Table 1: Reliability Analysis

Cronbach Alpha	No of Items
0.856	59

As the Cronbach alpha is 0.856, the questionnaire is reliable and valid for the data collection.

6. ANALYSIS AND FINDINGS OF THE RESEARCH
6.1 PROFILE OF THE RESPONDENTS

The table below represents the profile of the respondents, 69% of the respondents were male and of age group between 25-29 years. The majority of the respondent's annual income were between 5 lakhs – 10 lakhs. 65.5% of the respondents live in their own house and 70% of them have additional income. 56.5% of the respondents have chosen that their asset value is equal to their debt. The respondents have an adequate financial capability to save.

Table 2: Profile of the Respondents

S.No	Variables	Classification	Percentage
1.	Gender	Male	69
		Female	31
2.	Age	Below 25 years	24
		25-29 years	46.5
		30-34 years	20.5
		35-39 years	6.5
		40-45 years	2.5
3.	Marital Status	Single	59.5
		Married	39
		Divorced	1.5
4.	Family Type	Nuclear	61.5
		Joint	38.5
5.	Education level	UG	33.5
		PG	44.5
		Others	22
6.	Annual Income	Below 2.5 lakhs	19.5
		2.5-5 lakhs	27
		5-10 lakhs	39
		Above 10 lakhs	14.5
7.	Number of Dependents	0	32.5
		1	50.5
		2	12
		3	5
8.	Number of Earning Members in the Family	1	26.5
		2	59
		3	13
		4	1.5
9.	Value of the Wealth	< 50 lakhs	48.5
		50 lakhs – 1 crores	39
		More than 1 crores	12.5
10.	Residing Status	Own House	65.5
		Rented House	34.5
11.	Additional Income	Yes	70
		No	30
12.	Asset to Debt Ratio	Zero debt	5.5
		Asset less than debt	5.5
		Asset =Debt	56.5
		Asset more than debt	32.5
13.	Financial adequacy	Not enough	8.5
		Enough for basic use only	9
		Enough for everything	37
		More than enough and I can save.	45.5

6.2 FACTOR ANALYSIS

30 statements relating Retirement planning were factor analysed with the principal component analysis along with orthogonal varimax rotation, to identify the dimensions of retirement planning factor that explained the variance in these statements. The result of the factor analysis presents five factors for retirement planning. The table below presents the factors of retirement planning.

Table 3: FACTOR ANALYSIS FOR RETIREMENT PLANNING

STATEMENTS	Factor Load	Eigen Value	% of Value	Cronbach Alpha
Factor 1: Attitude towards retirement				
• Retirement enables me to pursue my unfulfilled dreams.	0.975			
• I look forward to retirement.	0.948	4.571	17.339	0.976
• I am worried about my life after retirement.	0.940			
• Retirement makes me feel useless.	0.940			
Factor 2: Goal clarity				
• I often talk to my friends about the financial issues for retired people.	0.960			
• I have clear goals regarding the financial position wants in retirement.	0.858	3.883	15.755	0.954
• I know exactly how much money I will need to ensure the standard of living I want in retirement.	0.954			
Factor 3: Financial knowledge And literacy				
• I am aware that value of money depreciates over time.	0.979			
• EPF and public pension scheme is the only source of income during my retirement.	0.978			
• I am aware of the other investment alternatives.	0.839	2.988	12.406	0.963
• I don't know how the inflation rate is calculated.	0.789			
• I understand the process of compound interest.	0.942			
• I am not aware of the retirement benefits offered by my company/Government.	0.951			
Factor 4: Retirement planning behaviour				
• I often compare my future financial position with the financial position I would like to have in retirement.	0.936			
• I have clear understanding of the issues for retired people.	0.930	2.508	11.508	0.937
• I know that people my age group are making financial preparation for retirement.	0.781			
• It's worthwhile to make financial provisions for retirement.	0.584			
• Members of my households are able to put aside or invest a sufficient proportion of our income.	0.921			
Factor 5: Self-reliance on retirement				
• By the time I retire, I will own a house without a mortgage.	0.869			
• By the time I retire, I will have enough money to pay for any unexpected expenses.	0.842			
• I have enough money to live comfortably during my retirement years.	0.781			
• Have enough money to pay for basic expenses during retirement.	0.933	1.576	11.520	0.983
• Have enough money to pay for medical expenses in retirement years.	0.655			
• Have confident that I am well prepared for retirement.	0.921			
• Have enough money to pay for long-term care, such as nursing care, health care, which is needed to live comfortably during retirement years.	0.945			

