Factors Affecting Financial Planning for Retirement using Provident Funds in the Private Sector

Sonia Selvaraj[1], Nalinda Nuwan[1*]

[1]School of Management, Business Management School (BMS), Sri Lanka
*nalinda.n@bms.ac.lk

Abstract

This study investigates the factors that influence the financial retirement planning of private sector employees who utilize provident funds. The key findings of this study reveal that attitudes towards financial retirement planning, accessibility to information, risk tolerance, financial knowledge, and the willingness to engage in retirement planning significantly impact the process. A considerable number of participants expressed positive views about financial retirement planning, indicating an increasing awareness of its value and potential benefits. The availability of information was generally good, with individuals receiving advice from various sources. Furthermore, the study found that the presence and the number of dependents, as well as educational levels, influenced participants' perceptions of uncertainty in investment decisions and their commitment to retirement planning. Individuals without dependents tended to agree more with uncertainty, suggesting a higher propensity for risk-taking. University graduates exhibited higher levels of uncertainty but also displayed a stronger dedication to planning for retirement. These findings emphasize the importance of personalized financial advice that considers family dynamics and educational backgrounds to cater to the unique retirement planning needs of individuals.

Keywords: Retirement planning, Provident Funds, Private Sector

1. Introduction

1.1 Background of the study

Financial retirement planning is essential for a pleasant and secure retirement. It entails making financial decisions and taking steps to build up assets and income that will sustain your lifestyle once you stop working. Human lifespan has increased, and the proportion of retirees to those of working age is growing. Social security policy is increasingly focusing on pensions in the unofficial sector. As a result, as the population ages, there will be a greater demand for social security or retirement programs. Employers, self-employed individuals, employees in the public sector, private sector employees, and contributing family members make up Sri Lanka's labour force. Employees in Sri Lanka's public/private sector are required to retire at age 60.

Table 1. Growth of Sri Lanka's elderly population – 2001-2040

	2000	2020	2040 (projected)
Old Age Dependency	10%	18%	27%
Dependency (both the young and the old as shares of the remaining population)	55%	63%	76%

Source: De Silva, (2003); Gamaniratne, (2007)

According to De Silva's (2003) projections, the proportion of individuals aged 60 and above in Sri Lanka, denoted as the old age dependency ratio, is anticipated to rise from its current level of 10 percent to a 20 percent share by the year 2020. This stands in contrast to the South Asian average of 13 percent. Furthermore, it is forecasted that by 2040, nearly one-third of Sri

Lanka's population will fall within the 60 and above age bracket.

When a person who has worked for a long time decides to leave their job permanently, that stage of life is known as retirement. It is a period of change in life that may be joyful for some people but painful for others. In the area of social security, retirement planning and confidence have grown to be major global concerns (Helman, et al., 2015). Planning for unknown future expenses is necessary to prepare financially for retirement while maintaining a good mind set (Hanna, et al., 2016). People who are financially literate enough will make plans for their savings and achieve financial independence in time for retirement (Azwadi, 2013). The kind of information that the public needs and can understand about pension funding varies, according to Fan, Stebbins, and Kim (2021).

Promoting long-term financial sustainability may be more successful when behavioural change is seen to have an impact on both human and financial behaviour, particularly in terms of spending and saving ideas (Turnham, 2010). Any human conduct related to money might be considered financial behaviour. According to empirical studies, financial behaviour and financial literacy are strongly correlated in the US (Hershey & Mowen, 2000). People need to understand fundamental financial concepts like interest, inflation, and risk management in order to maintain healthy financial habits. Financial literacy is associated with greater retirement wealth among those who are approaching retirement, according to various studies (Afthanorhan et al 2020; Bateman, et al., 2018; Lusardi & Mitchell, 2007).

In Sri Lanka, research on retirement planning is lacking. Retirement planning involves setting aside sufficient money for retirement. Having access to 60-80% of one's yearly preretirement income throughout retirement years is considered to be having enough retirement wealth (Hanna, et al., 2016).

