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The Influence of Socioeconomics, Financial Literacy, and Psychological Factors on Teachers' Retirement Financial Preparation

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Abstract

The objective of this study is to examine the relationships of socioeconomics, financial literacy, and psychological factors with teachers' retirement financial preparation. Retirement is a situation that all working individuals will face. Retirement has enormous implications not only for oneself but also families and the surrounding community. Teachers are not excluded from this phenomenon; thus, they need to have a high awareness of retirement financial preparations. The study used a survey approach through self-administered questionnaires for collecting data and the sample of the study consists of 410 secondary school teachers in Selangor, Malaysia, who were selected using random sampling. Data were analyzed using multiple regression analysis via IBM SPSS, Version 26. The findings showed the value of R squared is 0.332 which means socioeconomics, financial literacy, and psychological factors are simultaneously influential on teachers' retirement financial preparation. In addition, the findings also showed that financial literacy contributes significantly to the teachers' retirement financial preparation. Since financial literacy denotes a significant contribution to retirement financial preparation, various efforts should be made to raise awareness of retirement financial preparation among teachers. This study can help teachers realize and open their eyes and indirectly teachers will start planning their retirement financial preparations. However, in this study, the researcher only focused on school teachers only. Therefore, future researchers need to choose a wider range of respondents, considering that financial literacy knowledge in financial planning for retirement is very important for all groups.

Keywords: Socioeconomics, Financial Literacy, Psychological Factors, Retirement Financial Preparation.

Introduction

The era of globalization has brought many changes to countries around the world and it has positive and negative impacts on financial behavior. In recent years, many studies have begun to focus on financial behavior in various forms. Serious financial disability issues after retirement

have encouraged individuals to resume careers to increase income, not only to fund daily necessities but also to cover health costs. Failure to prepare early for retirement causes their lives to become unsecured (Hussain et al., 2017).

In a retirement readiness survey by Prudential (2018), two out of five respondents indicated that they did not know how much monthly financial allocation they would need after retirement. Pensioners who are poorly prepared for their finances are increasing rapidly; this illustrates a sharp decline in their financial well-being. Working adults are also unable to adapt to the increasingly complex terminology of the financial industry and do not want to acknowledge and learn it, causing them to fail to understand and own a financial product or service that is not burdensome.

This scenario occurs due to a lack of financial knowledge among working adults and a lack of awareness of post-retirement savings. The lack of knowledge of financial planning has negative effects such as insufficient income during older days because many households do not know the most basic economic concepts needed to make investments and decisions. As a result, individuals are burdened with debts such as mortgages, vehicles, education, and health, in addition to not having enough money to cover expenses during old age with the increasing living costs. These facts highlight the arising concerns and the awareness of the importance of retirement planning.

Therefore, this study has contributed to the literature on other variables that affect retirement financial preparation, such as socioeconomics, financial literacy, and psychological factors. This study also shows that financial literacy contributes significantly to an individual's financial management. Hence, like previous studies, this study can also be used as a guide to preparing for retirement finances from now on in order to ensure a good quality of life.

Literature Review

Retirement is a situation experienced by an employee, which entails a longer lifetime of a pensioner in the developed world, and the number of pensioners is increasing. Financial retirement planning (FRP) consists of a series of activities involving the accumulation of wealth for the needs of post-retirement (Gabriela et al., 2018). According to Lusardi (2017), retirement is considered a normative period in life that people highly expect. When it comes to retirement, ownership of wealth and income by retirees is a critical component.

Retirement is marked by several losses, such as activities, income, and identity. During a pensioner's retirement period, they will go through new phases in the framework of their life, including in terms of income, career activities, and social relationships. This is very closely related to a study by Satish et al (2018) which emphasizes that retirement preparation among future female retirees is very important because retirement is a different situation that all working individuals will go through and they need to prepare for it.

According to information from the Social Security Administration (2021), the retirement age is 67 years for employees born after 1960. As a much-anticipated life expectancy, an individual will spend more of their life in retirement than ever before. However, this puts huge financial pressure on pensioners and these tensions lead to the need for changes to be made in programs in order to reduce pensioners' spending and financial management for their future. The absence of a retirement plan and full reliance on post-retirement benefits may result in pensioners not being able to live their daily lives properly. In fact, Islam itself demands that its ummah manage their finances properly and use their property wisely and in a structured manner

(Hussain et al., 2017). Therefore, it is important for individuals to save for their retirement if they want to retire in the early sixties and even the fifties in tandem with the current trend.

