

# Goal Clarity and Financial Literacy towards Retirement Confidence among Working Adults in Southern Region, Malaysia

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## Abstract:

This study investigates goal clarity and financial literacy towards retirement confidence among working adults in Southern Region, Malaysia. The objectives are to determine the relationships between the independent psychological variables, goal clarity and financial literacy towards retirement confidence, and to determine the strong predictor between the two independent variables. Using a survey as research instrument, 173 working adults in the region participated in the study. Correlation and Multiple Linear Regression were used as statistical analysis methods. The findings indicate that goal clarity has a positive, linear and strong relationship towards retirement confidence ( $r=0.731$ ,  $p < 0.05$ ), while the relationship of financial literacy and retirement confidence is also positive and linear, it is moderate ( $r=0.614$ ,  $p < 0.05$ ). Goal clarity has also been identified to be the better predictor towards retirement confidence, contributing 57.1% in the causal relationship to retirement confidence.

**Keywords:** Financial Literacy, Goal Clarity, Retirement Confidence, Working Adults.

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## I. INTRODUCTION

Retirement could be wonderful years of one's life. After a lifetime of hard work and toil, it is time for one to enjoy the fruits of labour. Many working adults seek solace in the imagination of their retirement when things get tough in real life. However, as with all causes worthy, failing to plan is planning to fail. While a holistic approach is recommended to set one up for a satisfying retirement, and money isn't everything [1], financial security post-retirement has never more important in this day and age with decreasing fertility and increasing life expectancy [2]. Ill-prepared, this major life transition could potentially turn one's life upside down. In fact, a majority of Malaysians are not prepared for retirement [3].

Economic studies indicate that most Americans are poorly prepared to maintain financial independence throughout the entire retirement period [4]. Many individuals encounter a late-life financial shortfall that stems from a failure to set aside sufficient personal savings during their working years [5].

The recent Melbourne Mercer Global Pension Index (MMGPI) 2019 report revealed important information on how 37 retirement income systems around the world performed against retirement preparedness. Malaysia was not the only country grappling with the issue. Countries around the world struggled with the socio-economic and financial effects of ageing populations [6]. It was recognized that financial security in retirement could impact not only the individuals and societies, but also the nation as a whole.

Malaysia is expected to have over five million citizens over 60 years old by 2030. By 2050, the number of citizens over 60 will grow to 10 million [2]. Being an ageing population, long term sustainability in the retirement system is crucial. There are still many Malaysians without sufficient pension savings on top of the Employees Provident Fund [7].

In a survey conducted by Social Security Research Centre (SSRC) on 518 respondents aged 40 and

above, many Malaysians who aspire to live up to at least 80 years of age did not feel confident and self-assured financially in their finances. The result was not optimistic. Only slightly more than 50% of the surveyed respondents were confident of having a comfortable life beyond retirement. In fact, 70% of those surveyed expressed that they would expect to continue working beyond 60 years old, given that their mental and physical capabilities are in good functions. A significant number of respondents said they would turn to the government for support in their old age.

Johor, the southernmost state of Malaysia, is poised to become an economic powerhouse. The state carries high potential for economic growth for the years to come. Given the right ecosystem and movement towards development, positioning and transformation, the next 10 years is dubbed as the “Golden Decade” for Johor [8]. With Johor Bahru being the closest Malaysian city in proximity to Singapore, the regional and international trade and financial hub, it has also made the economic position of the state unique. It is a well-known fact that Johor and Singapore depend on one another economically. Thousands of Malaysians cross over to the causeway daily to work or get education, while with its strong currency, Singaporeans love to spend the weekends in Johor Bahru for groceries, shopping and dining. Many of them also own properties in Malaysia, especially in Iskandar Zone of Johor Bahru [8].

With this large and constant cross-border contact, interactions and influence, it can be speculated that the scene of retirement planning behaviour and confidence among people in Southern Region might possibly differ from working adults in other zones of the country. After all, the cross-border neighbor Singapore was rated as a good retirement system by MMGPI 2019. It makes a study into the retirement confidence in Southern Region worthwhile.

## II. RETIREMENT PLANNING BEHAVIOUR

In Malaysia, local studies on the topic of retirement planning behaviour and retirement confidence started gaining traction in the past seven to eight years. Moorthy et al. [9] shows in a cross-sectional study, established the relationship of retirement planning behaviour with various determinant factors. Through the core principles of symbolic interaction theory of meaning, language and thinking, Moorthy et al. [9]

incorporated the five concepts, namely, role, self, interaction, culture and norm by Meltzer, Petras, and Reynolds [10] into the study framework. Having working adults as target samples, the results concluded that both demographic differences, such as age, education level and income level, and psychological factors in attitude, goal clarity and potential conflict in retirement were influencing factors towards retirement planning behaviour. However, this paper only focuses on two psychological constructs towards retirement confidence – Goal Clarity and Financial Literacy.

