FINANCIAL LITERACY AND RETIREMENT PREPAREDNESS AMONG GENERATION Y EMPLOYEES: CASE STUDY OF MAYBANK BRANCHES IN KLANG VALLEY, MALAYSIA

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ABSTRACT

This study explores the relationship between financial literacy and retirement preparedness among Generation Y employees, with a specific focus on Maybank branches in Klang Valley, Malaysia. It addresses a significant gap in understanding how demographic factors, such as age, gender, marital status, education, and financial literacy—impact retirement planning behaviors within this cohort. Grounded in the Theory of Planned Behavior (TPB) and the Life-Cycle Hypothesis (LCH), the research aims to develop a comprehensive framework for analyzing the determinants of retirement preparedness in a dynamic financial environment. Data were collected from 357 employees using a quantitative approach, and Pearson correlation analysis was used to examine the relationships between the independent variables and retirement preparedness. The findings reveal valuable insights: while age and gender were expected to influence retirement preparedness, no significant linear relationship was observed between these factors. In contrast, marital status showed a modest but significant negative correlation, indicating that certain marital statuses face unique challenges in retirement planning. Furthermore, strong positive correlations were identified between both higher educational attainment and financial literacy with retirement preparedness, underscoring the critical role of education and financial knowledge in shaping retirement outcomes. Most notably, financial literacy emerged as a key factor, demonstrating a strong positive relationship with retirement preparedness, emphasizing the importance of financial education in enabling informed retirement decisions. The study contributes to the theoretical discourse by integrating TPB and LCH, offering a strong framework for understanding how attitudes, social norms, and perceived behavioral control influence retirement planning. Practical implications highlight the need for targeted financial education programs within Malaysia's banking sector to enhance long-term financial security for Generation Y employees.

Keywords: Retirement preparedness, generation y, demographic factors, age, gender, marital status, education, financial literacy

APPROVAL

This is to certify that this thesis conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, for the fulfilment of the requirements for the Doctor of Business Administration.

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DECLARATION

I hereby declare that the thesis submitted in fulfilment of the Doctor of Business Administration degree is my own work and that all contributions from any other person or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

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Signature of Candidate: **Date**: 3 February 2025

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LIST OF ABBREVIATION

AeU	Asia e University
AKPK	Agensi Kaunseling dan Pengurusan Kredit (Credit Counseling and Management Agency)
ANOVA	Analysis of Variance
C	C rating (Melbourne Mercer Global Pension Index)
CR	Correlation Analysis
DV	Dependent Variable
EPF	Employees Provident Fund
Gen Y	Generation Y
H	Hypothesis
HR	Human Resource
IV	Independent Variable
KWAP	Kumpulan Wang Persaraan
LCH	Life Cycle Hypothesis
N	Sample Size
N	Number (Used to denote sample size or quantity)
P	Probability (Statistical significance level)
RP	Retirement Preparedness
SS	Statistical Significant
TPB	Theory of Planned Behaviour

CHAPTER 1

INTRODUCTION

1.0 Background of Study

Retirement refers to the lifestyle that follows the decision to fully exit the workforce. To fully enjoy retirement, thoughtful preparation is essential. Individuals with higher levels of education generally possess greater financial knowledge. A person who is financially literate is more likely to develop a retirement plan. The correlation between having adequate retirement savings and financial literacy is well-documented (Browning & Lusardi, 1996).

1.0.1 Insufficient Savings in EPF

In Malaysia, government employees typically benefit from a pension scheme that provides a stable post-retirement income, with monthly pensions amounting to half of their last-drawn salary. This pension system alleviates concerns about meeting post-retirement expenses, offering a sense of financial security. Private sector employees contribute to the Employees Provident Fund (EPF), with 20% of their salary allocated to their EPF accounts 8% contributed by the employee and 12% by the employer (Employees Provident Fund [EPF], 2019).

Although this arrangement may initially seem to ensure adequate retirement savings, it can be misleading. Many employees mistakenly assume that contributing one-fifth of their salary to the EPF is sufficient for a secure retirement, without accounting for inflation and rising living costs. Recent criticisms of the EPF's performance suggest that its returns may not be robust enough to meet the growing financial demands of retirees. Moreover, employees often hesitate to invest their EPF contributions in potentially higher-yielding options, such as unit trusts, due to concerns about jeopardizing their EPF benefits. This reluctance reflects a broader issue: a lack of comprehensive understanding and strategic planning regarding EPF investments. To address these challenges, it is crucial to enhance financial literacy among employees and explore additional strategies for securing retirement savings.

Failing to take proactive financial measures early in life can lead to significant debt accumulation and financial difficulties later, which could severely impact one's quality of life during retirement. Adequate wealth accumulation is crucial for a secure retirement, a need that is particularly pronounced in developing countries like Malaysia (Chong et al., 2023). Effective retirement planning is essential for ensuring a comfortable post-retirement period. Relying solely on the Employees Provident Fund (EPF) may be insufficient due to rising living costs, inflation, and increasing healthcare expenses (Mustafa et al., 2023; Goh et al., 2023).