However, a person with sufficient income later in life will be able to spend their retirement as they wish. For example, when older adults have health problems yet they have more income, they can acquire more appropriate and better treatment. Next, they are also able to equip and adapt to the environment to maintain a high quality of life. In conclusion, the importance of a good quality of life, especially during compulsory retirement, is emphasized. Therefore, financial management is very important as it is a process for individuals or families to plan their future.

Socioeconomics

Socioeconomics refers to the socioeconomic status of an individual or group on a certain socioeconomic scale, which is shaped from or a result of a combination or interaction between social and economic factors such as income, type of education, type of employment, and the environment of residence in society (American Psychological Association, Dictionary of Psychology). This definition is meaningful and can be used to distinguish between high socioeconomic groups and low socioeconomic groups. Factors determining the socioeconomic status of individuals include residence, education standards, employment, and parental income.

In today's age with a time of great economic change, the need to save for retirement is determined by the increase in the cost of living in the future and the increase in the elderly population (Annoni & Weziak-Bialowolska, 2016). Economic factors such as the cost of living in an area during a certain period also play a role in retirement planning. Financial planning depends on time and geography, and it is often associated with state policies and practices. Besides, each country is bound to develop its unique pattern of planning. Malaysia is the second fastest country to move towards an elderly country; therefore, in view of this trend, retirement risk management needs to be examined in a broader context. Furthermore, in Malaysia, the problems associated with the adequacy of savings for retirement among potential retirees can be considered alarming. The community in this country needs to prepare early for such a situation, especially when Malaysia reaches the status of a senior citizen or an aging country. In this regard, retirement risk management should be examined in the context of Malaysia's aging population.

Financial Literacy

Financial literacy is a fundamental knowledge of finance. Financial literacy, which works in tandem with financial education, is defined as a process in which people improve their understanding of financial products, services, and concepts so that they are empowered to make choices to avoid pitfalls and that they know how to help and take other actions to improve their present and long-term financial well-being (Agunga et al., 2017). Nonetheless, a new study by Lusardi (2017) in the Standards and Poor Global Financial Literacy Survey states that only 1 in 3 adults worldwide has knowledge of basic financial and economic concepts.

Financial literacy refers to the ability to make informed and effective decisions about the use and management of money such as obtaining adequate income, managing money, saving money adequately, investing well, and spending money wisely. Financial literacy is typically important to the whole household and society. According to Sundarasan et al (2016), financial literacy has a significant positive impact on financial management behavior. The higher the level of financial literacy, the better the behavior toward personal financial management. Besides, the

study by Sundarasan et al (2016) has also confirmed that testing has been done to examine the relationship between financial literacy with financial behavior and financial results.

Recently, several studies have discussed financial literacy and financial behavior. In the United States, many people nearing retirement carry more debt than previous generations (Lusardi & Mitchell, 2017). In conclusion, individuals make more financial decisions over their lifetime, live longer, and gain access to a new range of financial products. This trend shows a low level of financial literacy around the world, making financial literacy a priority for policymakers.

Financial Attitude

Financial attitude is defined as a person's state of mind, opinion, and judgment about finance. This is because it involves the attitude of individuals towards their behavior and their perception of their ability to control behavior. Financial attitude refers to the attitude towards money, which includes positive and negative attitudes. Financial attitude influences a person's spending patterns and control over money or financial matters. Financial management is said to be good and proper if conducted with a good and reasonable financial attitude. A few studies stated that financial attitude partially influences the conduct of financial management. Meli and Rediana (2018) also stated that financial attitude has a positive influence on financial management behavior.

Many studies have been carried out on financial literacy and the attitudes of youth, from high school to adulthood, both at national and international levels. Some studies have found a link between financial literacy and financial attitudes; however, the financial literacy of the younger group as a whole is relatively low (Lusardi, 2019). A more positive attitude of adults towards financial behavior has also been evidenced; the greater their perception of the expectations of parents, the stronger their perception and intention to carry out positive financial behavior. However, to manage finances effectively, financial knowledge alone is not enough as the influence of financial knowledge on behavior is also important in terms of one's financial attitude. Financial attitude was also found to have a positive impact on financial literacy. Based on the results reported by Albeerdy and Gharleghi (2015), financial attitude has a direct influence on financial literacy. The positive relationship between financial attitude and financial literacy proves that financial attitude is a determinant of financial literacy. In conclusion, there is a significant relationship between financial attitude and financial literacy because the results of past studies have mostly shown that financial attitude is the most significant variable compared to other variables.

