

YOUNG EMPLOYEES' APPROACH TOWARDS SAVINGS AND RETIREMENT PLANNING

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Abstract:

The main objective of this paper is to examine the determinants of retirement planning and the approach toward savings and retirement planning. The study is carried out with 164 young employees in the real estate sector, Navi Mumbai. All analysis is done using the SPSS tool with the Reliability test and Correlation test. The results show that the preference to cut down on unnecessary expenses, monthly income, deciding upon retirement age, education level, and age are the most impacting determinants for retirement planning and Savings is dependent on all the determinants of retirement planning. The approach towards savings is impacted due to a lack of knowledge about financial products, the future value of current savings, Money requirements and retirement age as employees have not given thought to the future requirements; being very long term in nature.

Keywords: Approach towards Savings, determinants of retirement planning

Introduction:

According to a study by the World Economic Forum, by 2050, "India will be home to one of the largest populations of retirees in the world". Apart from it, the yearly growth of the gap in India's retirement savings will be the fastest among the developing countries at 10% and above the global average of 5%. The major reasons behind the shortfall are diversified informal sectors workforce with very limited access to the retirement savings, unfavorable returns from investments, and most important are the improved quality of life accelerate the quantum of money required for retirees. Considering the facts, it's essential to make savings a priority from the early earning stage. Hence, the responsibility lies with the youths to give a thought to the retirement at the early life and not after the 50s. In the earlier generation, the preferences and patterns for savings were very conventional; but due to the availability of various financial products, huge social presence, and digital innovations have at least reached the population of tier I and tier II cities young generation. Seeing the paradigm shift from personal to virtual, it is expected that there must be some different approach among youth towards their financial health.

Social security is very inadequate in India. The government has designed support through various pension plans, EPF, PPF, etc. but subscription and access to these products are limited due to either compulsion or tax saving option. Some more financial products are either complex to understand or it has not reached the actual beneficiary. Financial planning professionals, policymakers or consultants emphasize and encourage personal savings but the fact is unknown for the individual's savings decision, implementation, monitoring, and the outcome in form of confidence. There are several questions which are very important to get to know about the approach of saving and retirement by young employees like; How much equipped these employees are to make savings decision? Are they informed about the saving components? Have they given attention to retirement planning? So, considering the survey and available literature to the study, the researcher is trying to investigate the approach of young employees about saving and retirement planning and to study the determinants of retirement planning.

Objectives:

1. To investigate the approach towards saving and retirement planning
2. To examine the determinants of retirement planning

Review of Literature:

An individual's willingness to save and be consistent can result in financial independence in later life, eventually, not all need to be able to do so. A person or household is considered to be prepared for retirement when accumulated savings is sufficiently high to generate income at least equal to a given pre-retirement level of consumption (Yuh, Montalto, & Hanna, 1998).

Individuals who actively save for retirement tend to have a higher level of retirement preparedness and confidence (Joo & Pauwels, 2002). Elder and Rudolph (2000) determined that retirement confidence, when measured as the expected standard of living in retirement, is influenced significantly by the level of savings a person has accumulated. Financial decision-making and managing personal finances are personal choices based on what individuals experience and are exposed to. As financial literacy is defined as a person's confidence and ability to use financial knowledge (Huston, 2010).

According to Chen & Lau (2014), an increase of one year in life expectancy only makes people delays their retirement by four months. This study indicated that people spend more years in their retirement and which is deciding on retirement saving schemes is crucial as adequate saving require to fund the retirement phase. As longevity risk is allied with the defined benefit plan, more countries and pension providers have shifted from defined benefit to defined contribution Morgan & Lothian (2017), proposed that with the move from defined benefit to defined contribution, the pension providers can transfer the longevity risk from plan sponsor to individual member. So, in other words, it is self-directed retirement. In addition, the longevity risk of the pension system can be controlled by managing individual consumption. These relate to the concern on the additional cost associated with an increase in life expectancy. Morgan & Lothian (2017) also provided four criteria for the retirement product; longevity protection, stable real net returns, inflation protection, and flexibility. Considering these criteria, one has to have more than one product to be invested in because available retirement product does not cover all in one.

Retirement planning is multifaceted, it includes so many different dimensions and process and also differentiates from person to person. As argued by Lusardi (1999), individuals differ in their capacity to plan and differences in devising and carrying out saving plans can be powerful determinants of wealth holdings.

Immediate needs like housing costs and loan repayments often mean sacrifices are made to people's pension saving Quilgars, D., Jones, A. and Abbott, D. (2008). At the same time, there may be little awareness of the long-term implications of such decisions (Foster, 2012).

Considering the revived findings, it is quite clear that savings and retirement planning are dependent on various determinants. Every individual may have a different dimension to it.

Methodology:

The study uses a convenience sampling method to collect the data through a structured questionnaire. The question consists of demographic profile, social-economic, psychological and environmental variables. The retirement attitude and future expectations variables are measured in Likert 5 points scale; The number represents the response given by participants in the survey form of "strongly disagree", "disagree", "neutral", "agree", and "strongly agree" respectively. The survey is carried out among the young employees who have minimum of two and maximum of ten years of working experience in the real estate sector. The data is collected from 164 individuals; who are employed in real estate developing companies in Navi Mumbai.