6.3 FACTOR ANALYSIS FOR FINANCIAL BEHAVIOUR

29 statements relating financial behaviour were factor analysed with the principal component analysis along with orthogonal varimax rotation, to identify the underlying dimensions of financial behaviour factor that explained the variance in these statements. From the varimax rotated factors matrix, 10 factors with Eigen values greater than one representing 82.928% of the explained variance were extracted from the original 29 variables.

Table 4: FACTOR ANALYSIS FOR FINANCIAL BEHAVIOUR

STATEMENTS	Factor Load	Eigen Value	% of Value	Cronbach Alpha
Factor 1: Money management ability				
• I have the ability in dealing with financial service providers.	0.962			
• I have the ability to ensure enough money for my retirement.	0.955	4.962	23.839	0.931
• I have the ability and understanding to manage my long term financial future	0.920			
• Dealing with money is not stressful.	0.816			
Factor 2: Saving attitude				
• Saving is certainly tough task but it is a must.	0.923			
• Save today –smile tomorrow a mantra for salaries class.	0.814	2.454	12.353	0.758
• Saving of money ensures secured life.	0.752			
Factor 3: Financial planning attitude				
• I find it more satisfying to spend money than to save it for the long term	0.979	2.121	12.063	0.989
• Financial planning is only important for whose have a lot of money.	0.978			
Factor 4: Risk taking attitude				
• When it comes to financial matters, I think myself as a risk taker.	0.931	1.961	11.734	0.893
• I tend to live today and let tomorrow take care of itself	0.905			
Factor 5: Investment and debt management				
• I have the ability to invest money.	0.869	1.576	11.520	0.983
• I feel comfortable with my level of debt	0.842			
Factor 6: Personal Inclination in finance				
• I like to join conversation about financial matters	0.962	1.024	11.420	0.946
• I set long term financial goals and strive to achieve them	0.955			
Factor7: Personal financial management				
• I pay my bill on time.	0.975			
• I budget and track spending.	0.973			
• I have the ability to understand financial terms.	0.934			
• I keep close personal watch on my financial affairs	0.915	5.968	39.343	0.968
• I save money for emergency funds.	0.884			
• I always save first before spending the balances.	0.881			
• I maintain my financial records in details.	0.841			
Factor 8: Decision-making behaviour				
• After making d decision I am anxious whether I was right or wrong	0.959			
• I tend to postpone financial decisions.	0.942	2.262	14.732	0.778
• At the end of the day, I decided intuitively on financial affairs.	0.522			
Factor 9: Finacial learning behaviour				
• I read to increase my financial knowledge	0.951	1.873	12.954	0.942
• I get ensure by the terms used by financial experts.	0.951			
Factor10 : Purchasing decision behaviour				
• I compare my receipt of purchase to my monthly statement.	0.670	1.161	8.069	0.612
• Before I buy something I carefully consider whether I can afford it.	0.568			

6.4 MULTIPLE REGRESSION ANALYSIS

Multiple regression analysis is widely used to measure the dependence of one variable on one or more independent variables. It is a powerful forecasting tool. The dependent variable is generally expressed, as a linear combination of independent variables. It is an extension of bivariate correlation. The result of regression is an equation that represents the best perdition of a dependent variable from several independent variables. Regression analysis is used when independent variables are correlated with one another and with the dependent variable.