### A. Goal Clarity

In understanding of the term “goal clarity”, Winnell [11] provided an apt definition for the term “goals” in her work titled Personal goals: The key to self-direction in adulthood. In her definition, Goals “define long-range value that give the person strong direction, a sense of coherence, and meaning. The definition also stands to indicate that ideally, goals should be clear enough to provide feedback on the achievement of concrete objectives [11]. Goal clarity in the study can be understood as defined milestone, voluntarily set by individuals, in regards to their vision and life view on retirement. It carries a philosophical component that is specific to the respondent’s modus operandi of life and finances.

### B. Financial Literacy

The terms “financial knowledge” and “financial literacy” are used interchangeable, leaning toward the understanding of [12]. This cognitive construct operationally covers the practical aspect of financial management practices and financial decision making, as postulated by researchers like Sabri and Juen [13] in the context of this study. However, “financial education” is differentiated. In the context of this study, financial education is understandably having a causal relationship with financial literacy but the terms are not equal to each other. Financial education is viewed as the strategic plan that has to be tailor-made to suit the needs of organizations and individuals.

### C. Retirement Confidence

The word retirement is simple and direct. It refers to a permanent exit of workforce, voluntary, involuntary or mandated by law, prepared or unprepared. And retirement confidence, it refers to a state of mind of being sure, grounded and at ease with one self. To

facilitate deeper understanding of the term used in the context, this state of mind contrasts fear, threat and worries. The state of retirement confidence can be related to a sense of sureness and groundedness convinced within one's highest mental faculty, having done well and leaving no ground uncovered within one's best ability and limited resources.

### III. RESEARCH OBJECTIVES

The study aims to accomplish the following objectives

1. To determine the relationship between goal clarity and retirement confidence.
2. To determine the relationship between financial literacy and retirement confidence.
3. To identify the best predictor of retirement confidence: goal clarity or financial literacy.

### IV. HYPOTHESES

The following hypotheses are develop to answer the research objectives.

- $H_1$ : There is a significant relationship between goal clarity and retirement confidence.
- $H_2$ : There is a significant relationship between financial literacy and retirement confidence.
- $H_3$ : The predictors (goal clarity and financial literacy) are significant to retirement confidence.

### V. RESEARCH FRAMEWORK

Adapting from Stawski, et al. [14], Sahn mugan and Abidin [3] and Mohd Talib and Manaf [15], the research framework for this study is formed. Researchers like Moorthy, et al. [9] had also adapted from Stawski, et al. [14] for similar work, localised to the context of Malaysia. This research framework also adapts from life cycle model in basic understanding of important transitions with nature of life paths, especially post-retirement [16]. Donaldson, Earl and Muratore [17] also provides a life course perspective to promote better retirement adjustment and well-being. It emphasises the effect of retirement planning mediated by mastery.

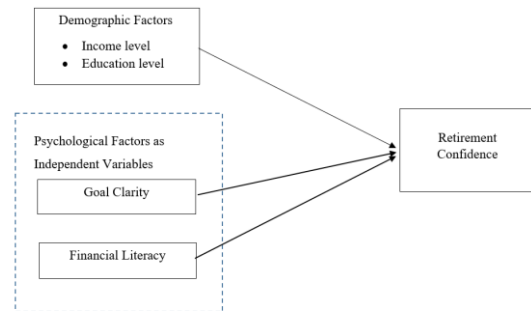


Fig. 1 : Research Framework

### VI. METHODOLOGY

#### A. Research Design

This is a quantitative survey research where questionnaire was deployed as the research instrument to obtain primary data. In the study, 173 participants responded to the survey. Upon examining the reliability on the questions in a pilot test of 30 participants, the questionnaire consisting of four domains, namely, demographic, goal clarity, financial literacy and retirement confidence, was mass-distributed among working adults in Southern Region in Johor Bahru, Melaka and Seremban, with majority of respondents originated from Johor Bahru. Malaysians from Southern Region, working in Singapore or overseas at the moment were also invited to participate in the survey to provide certain insight into the Southern Region demographic. Descriptive analysis was deployed to understand the demographic profile of respondents. Education level and income level of participants were particularly looked into. Multiple regression was used where the independent variables of goal clarity and financial literacy were correlated against retirement confidence to determine any significance in the relationship and their contribution to the dependent variable. Online survey tool, Google Form, was utilized as the means of data collection.