1.2 Research problem
Most nations have their own retirement plans that differentiate between workers in the public and private sectors (Kim & Hanna, 2015). Public sector workers are given a monthly retirement pension. However, private sector employees are not covered by this program. Most Sri Lankans prefer to put retirement planning last because they think they can rely on their Employees Provident Fund investments. Studies related to what influences how Sri Lankan Private Sector employees approach their retirement planning are limited.

1.3 Research Aim
The aim of this study is to investigate the factors influencing retirement planning behaviour in the Sri Lankan Private sector.

1.4 Scope
The study examines the attitudes, financial knowledge, and risk tolerance of provident fund-contributing employees in the private sector, as it relates to retirement financial planning.

1.5 Significance

This study will help workers who are approaching retirement age discover investment instruments that are available for retirement planning and assess if the returns from these assets are sufficient for their retirement. This study will be very useful to insurance and financial firms who are creating retirement solutions,since it will enable them to comprehend retiree needs and design their services accordingly. Also, this study may help all EPF and ETF contributors in general better grasp how to handle their EPF and ETF funds for effective retirement investment.

2. Research Method

2.1 Conceptual Framework

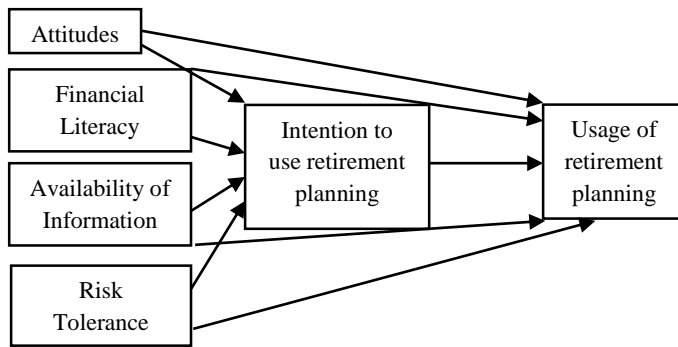The conceptual framework for this study is given below.

.

Figure 1. Conceptual Framework

2.2 Hypotheses

H1 – There is a relationship between attitudes and usage of retirement planning

H2 - There is a relationship between financial literacy and usage of retirement planning

H3 - There is a relationship between availability of information and usage of retirement planning

H4 - There is a relationship between risk tolerance and usage of retirement planning

H5 - There is a relationship between intention to use retirement planning and usage of retirement planning

H6 – There is a relationship between attitudes and the intention to use retirement planning

H7 – There is a relationship between financial iteracy and the intention to use retirement planning

H8 – There is a relationship between the availability of information and the intention to use retirement planning

H9 – There is a relationship between risk tolerance and the intention to use retirement planning

2.3 Data Collection

A structured online questionnaire was created using Google Forms to collect primary data. The questionnaire consisted of 3 sections with a total of 28 questions.

2.4 Population and Sampling
Employees aged between 40 and 50 years and working in the private sector in the Colombo area make up the population of this study. Purposive sampling was used to select a total of 100 suitable respondents.

2.5 Data analysis
SPSS software and Microsoft Excel were used for the data analysis. Descriptive statistical analysis and inferential statistical analysis (correlation and regression analyses) were conducted.

3. Findings and Analysis

3.1 Response rate
The author personally distributed and collected 100 questionnaires, achieving a commendable 100% response rate.

3.2 Demographic Data
Table 2 gives the demographic data of the respondents.

Table 2. Demographic Data

Demographic Question	Elements	Percentage
Gender	Male Female	50% 50%
Highest Educational Level	Primary Secondary Tertiary	10% 41% 49%
Monthly individual income	Less than 50,000 50,000–100,000 100,001-500,000 Above 500,000	24% 37% 32% 7%
No of Dependents	None 1 to 4 5 to 10	25% 65% 10%
Occupational	Executive	46%

Level	Non-Executive Managerial level	17% 37%

The majority of the respondents have a tertiary education, earn 50,000 to 100,000 rupees, have 1 to 4 dependents and work at an Executive level. Both genders are equally represented in the sample.