Financial behaviour is treated as an independent variable, while the Retirement confidence was treated as a dependent variable in a linear step-wise multiple regressions, using F values of 0.05 for entry and 0.10 for removal criteria. **Retirement confidence and financial behaviour variables were predicting the investment behaviour.**

Null Hypothesis: Financial behaviour variables are not good predictors of the retirement confidence.

The following variables have been selected for Regression analysis.
Retirement confidence(Y) =Dependent variable

The independent variables are,
Money management ability(X_1),Saving attitude(X_2), Financial planning attitude (X_3), Risk taking attitude(X_4)Investment and debt management (X_5), Personal inclination in finance (X_6), Personal financial management (X_7), Decision making behaviour (X_8), Financial learning behaviour(X_9) and Purchasing decision behaviour (X_{10}).

Table 5: Descriptive statistics for financial behaviour and Retirement confidence.

Variable type	Variable Name	Mean	Std deviation
Dependent variable	Retirement confidence(Y)	2.7580	1.4072
Independent variable	Risk taking attitude(X_4)	2.5464	1.3273
	Decision-making behaviour(X_8)	2.4719	1.1346
	Financial planning attitude (X_3)	3.8777	1.2252
	Purchasing decision behaviour(X_{10})	3.2668	1.0072
	Investment and debt management(X_5)	3.3477	1.3784
	Personal inclination in finance(X_6)	3.3609	1.3940
	Financial learning behaviour(X_9)	3.0545	1.1983

The above table indicates that the mean and standard deviation of the dependent variable and independent variables. The mean score of retirement confidence is 2.7580.The mean score of independent variables are; Risk taking attitude(2.5464),Decision-making behaviour (2.4719), Financial Planning attitude(3.8777),Purchasing decision behaviour(3.2668), Investment and debt management (3.3477), Personal inclination of finance(3.3609) and Financial learning (3.0545).

Table 6: Regression Analysis Model Summery-Retirement confidence and financial behaviour variables.

Multiple R	R Square	Adjusted R Square	Std.Error of the Estimate
0.981	0.962	0.962	0.27388

Table 7: Analysis of Variance (ANOVA)-Retirement confidence and financial behaviour variables.

Model	Sum of Square	Df	Mean Square	F	Sig
Regression	2094.455	7	299.208	3988.816	0.000
Residual	81.913	1092	0.075		
Total	2176.368	1099			

Table 8: Regression coefficient-Retirement confidence and financial behaviour variables.

Model	Unstantardized Coefficients		T	Sig
	B	Std Error		
(Constant)	-1.065	0.088	-12.110	0.000
Risk taking attitude	0.334	0.023	14.587	0.000
Decision-making behaviour	0.946	0.031	30.248	0.000
Financial planning attitude	0.248	0.013	19.260	0.000
Purchasing decision behaviour	-0.066	0.008	-7.754	0.000
Investment and debt management	-0.032	0.006	-5.101	0.000
Personal inclination in finance	-0.023	0.006	-3.868	0.000
Financial learning behaviour	-0.023	0.007	3.131	0.002

Regression Fitted $Y = -1.065 + 0.334\,X_4 + 0.946\,X_8 + 0.248\,X_3 - 0.066\,X_{10} - 0.032\,X_5 - 0.023\,X_6 - 0.023\,X_9$

The variables viz.,risk taking attitude, decision making behaviour, financial planning attitude, purchasing decision behaviour, investment and debt management, personal inclination in finance and financial learning behaviour are entered into regression equation, and this variable explains 96.2 percent of variability in the retirement confidence $F(7,1092)=3988.816, p<0.05$ is significant, and fits in the multiple regression model. Seven financial behaviour factors are predictors of the dependent variable. Remaining 3 financial behaviour variables failed to meet the selection criteria, as indicated by the non-significant t-value($p>0.05$).

