



**Faculty of Economics and Business**

**The Impacts of Saving Habits on the Retirement Savings and Retirement Well-Being**

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# The Impacts of Saving Habits on the Retirement Saving and Retirement Well-Being

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## DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Malaysia Sarawak. Except where due acknowledgements have been made, the work is that of the author alone. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.



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## ABSTRACT

This research study covers a mixed method with the aim to examine habits that instigate the tendency of society to save and society's pre-retirement well-being. The issue matter of low personal rates that has been observed and reviewed across the globe over the years have triggered the interest of this research been conducted. Inspired by the aforementioned phenomena, this research is conducted with three (3) main objectives. Firstly, the research attempts to identify the elements that contribute to the generalisation of society's saving habits, by analysing society's socio-demographic and behavioural elements that influence their habits to save. Secondly, the research pursues to determine the elements that impact the society's tendency to save. Thirdly, the research aims to evaluate the elements that impact the pre-retirement well-being that the societies save in, by analysing their happiness, prosperity, good health, comfort and security. The Partial Least Squares Structural Equation Modeling (PLS-SEM) using SMART-PLS is selected to execute the statistical analysis of relationships under the research investigation. The outcome of the research study analysis revealed financial literacy, savings habits, financial risk tolerance, future time perspective, retirement saving and retirement well-being appeared as significant and meaningful (close correlations) and hence supported the decision of the outcomes via the active participation of the research study survey.

**Keywords:** Financial literacy, savings, habits, retirement, well-being

## ***Kesan Tabiat Menabung terhadap Simpanan Persaraan dan Kesejahteraan Persaraan***

### **ABSTRAK**

*Kajian ini merangkumi kajian penjelasan dengan tujuan untuk mengkaji tabiat yang menimbulkan kecenderungan masyarakat untuk berjimat dan kesejahteraan pra-persaraan masyarakat. Masalah seperti kadar bunga yang rendah yang telah diperhatikan dan dikaji semula di seluruh dunia sejak beberapa tahun yang lalu telah mencetuskan minat kajian ini. Diilhamkan oleh fenomena yang disebutkan di atas, kajian ini dijalankan dengan tiga (3) objektif utama. Pertama, penyelidikan untuk mengenal pasti unsur-unsur yang menyumbang kepada generalisasi tabiat berjimat masyarakat, dengan menganalisis unsur socio-demografi dan tingkah laku masyarakat yang mempengaruhi kebiasaan mereka untuk berjimat. Kedua, kajian ini bertujuan untuk menentukan unsur-unsur yang memberi kesan kepada kecenderungan masyarakat untuk berjimat. Ketiganya, penyelidikan ini bertujuan untuk menilai unsur-unsur yang memberi kesan kepada kesejahteraan pra-persaraan masyarakat ekoran berjimat dengan menganalisis kebahagiaan mereka; kemakmuran; kesihatan yang baik; keselesaan; dan keselamatan. “Partial Least Squares Structural Equation Modeling” (PLS-SEM) menggunakan SMART-PLS dipilih untuk melaksanakan analisis statistik sehubungan penyelidikan ini. Hasil analisis kajian penyelidikan mendedahkan celik kewangan, tabiat menyimpan, toleransi risiko kewangan, perspektif masa hadapan, simpanan persaraan dan kesejahteraan persaraan kelihatan penting dan bermakna (kaitan rapat) dan seterusnya menyokong keputusan keputusan melalui penyertaan aktif daripada tinjauan kajian penyelidikan.*

**Kata kunci:** *Celik kewangan, simpanan, tabiat, persaraan, kesejahteraan*

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## LIST OF ABBREVIATIONS

AVE	Average Variance Extract
CB-SEM	Covariance-Based Technique Structural Equation Modeling
CR	Composite Reliability
CV	Convergent Validity
DV	Discriminant Validity
DVR	Dependent Variable
FNL	Financial Literacy
FNL1	Knowledgeable about financial planning for retirement
FNL2	Know more than most people about retirement
FNL3	Confident in own ability to do retirement planning
FNL4	Know exactly where to obtain financial services
FNL5	Knowledgeable about Social Security, EPF and Socso
FRT	Financial Risk Tolerance
FRT1	Willing to risk losses
FRT2	Prefer investment that have higher returns even though riskier
FRT3	Growth potential of retirement investment
FRT4	Willing to make risky investments
FRT5	Never choose safest investment
FTP	Future Time Perspective
FTP1	Follow advice to save for rainy day
FTP2	Thinking how will live years from now in the future
FTP3	Distant future is too uncertain to plan for

