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### Financial Planning, Savings and Consumption among Retirees in Kuching, Sarawak

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**Abstract:** The paper investigates the link between retirement planning with their living lifestyles after retirement. The awareness of financial importance after retirement is found significant in most countries as reported by AEGON retirement readiness 2012 survey. However, the report also comments that most of the respondents do not put this awareness into practical action. There are also individuals who are too complacent and rely solely on the Governments' plans to cater for their retirement needs instead of preparing for the retirement on their own. Therefore, this paper would like to know whether the retirees in Kuching, Sarawak the largest state in Malaysia, can truly manage their fund before retirement to retire comfortable while at the same time support their dependants and pursue their hobbies after retirement. The results show that the retirees do the opposite from the traditional economic theory of individual or aggregate savings behaviour where the theory predicts people will save for their retirement with these concepts in mind. There is evidence in this research that zero retirement planning knowledge respondents pre-retirement saves less than those who had at least moderate knowledge. These ultimately adversely affect the retirees' ability to pay for their basic expenses or healthcare, as well as their other dependants under their care.

**Keywords:** Retirees, Financial Planning, Savings, Sarawak, Malaysia,

#### I. INTRODUCTION

This research endeavours to link retirement planning with their total savings as well as consumption expenses among retirees in Kuching, Sarawak. The paper would also like to gauge the financial literacy of these retirees. Since Sarawak still has a young population (33% below 40 years), hence the study is important that the current labour force be educated with the findings to help them in the later stage of their life.

There are many research that focus on financial literacy among students or workers but very few are investigating the real phenomena especially by associating the impact of their financial literacy level to their actual retirement period.

Current statistics show that the average working Malaysian is not saving enough for their golden years (NST, 2014) and too much dependents relying on their pension fund itself will also become a drawback for most retirees.

The key objective of The Central Bank of Malaysia (BNM) in promoting financial literacy are for a person's key life events throughout his or her life span which include school, tertiary education, entering workforce, starting a family, raising a family and finally the retirement period. In this stage he/she is supposed to be able to manage their retirement fund, support dependents, pursue hobbies/part time job and estate planning (Malaysia, 2011, p. 16) The minimum retirement age in Malaysia for public sector employees is at 60 years (minimum retirement age Act 2012) and could be even more for private sectors depending on the company itself.

There are currently two types of retirement schemes offered by the government which are Employees Provident Fund (EPF) and Government Pension Scheme. Furthermore, the Government of Malaysia has also emphasized the importance of financial literacy or capability into their major policies (Malaysia, 2011). This research would like to know whether the retirees in Kuching, Sarawak the largest state in Malaysia, can actually meet the objective of BNM in managing their fund at the same time support their dependants and pursue their hobbies after retirement.

Other specific objectives of this study are as follows:

1. To identify the level of retirement planning and demographic factors of the retirees in Kuching, Sarawak
2. To investigate the association between their retirement planning with the retirees' savings and consumption.

## **II. LITERATURE REVIEW**

The traditional economic theory of individual or aggregate savings behaviour supports the notion that people will decide on what to save and consume by looking at their current and future resources on what they would expect of their current and the future needs (Diamond & Hausman, 1984; Modigliani, 1966). This is also called as life-cycle theory or forward-looking theory which actually means that people will save for their retirement with these concepts in mind (Behrman & Knowles, 1999).

Retirement is at the stage of life where one desires to be financial independent and is not burdened by dependents. It is also reported that only one in 10 employees is willing to save 40% of their income for pension. In reality 67% of today's retirees continue to fund their children (HSBC, 2013). Besides that, most of them (85%) regret that they did not save more to realize their retirement aspirations.

Another report which was done in the first quarter of 2015 by Randstad Workmonitor state that 76% of employees in Malaysia believed they would have to work longer than the current retirement age in Malaysia at 60 years, compared to Singapore (59%) and Hong Kong (62%).

Retirement planning is mostly associated with investment with the objective of achieving financial independence. This may include having adequate amount of personal wealth to live for the rest of one's life without having to work for basic necessities.

Most of people either in public or private sector are not preparing enough for their retirement (Enchas, Malim, & Banchit, 2015). It is not surprising that those who had a higher education were more likely to have some plans and saving programs for their retirement compared to those who had lower level in education (Joo & Grable, 2005). However, there are findings where even the most educated people are still lacking in retirement plans (Lusardi & Mitchell, 2011).