Financial Education

Financial education is an inseparable dimension from financial literacy. The term 'financial literacy' or 'financial knowledge' and 'financial education' is often used interchangeably in the literature and media. Financial knowledge, ability, and mental cognition are the items found in financial literacy that can help individuals effectively manage their financial assets and resources for a happy life. Financial education can be expressed in three aspects, namely the correct understanding of the financial theory and products, assessment and bias in the financial environment, and the ability to use financial tools to complete capital planning. Therefore, financial literacy is deduced to be closely related to the education received by an individual.

According to Mahapatra et al (2019), financial knowledge is an important determinant and has a strong connection to personal financial planning. In addition, Salbiah et al (2016) also stated in her study that financial education influences financial management practices. In this regard, financial literacy increases with education; a more educated individual will be more financially knowledgeable. Results from the Health and Retirement (HRS) study have also shown that retirement seminars are very important and have a positive effect on people's incomes and low education. For instance, individuals with lower levels of education tend to not plan and save for retirement and they may have difficulty calculating their retirement needs when they are unable to do interest and compound calculations (Lusardi, 2019).

Individuals with a low-income level tend to plan their retirement wisely when equipped with financial literacy. On the other hand, individuals with a higher income level are more likely to know the basic characteristics of the retirement income system, regardless of their level of financial literacy (Lusardi, 2019). Individuals with higher income and education levels are also more likely to plan to retire and have a larger share of savings for retirement. Therefore, more studies focused on financial literacy and financial education have been carried out.

Psychological Factors

Psychological well-being is something multidimensional and is defined in many forms. Although psychological well-being generally has no single definition, there is a common consensus among scholars that psychologically healthy individuals should have positive emotions (e.g., happy and passionate), low negative emotions (e.g., fear and worry); are satisfied with the quality of life (e.g., work and family), and functioning positively (possessing autonomy, meaning, and purpose of life). Psychological well-being refers to the experience and optimal psychological functioning. The measurement of psychological well-being consists not only of positive feelings, negative feelings, and life satisfaction, but the notion of well-being in this regard is structured as a multi-dimensional variable that includes six dimensions of autonomy, mastering the environment, personal development, positive relationships with others, life goals, and self-acceptance.

Research related to the psychological and behavioral factors of retirement financial planning is still new; hence, there is little study of the psychological or socio-psychological influences underlying retirement financial planning. According to Satish et al (2018), compared to socio-demographic factors, studies on the influence of psychological factors on retirement financial planning are scarce; therefore, psychological characteristics and a higher level of knowledge may influence retirement financial planning, e.g., one's perception of any person, object, situation, or idea. Indirectly, an individual's view of life in other areas will influence their behavior towards retirement financial planning. Based on past literature, this dimension constitutes people's attitude to retirement, which includes future perspectives, locus of control, tolerance of financial risks, and clarity of one's retirement goals.