The reliability of the questionnaire in this research was tested through the Cronbach's Alfa of 0.92.

Data Analysis:

Table 1 shows the result of the socio-demographic profile of the data collection. The findings show that respondents are male (47%) and female (53%) category and out of 42% are married and 58% are unmarried. The majority of the respondents are falling in the age of 29-32 (49%). As far as education is concerned, 54% of respondents are graduates, 38% are postgraduates and 8% are undergraduates. The majority of the respondents (43.29%) monthly income is Rs. 25000 – Rs. 35000, whereas a smaller number of respondents are below Rs. 15000 (13.41%) and between Rs. 15000 – Rs. 25000 (14.02%). Respondents monthly saving is less than 10% and 10% to 15% and similarly, an equal number of respondents do not save any of their income and very few save their income i.e., 15% - 20% and 20% - 25%. A number of dependants on respondents have either 1, 2, or 3 dependents and very few have 4 dependents.

Table 1: Socio-demographic profile result

Variables	Categories	Frequency	Percentage (%)
Gender	Male	77	46.95
	Female	87	53.05
Marital Status	Married	69	42.07
	Unmarried	95	57.93
Age	24 years & below	24	14.63
	25 – 28	81	49.39

	29 – 32	59	35.98
Education Level	Undergraduate	14	8.54
	Graduate	88	53.66
	Post-graduate	62	37.8
Monthly Income	Below 15000	22	13.41
	15000 – 25000	23	14.02
	25000 – 35000	71	43.29
	35000 & above	48	29.27
Monthly Saving	NIL	50	30.49
	Below 10%	56	34.15
	10% - 15%	47	28.66
	15% - 20%	4	2.44
	20% -25%	7	4.27
	25% Above	0	0
No. of Dependents	1	46	28.05
	2	65	39.63
	3	50	30.49
	4	3	1.83

To investigate the young employee’s approach towards saving and retirement planning, the future value of current savings is not determined by 97.56% of respondents. 41.85% of respondents have not given thought to the age of retirement whereas 32.32% favor to decide upon. The majority of the respondents (66.46%) disagree about the money requirement at the time of retirement and 65.85% of respondents disagree about the fact of investment options available for retirement. An almost equal number of respondents agree (42% and 8%) and disagree (15% and 35%) with the fact about cutting down on unnecessary expenses.

Table 2 shows the result to examine the determinants of saving and retirement planning after performing the Chi-square test. P-value is less than 0.05 which is significant at a 5% level of significance. Hence, Saving is dependent on all the determinants of retirement planning.

Table 2: Determinants of Saving and retirement planning

Determinants	Chi-square value	P-value
Retirement Age	804.12	2.2E-16
Money Requirement	796.11	2.2E-16
Enough Investment	653.74	2.2E-16
Future Value	617.82	2.2E-16
Cut down on unnecessary expenses	735.25	2.2E-16

The result of the correlation analysis is shown in Table 3; the identified determinants i.e the decision of Age of retirement, Money required post-retirement, Existing investment planning enough to cover future requirements, Future value of current investments, and social influence variables are highly correlated.

Table 3: Correlation of Determinants of retirement planning

Determinants	Retirement Age	Money requirement	Enough investment	Future value	Cutting down on unnecessary expenses
Retirement Age	1	0.935448	0.917266	0.857625	0.870072
Money requirement	0.935448	1	0.994737	0.927148	0.819582
Enough investment	0.917266	0.994737	1	0.949686	0.817508
Future value	0.857625	0.927148	0.949686	1	0.834835
Cutting down on unnecessary expenses	0.870072	0.819582	0.817508	0.834835	1

Table 4 shows the ranking of determinants, cutting down on unnecessary expenses, monthly income, deciding upon retirement age, education level, and age are the most impacting determinants for retirement planning.

Table 4: Ranking of determinants

Determinants	Minimum	Maximum	Average	Ranks
Gender	1	2	1.53	11
Marital Status	1	2	1.58	10
Age	1	3	2.21	5
Education	1	3	2.29	4
Monthly Income	1	4	2.88	2
Monthly Savings	1	4	1.67	7
No of Dependents	1	4	2.06	6
Retirement Age	1	5	2.85	3
Money requirement	1	5	1.62	8
Enough investment	1	4	1.46	12
Future value	1	4	1.61	9
Cutting down on unnecessary expenses	1	5	2.96	1

Conclusion:

The investigation of young employees’ approach towards the saving and retirement planning data revealed that savings are important but due to income level, and number of dependants it’s difficult to save a good amount of money every month. This study examined that the preference to cut down on unnecessary expenses, monthly income, deciding upon retirement age, education level, and age are the most impacting determinants for retirement planning. It has been observed that the need of the real estate sector employees is to be presentable and long working hours which has caused extended expenses on grooming and often eating outside which contributes to a major portion of expenditure irrespective of gender. The approach towards savings is impacted due to a lack of knowledge about financial products, the future value of current savings, Money requirements and retirement age as employees have not given thought to the future requirements being very long term in nature. Generally, people tend to replicate their circles or work environment behavior.

Individuals are increasingly responsible for their financial wellbeing along with their family members, so it’s essential to understand the urge for early savings. The retirement life for young employees doesn’t seem to be easy unless it is financially planned and executed systematically.

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