3.3 Reliability Analysis
Table 3. Cronbach's Alpha

Variable	Cronbach's Alpha
Attitudes	0.762
Financial Literacy	0.752
Availability of Information	0.746
Risk Tolerance	0.741
Intention to Use Retirement Planning	0.761
Usage of Retirement Planning	0.760

Based on Table 3, The results of the test revealed that the six variables have a high level of internal consistency, since the alpha values are above 0.7.

The high level of internal consistency enhances the validity and accuracy of the results, instilling greater confidence in researchers that the instrument adequately captures the factors impacting retirement planning.

3.4 Correlation Analysis

Table 4 gives the Significance (p Values) and the Pearson Correlation Coefficients between the independent and dependent variables.

Table 4. Significance (p-Values)

Hypothesis	Sig. (5%)	Pearson Correlation Coefficient	Results
H1	0.646	0.258	Rejected
H2	0.755	0.274	Rejected
H3	**0.000**	**0.436**	**Accepted**
H4	0.356	0.353	Rejected
H5	**0.000**	**0.533**	**Accepted**
H6	0.536	0.414	Rejected
H7	0.879	0.136	Rejected
H8	0.598	0.160	Rejected
H9	0.335	0.633	Rejected

Based on the correlation analysis results shown in Table 4, the following conclusions can be made.

H3 – "There is a relationship between availability of information and the usage of retirement planning" is valid at 5% Significance Level.

This finding aligns with the research of Duflo and Saez (2003), which emphasized the importance of information and social interactions in retirement planning decisions. This results suggests that the accessibility of information significantly influences the usage of retirement planning among private sector employees in Colombo.

H5 – "There is a relationship between intention to use retirement planning and usage of retirement planning" is valid at 5% Significance Level.

This outcome corresponds to a study by Bongini and Cucinelli (2019), that highlighted the significance of early retirement planning intention, particularly among college students. It suggests that a favourable intention to utilize retirement planning is likely to translate into

actual usage, as observed within the sample of private sector employees in Colombo.

Attitudes, financial literacy and risk tolerance did not have a correlation with the intention to use or the usage of retirement planning.

3.5 Impact of retirement planning factors on the retirement planning behaviour

Table 5. ANOVA

ANOVAª

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.827	4	4.457	8.193	.000 b
	Residual	51.679	95	0.544		
	Total	69.507	99			

The ANOVA table generated by SPSS provides valuable insights into the factors that influence financial retirement planning among employees in the private sector who utilizes the provident fund. Previous research studies have already established that variables such as attitudes, information accessibility, financial literacy, and risk tolerance play a significant role in shaping retirement planning behaviour (Gough & Niza, 2011; Tomar, Kumar, and Sureka, 2021).

The regression results in this study reinforce the findings of earlier research by demonstrating that the model employed accounts for a substantial amount of the variation observed in retirement planning utilization. This aligns with the conclusions drawn by Herrador, Hernande, and Topa (2021; Harahap et al., 2022) and Harahap et al. (2002), who have emphasized the significant influence of the independent variables considered in this study on individuals' retirement planning behaviour. The statistical significance of the F-statistic and its corresponding p-value further supports the credibility of the regression model.

To provide a more comprehensive analysis, it would be beneficial to supplement the ANOVA with a logistic regression analysis. By examining odds ratios and predicting probabilities, logistic regression can offer a deeper understanding of the relationships between the independent factors and retirement planning usage (Alkan et al., 2020; Bayar et al., 2020). This approach would enable a more nuanced examination of how attitudes, information accessibility, financial literacy, and risk tolerance impact the utilization of retirement planning among private sector employees who rely on the provident fund.