A person's behaviour will have significant impacts in their his or her lives, and it is also true on their financial wellbeing (Atkinson & Messy, 2011, 2012). The behaviour of a person inevitably forms the overall attitude of him or her that their day to day preferences are acted upon from this. Therefore, the person is then manifested in his or her behaviour which include their thoughts before purchases are made, or whether they likely to pay their bills on time.

High retirement awareness is found significant in most countries as reported by AEGON retirement readiness 2012 survey. However, the report also comments that most of the respondents do not put these awareness into practical action. On another flip side, there are also individuals who are too complacent and rely solely on the Governments' plans to cater for their retirement needs instead of preparing for the retirement on their own (Yakooboski & Jennifer, 1997).

Age and gender also affect the retirement plans among pre-retirees. As people get older, they usually have lower debts and higher income for which the savings should be positively associated with age (Yoong, 2009). Women find themselves having limited opportunity to acquire sufficient fund who usually have lower income than men (Lusardi & Mitchell, 2008; Lusardi & Mitchell, 2011).

#### **IV. DATA AND METHODOLOGY**

Primary data were used in this study and the target population is 900<sup>1</sup> active members of retirees registered with the Sarawak PESARA Association (above the age of 56 (retirement age in 2005) or 58 (retirement age in 2009). The questions used in the survey were adapted from well known studies (Atkinson & Messy, 2011; Lusardi & Mitchell, 2007; Storey, Cheater, Ford, & Leese, 2009) had been distributed to the respondents.

The first section asked their personal demographic questions, such as educational attainment. This section also asks on the current financial status as well as their wealth accumulated. The second section comprises of multiple choice questions regarding their financial literacy. A total number of 194 questionnaires were returned but only 164 (18%) were accepted for analysis. A pilot study was also conducted to ensure validity and reliability of data before the final version was used for survey.

#### **V. RESULTS AND DISCUSSION**

The results of this research were analysed using descriptive statistics (Table 1), T-Test and ANOVA. Table 1 and 2 show the demographic profile of the respondents in this research.

**Table 1**  
**Profile of respondents**

<i>Demographics</i>	<i>Categories</i>	<i>Frequency</i>	<i>%</i>
Gender	Male	103	62.8
	Female	61	37.2
Marital status	Married	121	73.8
	Widowed	21	12.8
	Divorced	7	4.3
	Single	15	9.1
	Do not want to reveal	5	3
Education Level	No formal school	4	2.4
	Primary school	7	4.3
	SRP/LCE	36	22
	SPM/MCE	53	32.3
	Certificate	31	18.9
	Diploma/STPM	24	14.6
	Bachelor's Degree	5	3
	Master/PhD	4	2.4
Age	50 - 54	14	8.5
	55 - 59	17	10.4
	60 - 64	23	14
	65 - 69	21	12.8
	70 - 74	16	9.8
	75 - 79	9	5.5
	Above 79	5	3
	Do not want to reveal	59	36

Men (63%) constituted higher respondents as compared to women (37%) for this study. Many of the women asked were not suitable to be part of the survey since they have been housewives all their lives. 74 percent of the respondents are still married, widowed at 13%, divorced at 4% and single at 9%. The highest age group who responded was between 65 to 69 years, at 12.8%.

However, most of the respondents refused to answer question on their current age. In terms of their education level, most of the respondents were educated formally until SPM (Sijil Pelajaran Malaysia) or MCE (Malaysian Certificate of Education) at 32 percent. About 19% or 31 of them did pursue their study in certificate level especially in their respective line of work. Only 5.4% or nine of them did their Bachelors' and Postgraduate degree.

The low income bracket might be explained by the higher number respondents who did not pursue further formal education (Rodrigo, 2017) as shown in Table 2. Sixty seven percent of the respondents receiving lower income than RM2,000 per month, and only twenty eight percent of them have more than RM2,000 per month. This is a disturbing situation that may indicate high poverty level among the retirees

where those earning below than RM1,000 per month (26%) may be categorised as poor or hardcore poor in Sarawak.<sup>2</sup> 24 of the respondents fell in the bracket of M40 group (with a monthly income of between RM3,860 and RM8,319)

Consequently, the respondents also reported lower monthly expenses with most of their spending are below than RM2,000 (79%).