6.5 HYPOTHESIS TESTING USING ANOVA

To analyse the relationship between the retirement confidence and the socio-demographic variables, one-way ANOVA and Independent t-test were used. The result of the analysis shows that annual income and value of the wealth are the influencing factors of the retirement confidence.

Table 9: Hypothesis Testing using ANOVA

S. No	Variable	Null Hypothesis	F Value	Accept /Reject Ho
1.	Age	Age does not influence Retirement Confidence	0.401	Accept Ho
2.	Marital Status	Marital Status does not influence Retirement Confidence	2.548	Accept Ho
3.	Annual Income	Annual income does not influence Retirement Confidence	0.012	Reject Ho
4.	Number of Dependents	Number of Dependents does not influence Retirement Confidence	0.851	Accept Ho
5.	Number of earning members	Number of earning members does not influence Retirement Confidence	0.851	Accept Ho
6.	Value of wealth	Value of Wealth does not influence Retirement Confidence	0.229	Reject Ho
7.	Asset to Debt Ratio	Asset to debt ratio does not influence Retirement Confidence	1.453	Accept Ho

7. SUGGESTIONS AND CONCLUSION

IT employees are the people who having the more income, but unfortunately, most of the IT employees are young people, who are not even thinking of their retirement planning. Proper financial management is finding to be very low in IT people, they need to be some more concentrate their money management. There have a lot of investment alternatives are available for retirement planning, employees need to save and invest their money for their retirement.

The present study analysed saving attitude, money management ability, financial planning attitude, personal financial management, financial learning behaviour etc. In addition, the present study also accounted for the effect of socio- demographic variables namely age, educational background, financial status, marital status on the retirement confidence. The need of the study is thus identifying the factors affecting the retirement confidence of employees.

The result implies that there are other factors that will contribute to the retirement confidence. Many of the employees choose Life insurance property, mutual funds and gold and silver for the investment alternative for retirement. The understanding of the factors predicting the retirement planning behaviour will help the financial advisors to improve their client's savings towards retirement. As financial management contributes more to retirement planning behaviour, the financial management education and awareness have to be created among the people especially employees of IT sector.

REFERENCES:

1. J, H. R. (2013). The 2013 retirement confidence survey: Perceived savings needs outpace reality for many. .
2. J.J, M. Y. (1995). Perceived adequacy of retirement income. Financial Counseling and Planning , 6 (2), 17-24.
3. Joo, S. a. (2002). Factors affecting workers retirement confidence: A gender perspective. Financial Counseling and Planning , 13 (2), 1-10.
4. Kamdar. (2006). Encyclopaedia .
5. Kim, J. K. (2005). Factors related to retirement confidence: Retirement preparation and workplace financial education. Financial Counseling and Planning , 12 (2), 77-89.
6. Moorthy, M. C. (2012). A study on the retirement planning behaviour of working individuals in Malaysia. International Journal of Academic Research in Economics and Management Sciences , 1 (2), 54-72.
7. Parrotta, J. a. (1998). The impact of financial attitudes and knowledge on financial management and satisfaction of recently married individuals. financial counselling and planning , 9 (2), 59-74.
8. Russell, K. a. (2011). Financial management practices and attitudes of dental hygienists: A descriptive study. American Dental Hygienists Association , 85 (4), 340-347.
9. S.G, H. M. (2003). Household financial Management: The connection between knowledge and behaviour. Federal Reserve Bulletin , 87 , 309-322.
10. S.J, H. (2010). Measuring financial literacy. Journal of consumer Affairs , 44 (2), 296-316.
11. Sabri, M. a. (2014). The influence of financial literacy,savings behaviour and financial management on retirement confidence among women working in the Malaysian public sector. Asian Social Science , 10 (14), 40.
12. Shanmugam, A. a. (2013). Retirement confidence and preparedness: A study among working adults in a northern state in Malaysia. 404-414.