4. Conclusion

A sizable percentage of people have favourable opinions on financial retirement planning. This shows a rising understanding of the value of retirement planning and the possible advantages it may provide in assuring financial stability throughout the post-retirement era. Additionally, it was found that there is a lot of information about retirement planning, with a variety of sources and platforms offering direction and counsel (Thuku, 2013).

Participants without dependents often exhibit higher levels of agreement with uncertainty, indicating a better capacity for risk-taking, whereas participants with dependents, particularly those in the 5–10 dependents range, typically display lower levels of agreement due to more responsibility. In contrast to respondents with secondary education levels, those with university education often exhibit higher degrees of uncertainty, but a stronger commitment to retirement preparation. These findings highlight the significance of individualized financial counselling taking into account family dynamics and educational background to meet people's unique requirements in investing and retirement planning (Tamborini & Kim, 2020).

The main conclusion from the analysis of the factors influencing financial retirement planning using provident funds is that, even though attitudes, financial literacy and risk tolerance may not directly affect the use of retirement planning, the accessibility of information and people's intentions to use retirement plans both play important roles. The research findings reinforce the association

shown in other studies (Lusardi, 2008; Janor et al., 2016) by indicating that the use of retirement planning alternatives is highly influenced by the availability of information.

Furthermore, people's intentions to utilize retirement planning have a beneficial impact on their actual usage, demonstrating the value of building intention as a driving force. These findings highlight the importance of making information easily accessible and of encouraging the aim to increase the use of provident fund alternatives for retirement planning.

5. Recommendations

Based on the study's findings, a number of comprehensive recommendations may be made to improve provident fund retirement planning among 40–50-year old employees in the private sector. First and foremost, it is essential to give financial education top priority by creating focused programs that focus exclusively on retirement preparation. These programs have to address issues like risk management, long-term financial objectives, and investment methods while taking into account the educational backgrounds of the participants. People will be better able to make educated judgments about their retirement planning, if financial literacy is improved.

There is an opportunity for improvement in the accessibility of knowledge on retirement planning. Information that is thorough and accessible may be made possible by cooperative efforts between the private sector, financial institutions, and regulatory organizations. This may be accomplished by creating user-friendly websites, holding educational seminars or workshops, and disseminating informational on investment planning and guidance. Higher participation rates will result from greater knowledge of provident fund uses and their advantages.

It is critical to understand how people's views of uncertainty and commitment to retirement planning are influenced by family circumstances, such as the number of dependents. Providers of retirement planning services and financial consultants should take this into consideration individual requirement and obligations when providing guidance on retirement planning.

Additionally, fostering intention is essential since, according to this research, it has a big impact on actual usage. Employers might put in place initiatives that encourage participation in retirement planning among staff members. This may be accomplished by giving incentives like matched contributions, reminding employees on a regular basis of their retirement benefits, and sharing success stories of staff members who have successfully planned for retirement utilizing provident funds.

The success of retirement planning activities and programs targeted at private sector employees aged 40 to 50 must also be regularly evaluated and reviewed. This involves evaluating the programs' results, utilization rates, and satisfaction levels. Employers may think about conducting follow-up surveys or focus groups to get participant input and identify any obstacles or difficulties they could have in properly utilizing retirement planning alternatives.

The results of financial retirement planning for private sector employees between the ages of 40 and 50 can be improved by putting these ideas into practice. They will be more financially secure as a result, which will benefit their long-term wellbeing.

References

Afthanorhan, A., Mamun, A. A., Zainol, N. R., Foziah, H., & Awang, Z. (2020). Framing the Retirement Planning Behavior Model towards Sustainable Wellbeing among Youth: The Moderating Effect of Public Profiles. *Sustainability*, doi:10.3390/su12218879

Bongini, P., & Cucinelli, D. (2019). University students and retirement planning: Never too early. *International Journal of Bank Marketing, 37*(3), 775-797.

Gough, O., & Niza, C. (2011). Retirement saving choices: Review of the literature and policy implications. *Journal of Population Ageing, 4,* 97-117.