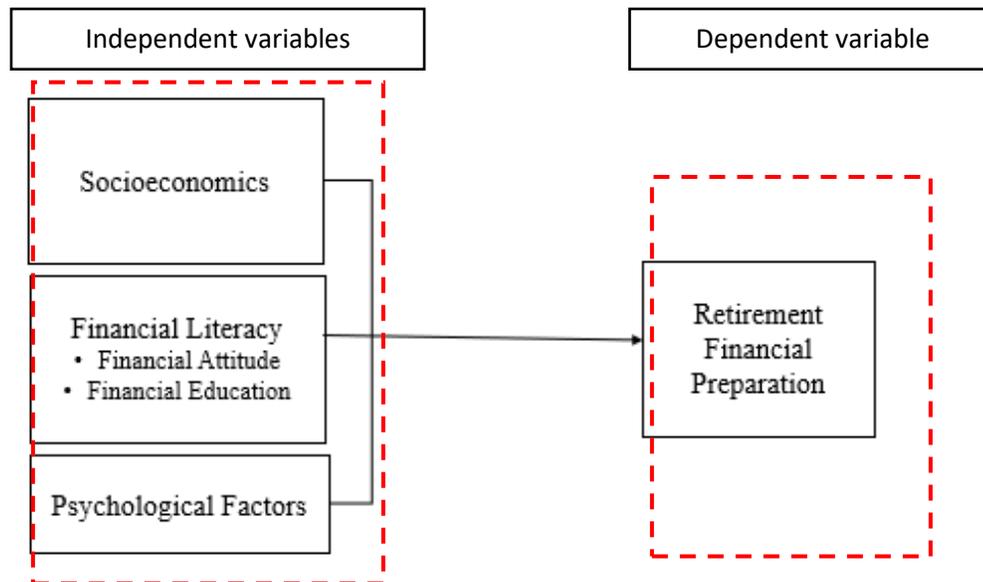


Figure 1: Conceptual Framework

Figure 1 illustrates the conceptual framework that was developed and adapted from the Model of Financial Planning for Retirement (FPR) by (Topa et al., 2018). The conceptual framework of this study explains the relationships of socioeconomics, financial literacy, and psychological factors with retirement financial preparation. Gabriela Topa and colleagues insisted that one must have financial literacy in retirement financial planning and they also hope that FPR-related studies will be added since there are still many unexplored areas. Therefore, the conceptual framework of this study includes three non-dependent variables and one dependent variable, as shown in Figure 1. The conceptual framework of this study was also designed while conducting a comprehensive study on retirement financial preparation and it has gone through several adjustments from two theories, namely the theory of behavior and the theory of rational choice, along with factors that influence the retirement financial preparation variable, namely socioeconomics, financial literacy, and psychological factors.

Methodology

Research Design

This study is completely based on a quantitative approach. Specifically, the design of the study is based on the survey method, which is suitable to be used to measure one's attitude, level of financial literacy of a person, and many more. The process of conducting the study involves two phases, namely the pilot study and the actual study. The pilot study was conducted to obtain the validity and reliability of the research instrument, while the actual study was conducted to answer all the research questions. To obtain the descriptive statistics for the respondents' profiles, the data analysis was carried out using IBM SPSS software version 26.0.

Sample

Sampling is a technique used by researchers to systematically select individuals from the population to be subjects in observations or experiments in research. The use of sampling from

a population allows data to be collected faster while saving costs compared to the collection of data from each member of the population.

The researchers selected a population of secondary school teachers in the state of Selangor, which consists of about 15,650 people. The sample of study consists of 410 teachers who were selected using random sampling. The researchers chose schools in Selangor because the state is a densely populated area; besides, potential respondents in the Selangor state are also easier to reach to gather information. In addition, Selangor is among the states with a greater number of schools compared to other states. Thus, the findings will be stronger to represent teachers in Malaysia.

Research Instrument

The research instrument uses a questionnaire combined from several sources to measure all the constructs stated within the conceptual framework. This is because the use of a questionnaire provides quick feedback, along with direct solutions from the respondents (Creswell, 2017). In addition, the answers or choices presented in the questionnaire also make it easier for the respondents to answer the questionnaire quickly and be more honest with their answers. Besides, using questionnaires saves management costs as it only requires printing and questionnaire design.

The questionnaire includes closed-ended questions as they are easy to analyze and for the respondents to give an answer by only choosing one of several answers given. The questionnaire uses instruments that were adapted from some original instruments to measure the research constructs outlined in the research model. These constructs include socioeconomics, financial literacy, psychological factors, demographics, and retirement financial preparation.

Data Collection Method

The study used a survey approach through self-administered questionnaires for collecting data. This approach was used to obtain information from questionnaires, particularly in relation to socioeconomics, financial literacy, and psychological factors for the population based on the selected sample. Data for the study were obtained through the modification of questionnaires from several previous studies. However, each part of the questionnaire was processed and modified according to the requirements of the study based on the reliability test and expert consensus.

Table 1
Cronbach's Alpha values

Variable	Number of items	Cronbach's Alpha value
Socioeconomics	8	0.737
Financial Literacy	21	0.813
Psychological Factors	10	0.714
Retirement Financial Preparation	29	0.775

A pilot study was conducted (n = 152) to determine the validity and reliability of the research instrument. The results of the pilot study in Table 1 show that all constructs measured

in the instruments have high reliability values ($\alpha \geq 0.70$). At the same time, experienced lecturers and experts in economic studies have also reviewed and provided their feedback on the importance, suitability, accuracy, and clarity of the content and meaning of each item in the instrument. The actual study was conducted on 410 secondary school teachers in the state of Selangor; therefore, there is a section that discusses the demographic backgrounds of the teachers based on their gender, age, position, years of teaching experience, teaching location, and marital status.