FTP4	Future seems very vague and uncertain
FTP5	Pretty much live on a day-to-day basis
FTP6	Living for the moment and not knowing what tomorrow brings
GDP	Gross Domestic Product
GoF	Goodness-of-Fit
HTMT	Heterotrait-Monotrait Ratio
IVR	Independent Variable
NFI	Normed Fit Index
OECD	Organisation for Economic Cooperation and Development
PLS-SEM	Partial Least Square Structural Equation Modeling
RSQ	Research Study Question
RTS	Retirement Saving
RTS1	Made meaningful contributions to a voluntary retirement savings
RTS2	Have saved a great deal for retirement
RTS3	Accumulated substantial savings for retirement
RTS4	Made a conscious effort to save for retirement
RTS5	Plan to live life in retirement and save accordingly
RWB	Retirement Well-Being
RWB1	Have everything needed
RWB2	Satisfied with having everything
RWB3	Feel the way it is
RWB4	Satisfied with life
RWB5	Happy person
RWB6	Feeling fulfilled with life
RWB7	Uncomfortable with amount owed

RWB8	Constantly worried about paying debts
RWB9	Discuss with others about debts
SEM	Structural Equation Modeling
SFE	Self-Efficacy
SFE1	Difficult to stick to spending plan
SFE2	Challenging to make progress toward financial goals
SFE3	Use credit when unexpected expenses occur
SFE4	Hard time for solution when faced with financial challenges
SFE5	Worry about running out of money when retire
SRMR	Standardised Root Mean Square Residual
SVH	Savings Habit
SVH1	Follow monthly budget
SVH2	Prepare list before shopping
SVH3	Assure to purchase item that are reasonable price
SVH4	Not spending on item that is not required
SVH5	Always bring small amount of cash to prevent impulsive spending
SVH6	Never bring credit/debit card out
VIF	Variance Inflation Factor

# CHAPTER 1

## INTRODUCTION

### 1.1 Study Background

The standard of living and quality of life are the drivers of economic and social well-being. It is the responsibility of households to manage their expenses to meet their expected standard of living. Education, health care, and other factors affect a person's pleasure and are some traits to enhance the quality of life. As the costs of living rises and household income fails to keep up, the standard of living deteriorates. In light of this, it is critical to save money because the future cannot be predicted. Savings also protects and secures one's assets as precautionary spending such as medical expenses and unexpected loss of job.

Savings is essential for socioeconomic development as it often involves the well-being (prudential value or life quality) of a nation, region, community or just an individual. Savings are regarded as a pillar of numerous economic sectors in most countries. The increase in lifespan and longevity has also prompted a large increase in savings behaviour (Curtis et al., 2017). Low fund rate has also become a major monetary issue in Malaysia and has also been stated and shown that many Malaysians have insufficient retirement savings (Shagar, 2016).

Few examples of international countries around the globe that this can be related to are of the United States of America ("the U.S."), China, Ghana and others. The personal savings rates across the globe has been long been a serious concern. Looking at the savings rate of the U.S for instance, the saving rate of households has generally declined from the twentieth century into the twenty-first century, leaving many households

incapable of handling coincidental expenditures or the loss of employment and income during economic downturns (Bucks et al., 2009). Obviously both China and the U.S have displayed developing pattern. Household savings rate in China expanded from 30.7% in 2006 to 37.9% in 2014 while the U.S household savings rate additionally expanded from 4.72% in year 2004 to 5.77% in 2014 (OECD, 2017).