Herrador-Alcaide, T. C., Hernández-Solís, M., & Topa, G. (2021). A model for personal financial planning towards retirement. *Journal of Business Economics and Management, 22*(2), 482-502.

Lusardi, A., & Mitchell, O. S. (2007). Financial literacy and retirement planning: New evidence from the Rand American Life Panel. *Michigan Retirement Research Center Research Paper No. WP*, 157.

Tamborini, C. R., & Kim, C. (2020). Are you saving for retirement? Racial/ethnic differentials in contributory retirement savings plans. *The Journals of Gerontology: Series B, 75(4)*, 837-848.

Thuku, P. W. (2013). Influence of retirement preparation on happiness in retirement: A case of Nyeri County, Kenya. *International Journal of Education and Research, 1(3)*, 1-20.

Tomar, S., Kumar, S., & Sureka, R. (2021). Financial planning for retirement: Bibliometric analysis and future research directions. *Journal of Financial Counseling and Planning.*

Gamaniratne, N. (2007). *Population Ageing, Policy Responses and Options to Extend Retirement Coverage: Case Study of Sri Lanka*. Colombo: Institute of Policy Studies.

Helman, R., Copeland, C., & VanDerhei, J. (2015). The 2015 retirement confidence survey: Having a retirement savings plan a key factor in Americans' retirement confidence. *EBRI issue brief*, (413).

Hanna, S. D., Kim, K. T., & Chen, S. C. C. (2016). Retirement savings. *Handbook of consumer finance research*, 33-43.

Azwadi, A., Rahman, M. S., & Bakar, A. (2013). FinancialLiteracyand Satisfaction in Malaysia: A Pilot Study. *International Journal of Trade, Economics and Finance*, *4*(5), 319.

Fan, L., Stebbins, R., & Kim, K. T. (2022). Skint: Retirement? Financial hardship and retirement planning behaviors. *Journal of Family and Economic Issues*, *43*(2), 354-367.

Turnham, J. (2010). Attitudes to savings and financial education among low-income populations: Findings from the financial literacy focus groups. *Center for Financial Security WP*, *10*(7).

Hershey, D. A., & Mowen, J. C. (2000). Psychological determinants of financial preparedness for retirement. *The Gerontologist*, *40*(6), 687-697.

Bateman, H., Eckert, C., Iskhakov, F., Louviere, J., Satchell, S., & Thorp, S. (2018). Individual capability and effort in retirement benefit choice. *Journal of Risk and Insurance*, *85*(2), 483-512.

Kim, K. T., & Hanna, S. D. (2015). Do US households perceive their retirement preparedness realistically?. *Financial Services Review*, *24*, 139-155.

Duflo, E., & Saez, E. (2003). The role of information and social interactions in retirement plan decisions: Evidence from a randomized experiment. *The Quarterly journal of economics*, *118*(3), 815-842.

Harahap, S., Thoyib, A., Sumiati, S., & Djazuli, A. (2022). The Impact of Financial Literacy on Retirement Planning with Serial Mediation of Financial Risk Tolerance and Saving Behavior: Evidence of Medium Entrepreneurs in Indonesia. *International Journal of Financial Studies*, *10*(3), 66.

Alkan, Omer, Erkan Oktay, Seyda Unver, and Esmer Gerni. "Determination of factors affecting the financial literacy of university students in Eastern Anatolia using ordered regression models." *Asian Economic and Financial Review* 10, no. 5 (2020): 536.

Bayar, Y., Sezgin, H. F., Öztürk, Ö. F., & Şaşmaz, M. Ü. (2020). Financial literacy and financial risk tolerance of individual investors: Multinomial logistic regression approach. *Sage Open*, *10*(3), 2158244020945717.

Janor, H., Yakob, R., Hashim, N. A., Zanariah, Z., & Wel, C. A. C. (2016). Financial literacy and investment decisions in Malaysia and United Kingdom: A comparative analysis. *Geografia*, *12*(2).