Descriptive Analysis Results

Table 2

Demographic Profiles

Demography	Frequency (N)	Percentage (P)
Gender		
Male	79	19.3%
Female	331	80.7%
Age		
20-29 years old	42	10.7%
30-39 years old	98	24.9%
30-49 years old	98	24.9%
50 years old and above	156	39.6%
Position		
DG 41	113	28.7%
DG 44	76	19.3%
DG 48	92	23.4%
DG 52	70	17.8%
DG 54	43	10.9%
Duration of Teaching Experience		
1-5 years	62	15.7%
6-10 years	29	7.4%
11-15 years	68	17.3%
16 years and above	235	59.6%
Teaching Location		
City	253	64.2%
Rural Area	141	35.8%
Marital Status		
Single	48	12.2%
Married	321	81.5%
Widowed (Male)	4	1.0%
Widowed (Female)	21	5.3%
Personal Income		
RM2,001-RM3,000	36	9.1%
RM3,001-RM4,000	34	8.6%

RM4,001-RM5,000	35	8.9%
RM5,001-RM6,000	28	7.1%
RM6,001-RM7,000	59	15.0%
RM7,001-RM8,000	82	20.8%
RM8,001 and above	120	30.5%

Table 2 shows the demographic profiles of the respondents in detail. Based on Table 2, the number of respondents comprising female teachers is 331 (80.7%), while the number of respondents comprising male teachers is 79 (19.3%). Most of the respondents who answered the survey were 50 years old and above (N = 156, P = 39.6%), while the rest of the respondents were 20 to 49 years old (N = 238, P = 60.4%). Respondents with DG41 positions were the majority in this study, constituting 113 respondents (28.7%). Next, the majority of the respondents in this study have more than 16 years of teaching experience, constituting 235 respondents (59.6%), and most of them were teaching in schools within the city (N=253, P = 64.2%). Table 2 also shows the marital status of the respondents. Most of the respondents are married, constituting 321 respondents (81.5%), and their personal income was RM8,001 and above (N = 120, P = 30.5%).

Inferential Analysis Results

Once the relevant data have been obtained, the researchers subsequently analyzed the data inferentially using SPSS software. During the analysis, the testing of the relationship effects of the independent variables on the dependent variable was based on socioeconomics, financial literacy, and psychological factors towards retirement financial preparation. The study used a multiple regression analysis to confirm whether or not the research hypothesis was accepted. Through multiple regression analysis, the study was able to test the effects of socioeconomics, financial literacy, and psychological factors on teachers' retirement financial preparation.

Objective: To test the effects of socioeconomics, financial literacy, and psychological factors on retirement financial preparation among teachers.

Table 3

Multiple Regression for Socioeconomics, Financial Literacy, and Psychological Factors.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	68.929	3	22.975	64.500	.000 ^b
	Residual	138.927	390	.356		
	Total	207.856	393			

a. Dependent Variable: Retirement Financial Preparation

b. Predictors: (Constant), Psychological Factors, Socioeconomics, Financial Literacy

Table 3 shows the ANOVA test results; F with 64.50 and a p-value of less than 0.05 ($p < 0.05$). This means that the regression model can be used to predict retirement financial preparation as it is significant with $p = 0.000$. Based on Table 3, the value of Sig. must be $p < 0.05$; thus, all three variables are significant, and the hypothesis of this study was accepted. As such, it can be deduced that socioeconomics, financial literacy, and psychological factors are

simultaneously influential on teachers' retirement financial preparation. Any changes to the socioeconomics, financial literacy, and psychological factors will also affect or impact the teachers' retirement financial preparations. Therefore, the hypothetical testing in this study was accepted and a significant effect was proven where the p-value of the three independent variables of socioeconomics, financial literacy, and psychological factors was 0.000, i.e., less than 0.05.