#### B. Population and Sampling

Target population of the study was working adults in Johor Bahru, Malaysia. To obtain a significant sample size, the following formula for multiple regression was deployed, based on [18]:

$$N > 50 + 8m \quad (1)$$

where m = number of independent variables.

Since two independent variables are involved in this study, namely, goal clarity and financial literacy, therefore the suggested sample size is

$$N > 50 + 8(2)$$

$$N > 66 \text{ respondents}$$

In this study, 173 participants were responded in the online survey and the number is more than enough to fulfill the sampling requirement.

### C. Data Collection

Participants were required to fill up the questionnaire in Google Form. The questionnaire on average would take a participant 5-10 minutes. Participation came from working adults from Southern Region, in particular, Johor. The other two states in Malaysia that constituted Southern Region, Negeri Sembilan and Melaka, participated in less than 10%. Johoreans working in Singapore were also included in the survey. They provided significant insight on future relocation back to Johor upon retirement. Participants came from both private and government sectors across industry, such as healthcare, banking, food and beverage, engineering and education.

## VII. ASSUMPTIONS OF MULTIPLE REGRESSION

### A. Multicollinearity

In order to determine the relationship between the two independent variables of goal clarity and financial literacy, multicollinearity test was run. In general, any result with  $r > 0.9$  or higher indicates that the independent variables studied are highly correlated and not suitable to be used as independent constructs to be studied singularly [19]. The result rendered  $r = 0.631$  which is less than 0.9, indicating that two independent variables, goal clarity and financial literacy had no multicollinearity. This is supported by the collinearity statistics with tolerance value is 0.603 which is greater than 0.10 and VIF value is 1.658 which is less than 10. Thus, the multicollinearity assumption is not violated and oth variables deemed valid to be independent constructs to be studied on its own.

### B. Outliers

Multiple Linear Regression is very sensitive to outliers at both extreme ends. The outliers can be

detected from the Scatterplot. Tabachnick and Fidell [18] define outliers as cases that have a standardized residual of more than 3.3 or less than -3.3. Based on the Mahalanobis distances and the scatter plot in Fig. 2, the data showed very consistent results with no outliers on extreme ends.

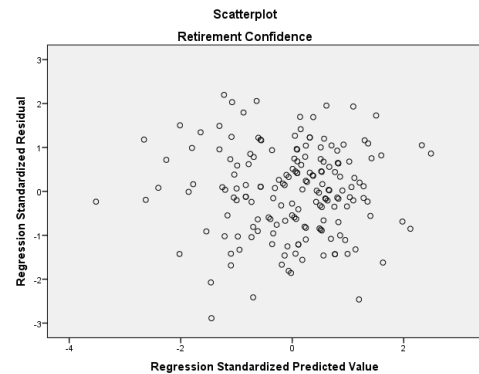


Fig. 2 : Scatterplot

### C. Normality

Assumption of normal distribution of data has to pass. Normality plot was conducted to ensure no outliers with too high or too low values were in the data for goal clarity and financial literacy. Normality test was passed on the first run.

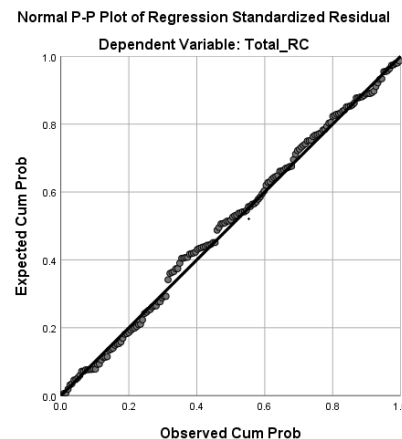


Fig. 3 : Normal probability

## VIII. RESULTS AND DISCUSSION

### A. Demographic Background

In this study, 173 working adults participated in the survey on the relationship of goal clarity and financial literacy towards retirement confidence. The analysis on the demographic background is shown in Table 1.



The respondents were employees in various industries across Southern Region that involved female (60%) and male (40%). 40% of them aged between 25-34, and 31% in the category of 35-44 where these two age groups made up 71% of study sample. In terms of ethnicity, 69% of respondents were Chinese, followed by 25% Malay, 4% Indian, and 2% others.