As living costs continue to escalate globally, individuals must approach retirement planning as a cyclical, multistep process that they regularly review and address promptly. Understanding the necessary steps to secure a stable retirement is crucial to mitigating the negative impacts of economic fluctuations and ensuring financial security in later years (Robertson, 2018). According to a report by the Life Insurance Association of Malaysia, younger generations often perceive retirement as a distant concern, feeling they have ample time to save. However, Ibrahim et al. (2012) found that employees aged between thirty and forty, who have accumulated substantial savings in their EPF accounts, generally feel well-prepared for retirement.

This situation is concerning, as many individuals over the age of 55 have not managed to save the required minimum amount in their EPF accounts by the time they reach retirement. In response, the EPF increased the targeted minimum savings from

RM196,800 to RM228,000 as of January 1, 2017. This amount was established as the minimum balance that members should have in their EPF accounts by age 55. The adjustment was made to account for rising living costs, increased life expectancy, and inflation. However, despite this policy change, awareness of the adjustment remains low. Recent data highlights that many older Malaysians are facing financial challenges during retirement.

For instance, a 2023 report from the Employees Provident Fund (EPF) indicates that a significant proportion of its members aged 54 and above have accumulated less than RM50,000 in their EPF accounts. Given the household poverty income threshold of RM1,000 per month, this amount would only sustain a household for approximately 4.2 years (EPF, 2023). Research further reveals that a substantial number of retirees face financial insecurity. Within ten years of retirement, about 70% of members who withdraw their EPF savings at age 55 have depleted their assets (Chai, Chin, Lee, Lum, & Yeo, 2019). Additionally, around 80% of workers nearing age 55 are projected to have insufficient funds to cover their post-retirement expenses (Arfudi, 2015). This situation highlights the need for Malaysian employees to begin planning for adequate retirement savings, as many struggle to save enough to meet their basic needs in retirement.

1.0.2 Increasing Life Expectancy

Between 1960 and 2017, Malaysians experienced significant increases in life expectancy. By 2017, the average life expectancy had risen to 72 years, with females living up to 77 years on average an increase of 40% over this period (Department of Statistics Malaysia, 2019). This rise in life expectancy has heightened concerns about retirement planning in Malaysia (Börsch-Supan, 1995). By 2020, approximately 3 million individuals in Malaysia were expected to be 60 years of age or older, with the number of people reaching retirement age annually increasing by about 10%. This trend necessitates the government's full attention to address the importance of retirement planning in Malaysia. Many of these individuals lack comprehensive retirement plans, including adequate medical coverage, which can make private hospital treatments prohibitively expensive. Additional challenges for future retirees in Malaysia include increasing life expectancy, higher living costs, rising medical expenses due to lifestyle diseases, inflation, and notably, insufficient EPF funds at retirement age (Kock & Yoong, 2011).

Rising healthcare costs significantly impact retirement preparedness, particularly as life expectancy increases and individuals face longer retirement periods. In Malaysia, Generation Y encounters the dual challenge of inadequate retirement savings and rising medical expenses, which demand careful financial planning for long-term security. As individuals age, healthcare needs escalate, and retirees must allocate resources for medical expenses, often underestimated due to inflation and evolving healthcare technologies. Failing to account for these factors may result in retirees depleting their savings prematurely, which underscores the importance of incorporating healthcare costs into comprehensive retirement plans. This issue is compounded by Malaysia's aging population and the associated financial vulnerabilities (A & I., 2023). Addressing healthcare costs as part of retirement planning is essential to ensure financial stability throughout the extended retirement years.

The increase in average life expectancy after retirement underscores the importance of starting retirement planning early. This issue is compounded by the lack of a comprehensive strategy and insufficient understanding of the significance of retirement planning. In retirement, Malaysians will have more time on their hands, making it essential to raise awareness about the importance of financial planning. Consequently, this study focuses on financial literacy and demographic factors to better understand how Generation Y in Malaysia plans for retirement. By addressing these areas, future retirees will be better equipped to manage their finances effectively.

1.0.3 Low Financial Literacy

A person's financial literacy can be enhanced through reading books, watching mainstream media, and participating in both formal and informal learning environments. Financial literacy is the skill of understanding basic money and business concepts. People with good financial literacy are better able to avoid unfair loan offers.

Financial mistakes often arise from incomplete knowledge and insufficient financial literacy. Low financial literacy and ignorance can impact the ability to save and secure a comfortable retirement. Factors such as a knowledge gap in personal finance, complex living conditions, the overwhelming number of financial decisions, and limited time to learn about personal finance contribute to financial illiteracy.