The Malaysian household savings rates in between 2006 and 2014 have unveiled an average of 1.6% (Kok, 2016). Nevertheless, the household savings rate of Malaysia is viewed as low in comparison with both China and the U.S. The declining pattern of the household savings rate of Malaysia is regarded as one of the major concerns of policymakers. About 88% of Malaysians had zero profit in their reserve funds, and Malaysia is endeavouring to be a developed country, yet the saving rate among Malaysians is relatively low (Shukry, 2014). This situation still is happening where the interest return on savings account is low and unfavourable (Gockel & Akoena, 2002). In precise, the society or individual saving benefits the entire nation not just for the benefit of the households as per se. Hence, knowledge is one component that influence society's saving behaviour as it is crucial in maintaining the growth of economy as it contributes to the benefit of households; government; financial institutions; banks; stakeholders; and others.

Retirement is a normative process of older workers with available saving plans and available pensions that are of ease for their financial burdens of retirement; and also referring to the lifestyle transition to the early adulthood of the individuals (Feldman & Beehr, 2011). Nonetheless, retirement is also linked to work stress and family in late midlife and that among these individuals of the midlife; which they are reported to have high levels of work stress that hamper the family life in their midlife (Coursolle et al., 2010).

Commonly, well-being is strongly associated to happiness and life satisfaction. It is also described as how an individual feel about his or her life in which is it a positive outcome that relates to good living conditions such as housing and employment which are fundamental to well-being. The positive experiences in high subjective well-being are vital because they make a person's life more enjoyable. Subjective well-being is described as a person's cognitive and it includes pleasant feelings; low levels of bad moods; and high life satisfaction (Diener et al., 2010).

## **1.2 Problem Statement**

The reality hits when people in the society have inadequate saving for retirement, do not have proper savings account and not saving enough to even last more than five (5) years after leaving the working world is quite alarming. In addition, 90% of rural households have zero savings while in the urban households, 86% do not have savings (Malaysian Digest, 2016). Due to the advances in the provision of healthcare to the general population, increased longevity among retirees within the society is predicted to have profound impacts on family and social dynamics (Abdul Hamid, 2015).

The society savings is significant as it also does affect the family's lifestyle and level of comfort, emergency withholds as well as the ability to meet financial goals and aims i.e. making purchases using cash rather than credit (Anong & Devaney, 2010; Hira, 1987; Lee et al., 2000). Ordinary savers have unexpected mental inspirations in comparison to borrowers in which the obligation is either a disappointment or a typical piece of regular daily existence and gets from adjusting different obligations owing monstrous measures of obligations for example charge or credit cards; student loans; individual advance or loan; housing loan; and vehicle loan (Livingstone & Lunt, 1993). An investigation in Malaysia demonstrated that when comparing certain ethnics or races

for instance Malays are bound to have their costs surpassing their pay and additionally tend to fall prey to credit card obligation (Loke, 2014). In some past examinations and studies that have been carried out, additionally affirmed that race is noteworthy in foreseeing individual monetary conduct (Garrison & Gutter, 2010; Hira et al., 2013; Leon & Pfeifer, 2017).

However in recent years, the COVID-19 pandemic has brought about significant economic challenges for households around the world. Issues that many households have faced include the loss of livelihoods and rising prices. Taking for instance, the COVID-19 pandemic has had a particularly negative impact on the economic activities such as declining income, job losses, and unable to saving money among the B40 group, the lowest income group in Malaysia (Thinagar et al., 2021). The COVID-19 pandemic's effects on the economy, which have had a significant influence on people's everyday lives and finances, have made life more difficult for many. To avoid being financially vulnerable, it is important to have adequate financial knowledge, practice sound financial habits, and have high levels of self-efficacy and self-coping. To achieve the greatest success in an eloquent life, one must have both psychological and material well-being (Fei et al., 2020).

Though there have been enormous efforts taken by the government of Malaysia to encourage and nurture higher levels of saving amongst its society, nevertheless the saving rate remains low and what is more distressing is most society are not earning adequate and sufficient income as most of their disposable income went into servicing multiple debts. This situation further leads to ability to save doubts which ultimately could cause harmful effect to the country's economy development. The younger generations are potentially at risk by the on-going socioeconomic condition if this generation are not planning and saving sufficiently for their retirement in the years to come. According to Bank Negara