Table 1 Demographic Background

Employee Profile	Classification	Frequency (n)	Percentage (%)
Gender	Male	71	40
	Female	103	60
Age	24 and below	4	2
	25-34	70	40
	35-44	53	31
	45-54	24	14
	55 and above	22	13
Ethnicity	Malay	44	25
	Chinese	119	69
	Indian	7	4
	Others	3	2
Level of Education	Secondary School	9	5
	Certificate or Diploma	24	14
	Bachelor's Degree	94	54
	Master's Degree	40	23
	Doctorate	6	3
Level of Income (RM)	< 3000	20	12
	3001 - 6000	64	37
	6001 - 8000	19	11
	8001 - 12000	32	18
	> 12000	38	22

Level of education of the participants was considered high, with 54% of respondent holding a basic degree, 23% with a Master's degree and 3% Doctorates. Level of income was varied. About 21% of the participants earned between RM4501 to RM6000 in monthly gross income, followed by 18% reporting RM8001-RM12000. A considerable number of participants which is 22% of the respondents were high income earners with monthly gross income of RM12000 and above. In this category, 10% of respondents earned more than RM20000 a month in gross personal income, with or without higher qualifications. 51% considered Johor as their retirement destination, with 31% indicating that it was their potential retirement destination. 19% of respondents were definite that they would not retire in Johor, Malaysia.

### B. The relationship between independent and dependent variables

Statistical result using partial correlation as shown in Table 1 rendered a moderate, positive and linear relationship between financial literacy and retirement confidence, with  $r=0.614$ ,  $p < 0.05$ . Beta coefficient for financial literacy rendered a result of 0.254, with  $p < 0.05$ , signifying that the psychological construct, financial literacy contributed 25.4% in causal relationship to retirement confidence. Participants with higher financial literacy also would have higher retirement confidence, however, the effect was not as strong as goal clarity. Both independent variables, goal clarity and financial literacy, explain 57.3% of the dependent variance, with R-squared of 0.573

Variable	RC	GC	FL
RC	1.000	0.731	0.614
Sig. (1-tailed)	.	0.0001	0.0001
GC	0.731	1.000	0.630
Sig. (1-tailed)	0.0001	.	0.0001
FL	0.614	0.630	1.000
Sig. (1-tailed)	0.0001	0.0001	.

The results showed that there is a significant relationship between financial literacy and retirement confidence among working adults in the Southern Region of Malaysia. The positive relationship sends important message to policy makers, such as EPF board, life planners and corporates. In crafting a good retirement training program, financial literacy, though important to increase literacy on basic financial and economic concepts, the content does not need to be too difficult. EPF board, the main system Malaysians rely on for retirement, could take a more proactive move in engaging various government statutory boards and private organisations to collaborate on effective and well-crafted financial literacy programs. Retirement confidence has been found to increase on improvement of financial literacy, mediated by good financial practices, such as saving habits at one's productive age [20].

Both independent variables, in combination, explain 57.3% in variance of the dependent variable, with R squared presented at 0.573. Understandably, the two study constructs do not explain all of retirement confidence. However, it has been shown by statistical results that the study is on the right track and 57.3% of such large topic as retirement confidence has been covered. The remaining study components might come other psychological factors such as attitude, saving behaviour, financial

management practices and habits as outlined by the works of [21]-[22], [17], [9], [13], and other researchers on the topic of retirement studies.

### C. Evaluating predictors toward retirement confidence

Standardized Coefficients Beta showed 0.571 on goal clarity and 0.254 on financial literacy, with  $p < 0.05$ , signifying that goal clarity was the better predictor, contributing 57.1% in causal relationship to retirement confidence, while financial literacy contributed 25.4% to retirement confidence. The results are tabulated in Table 2.

Table 2 Results of Standardized Coefficients Beta

Variable	Beta	t	p-value
Goal Clarity	0.571	8.853	0.0001
Financial Literacy	0.254	3.931	0.0001

The results provide significance to financial education content designers to give higher emphasis on goal clarity before financial literacy. This result was of same opinion with a few other works in the literature body. The findings of Moorthy et al.[9] supported goal clarity as an important psychological factor that influences individuals' behaviour and attitude towards retirement. Setting clear and realistic goals for retirement is important for working adults to focus on desired outcome and not lose direction. For the results of the study, the importance of goal clarity is determined. Education experts should include such workshops in mainstream education system to expose the youth of Malaysia to the learning of effective goal setting.

As a conclusion, one cannot deny that retirement wellness studies are important topic for the society. Retirement could be a wonderful season of one's life, if well-prepared. Workers and employees contribute their youthful energy and expertise into the economic development of the country, it is only reasonable that their own retirement planning be well crafted. Effort from government and private sectors on this issue also increase confidence of younger generation workforce in their contribution towards the wealth and prosperity of the nation.

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