Financial literacy improves one's ability to manage day-to-day financial issues and mitigates the negative effects of poor financial decisions, which could otherwise take years to rectify (Börsch-Supan, 1995). Many individuals rely on financial advisors, and prior research indicates that numerous households are underprepared for retirement and will need to reduce spending after leaving their jobs. This issue is compounded by Malaysia's relatively small financial sector compared to larger industries like insurance companies or unit trusts. Financial planning companies in Malaysia often offer limited solutions focused on selling their products rather than addressing the comprehensive needs of their clients.

This situation is alarming, as individuals are responsible for managing their own financial security after retirement. Financial literacy is defined as the ability to effectively manage one’s finances through a sufficient understanding of personal finance concepts and information (Garman, Leech, & Grable, 1996). Financial literacy contributes to economic growth by affecting both the quantitative and qualitative aspects of the financial sector's development. Personal financial difficulties are often a result of inadequate financial literacy.

An expanding economy influences increases in national savings, financial development, reduced unemployment, and improved living standards. According to the Standard & Poor's Report (2016), only 36% of adults in Malaysia are financially literate, placing the country 66th out of 150 countries in the report. Without a fundamental grasp of financial principles, individuals are poorly equipped to make sound financial management decisions (Loke et al., 2022). Financially literate individuals can make informed decisions about borrowing, investing, saving, and other financial matters. Ignorance of financial principles can be costly.

For example, a lack of understanding of interest compounding can lead consumers to incur higher interest rates on loans, accumulate more debt, and spend more on transaction costs (Teh & Sapuan, 2018). Conversely, financial literacy provides numerous benefits, such as improved retirement planning and savings. Individuals with strong financial skills are more likely to diversify their investments across various projects to mitigate risk (Teh & Sapuan, 2018). The Malaysia Department of Insolvency (2015) reported that over 107,000 Malaysians were declared bankrupt between 2010 and 2015, a situation that may be linked to the country's low financial literacy levels (Tai et al., 2018).

These are the challenges that Malaysians currently face. Therefore, it is imperative to conduct this study to identify better solutions that may benefit policymakers, employers, employees nationwide, and Malaysian Generation Y. The upcoming generations of retirees will include Generation Y. In the United States, Generation Y, or Millennials, typically refers to those born between 1981 and 1996. In Malaysia, however, this generation is often defined as individuals born between 1985 and 2004 (Leaderonomics, 2020). This segmentation reflects growth patterns and technological advancements, which are tied closely to marketing and generational analysis.

Since generational categorization originated in the US, it’s essential to specify definitions when discussing age ranges across different regions. As of 2022, the Malaysian definition (1985–2004) places Millennials between 18 and 37 years old, while the US definition (1981–1996) places them between 26 and 41 years old. This study adopts Malaysia’s definition to maintain regional relevance and clarity.

This is a key period when individuals complete high school and enter the workforce. It was also a time when Generation Y embraced technology and had access to postgraduate studies. Notably, despite their longer lifespans, Generation Y or Millennials have accumulated less wealth compared to previous generations (Nimon, 2006). Many working adults do not consider retirement planning until they are nearing retirement age. However, starting to save for retirement at an early age is crucial, as delaying until closer to retirement may not be sufficient. Various factors contribute to this reluctance to plan (Chatterjee & Zahirovich-Herbert, 2010).

Research has also demonstrated a connection between financial literacy and retirement planning (Sekita, 2011; Lusardi & Mitchell, 2014). However, the measurement of retirement planning has flaws (Earl et al., 2015). The literature is dominated by various and sometimes dubious measurement scales, despite mounting evidence supporting the practicality of retirement planning (Earl, Bednall, & Muratore, 2015; Noone, Stephens, & Alpass, 2010). To ensure a worry-free retirement, individuals must carefully plan for their future. A substantial amount of funds is necessary to maintain a high standard of living after retirement.

Given that Generation Y has more time to prepare, they should begin planning for retirement as early as possible. This proactive approach suggests that individuals need to actively engage in retirement planning to effectively manage their retirement savings. When planning for retirement, it is essential to assess one's preparedness. This assessment includes having a thorough understanding of financial management and planning.

1.0.4 Ageing Population

Population aging is caused by a proportionate increase in the number of older individuals and a corresponding decrease in the number of younger individuals. This phenomenon results from longer life expectancy and lower fertility rates. Advances in medicine and higher living standards have contributed to longer lifespans in Malaysia. A study by Warshawsky (2015) found that half of individuals aged 25 to 71 had not saved enough for retirement, highlighting a significant issue.

As Generation Y becomes a dominant demographic group, retirement planning remains a critical concern. Idris et al. (2013) assert that workers who rely on their employers for retirement savings often end up less prepared for retirement themselves. Malaysians are also affected by this issue. Many lack the knowledge and understanding of the importance of retirement planning at a young age. Lusardi and