Table 4
Coefficient Values

Model	R	R Squared	Adjusted Squared	RStd. Error of the Estimate
1	.576 ^a	.332	.326	.59684

a. Predictors: (Constant), Psychological Factors, Socioeconomics, Financial Literacy
 b. Dependent Variable: Retirement Financial Preparation

Based on Table 4, the value of the coefficient of determination or R squared is 0.332, which comes from the determination of the coefficient value or R, which is $0.576 \times 0.576 = .332$. The magnitude of the coefficient of determination (R squared) is 0.332 or equal to 33.2%, which means that the independent variables, i.e., socioeconomics, financial literacy, and psychological factors all have an influence on the dependent variable (retirement financial preparation) with 33.2%. Meanwhile, the remaining 66.8% were influenced by external variables. For research using data surveys, R squared of 0.2 or 0.3 is deemed good enough because, whether the R-squared value for this regression model is 0.2 or 0.9, it does not change the interpretation since the researchers are only interested in the relationship between the independent variables and the dependent variable.

Table 5
Contributions to RFP

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	2.045	.168		12.178	.000
Socioeconomics	-.179	.039	-.213	-4.536	.000
Financial Literacy	.363	.028	.617	12.957	.000
Psychological Factors	.058	.027	.092	2.175	.030

Next, based on Table 5, the researchers found that financial literacy has the highest contribution of 36.3% to RFP compared to socioeconomics and psychological factors with 17.9% and 5.8%, respectively. This means that psychological factors have a very weak contribution to teachers' retirement financial preparation, while socioeconomics is the second factor that contributes to the retirement financial preparation of teachers. Therefore, financial literacy serves as the most dominant factor in the retirement financial preparation of teachers. The regression equation for this result is $Y = \text{Constant} + \beta_1X_1 + \beta_2X_2 + \beta_3X_3$, where Y denotes

Retirement Financial Preparation (RFP), X1 denotes Socioeconomic, X2 denotes Financial Literacy, and X3 denotes Psychological Factors. Therefore, the regression equation for this analysis is as follows:

$$RFP = 2.045 (\text{constant}) - 0.179 (SE) + 0.363 (FL) + 0.058 (PF)$$

In this regard, the researchers opine that if an individual acts rationally, they will choose an action that will provide real and proper satisfaction in their retirement financial preparations. This is because their choice will lead to the best result. The researchers also agree with the actions of an individual to make the best choice in planning retirement financial preparation based on income. Therefore, rationally, their decision will give the best outcome during their retirement.

Discussion

The findings showed that the contribution of financial literacy was 36.3%, which is the highest compared to socioeconomics and psychological factors. The financial literacy variable consists of two constructs, namely financial attitude and financial education. Next, psychological factors influence and contribute to retirement financial preparation by only 5.8%; however, the researchers found that the psychological and behavioral factors of retirement financial planning are at a very new level, and there is little study of the psychological or socio-psychological influences underlying retirement financial planning. Therefore, in this study, the researchers argue that psychological characteristics and a higher level of knowledge in financial planning for retirement planning can be attributed to the behavior of an individual. This is because each behavior involved in daily activities is dependent on the intentions as well as emotions of an individual.

The Theory of Planned Behavior has also outlined the close relationship between retirement financial preparation and financial attitude. Thus, individual intentions are determined by individual attitudes, subjective norms, and behavioral control. Accordingly, an individual will spend or plan to make an investment when they have taken into account their financial situation sensibly because investing is, in fact, a long-term return plan. Hence, this study has proven that financial attitude partially influences financial management and there is also a positive influence of financial attitude on financial management behavior. Overall, from the findings of this study, readers can compare and be convinced that financial literacy is very important when it comes to managing finances, especially in retirement financial preparations.

Conclusion

Based on the above discussion, this study has achieved its objective, which is to examine the effects of socioeconomics, financial literacy, and psychological factors on teachers' retirement financial preparation. The inferential analysis has answered the objective of this study. The study only focuses on secondary school teachers in the state of Selangor with a sample of 410 teachers, and the results have statistically proven that socioeconomics, financial literacy, and psychological factors have a positive and significant impact on the retirement financial preparation of teachers. The study has also proven that financial literacy, which consists of financial attitude and financial education, has contributed a high percentage to teachers' retirement financial preparation.

Additionally, this study has shown that financial literacy is an important part of retirement financial preparation because those who manage their finances well are able to ensure their financial well-being during retirement as they see fit. Furthermore, such retirement financial preparation is a long process and needs to be well-managed from now on. As such, the findings of this study can be used as the starting point for teachers to prepare for retirement in the future.

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