**Table 2**  
**Monthly income and expenses**

	<i>Categories</i>	<i>Frequency</i>	<i>%</i>
Monthly Income	RM1,000 and under	42	25.6
	RM 1,001 – RM2,000	67	40.9
	RM 2,001 – RM3,000	22	13.4
	RM 3,001 – RM 4,000	7	4.3
	RM 4,001 – RM5,000	10	6.1
	Above RM 5,000	7	4.3
	Do not want to reveal	16	9.8
Monthly Expenses	RM1,000 and under	83	50.6
	RM 1,001 – RM2,000	47	28.7
	RM 2,001 – RM3,000	15	9.1
	RM 3,001 – RM 4,000	5	3
	RM 4,001 – RM5,000	2	1.2
	Above RM 5,000	2	1.2
	Do not want to reveal	10	6.1

Meanwhile for current monthly expenses, majority of them spent less than RM1,000 (50.6%). And only 5% of the respondents spent more than RM3,000 per month. This may show that the retirees are cutting back on their spending

**Table 3**  
**Total savings in bank accounts and retirement planning knowledge**

	<i>Categories</i>	<i>Frequency</i>	<i>%</i>
Total Savings	RM10,000 and Below	81	49.4
	RM10,001 - RM40,000	13	7.9
	Above RM40,000	12	7.3
	Do not want to reveal	58	35.4
Retirement planning knowledge before retirement	Zero	28	17.1
	Moderate	114	69.5
	Very knowledgeable	22	13.4

From the table above, it shows that most of the respondents have estimated total savings in bank account at less than RM10,000 (49.4%). About 7% of them have total savings in their bank account greater

than RM40,000. For their retirement planning knowledge before retirement, 22 out of 164 respondents stated that very knowledgeable. However, most of them (69.5%) answered having moderate knowledge on retirement planning. They mentioned that most of this training were self-trained as there were no formal training provided by their employers during their employment period.

**Table 4**  
**Cross tabulation of total savings and retirement planning**

<i>Estimated of total savings in bank accounts</i>	<i>Retirement planning knowledge before retirement</i>		
	<i>Zero</i>	<i>Moderate</i>	<i>Very knowledgeable</i>
Below RM10,001	20	58	3
RM10,001 - RM40,000	1	9	3
Above RM40,000	0	6	6
Do not want to reveal	7	41	10

*Note:*  $\chi^2 = 26.248$ ,  $df = 6$ .  $p > 0.05$

It is also found that, there is a significant association between the total savings and retirement planning (Chi-square = 26.248, p-value > 0.05). Based on the cross tabulation above, 20 respondents had zero retirement planning knowledge and currently they have below RM10,001 in their bank account. Only 6 respondents who had very knowledgeable in retirement planning have total savings more than RM40,000. This clearly shows that the link between retirement planning knowledge is a significant indicator of having sufficient savings post retirement.

## VI. CONCLUSION

This paper seems to show that the retirees of Kuching, Sarawak do the opposite from the traditional economic theory of individual or aggregate savings behaviour where the theory predicts people will save for their retirement with these concepts in mind. The fact of the matter is that retirement planning knowledge plays a vital role in making sure that people retire with sufficient savings in their accounts. There is evidence in this research that zero retirement planning knowledge respondents pre-retirement saves less than those who had at least moderate knowledge. These ultimately adversely affect the retirees' ability to pay for their basic expenses or healthcare, as well as their other dependants under their care.

Education level also has an impact to a person's savings behaviour which also shows that educated society usually produces better future prospects for all aspects of financial and non-financial implication of their life.

Currently the world is becoming more competitive with economic well-being is substantially important in order for anyone to have a comfortable and safe post-retirement life. Employees in Malaysia must also come to realise that the Government will not be there to cater their retirement needs as in the past to the economic uncertainties and rising population.

Instead, drastic measures must be implemented by all employers and Government to ensure that each working individuals; be that they are currently employed by the Government or private sector, to be equipped

with retirement planning knowledge training at the very early stage of their employment. This is to ensure that by the end of the employable years, this inevitable group of people will not be another source of economic burden not only to themselves, but to the country as well.

### NOTES

1. The number of retirees registered is 6000 people but this was from the year the Association was first established in 1971 and was never updated for members who have passed away. Hence the number of active members is based on estimation for which the officers-in-charge assume about 50 percent accuracy (3000 members). Target population for the data in Kuching, Sarawak is then based on the percentage of workforce in Sarawak which is 30%; of which equals to 900 active members. Because the data were also not updated with addresses, opportunity sampling was used by asking them at various venues such as cafes, policlinics, association meetings and special conferences for members/retirees.
2. The federal poverty line guidelines for Sarawak defines the hardcore poor as those with household income of RM590 or less, while the poor are those with income of RM910 and below (Economic Transformation Programme (ETP)).

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