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Examining Factors Affecting Malaysians' Retirement Confidence

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Abstract: *In 2023, the Employees Provident Fund (EPF) revealed that only 4% of Malaysians are financially prepared for a comfortable retirement (New Straits Times, 2024). This study aims to identify the key challenges Malaysians face in preparing for retirement, focusing on factors influencing their retirement confidence. Specifically, it examines how financial knowledge, behavior, attitude, digital financial literacy, resilience, inclusion, and parental influence impact individuals' confidence in their retirement prospects. This quantitative study will use purposive sampling to gather data from working adults in Kuala Lumpur, Selangor, Penang, and Johor, the top four GDP-contributing cities in Malaysia. Self- administered questionnaires will be distributed, targeting 400 valid responses. The collected data will undergo descriptive analysis to understand trends, while hypothesis testing will be conducted using binary logistic regression, where the dependent variable is the level of retirement confidence (high or low). Retirement confidence reflects individuals' belief in having sufficient savings, investments, and income to retire comfortably without the need to work. The insights from this study aim to inform policymakers, the financial sector, and the broader society, helping them develop strategies to address retirement challenges and improve retirement preparedness among Malaysians.*

Keywords: Financial Literacy, Financial Attitude, Financial Behaviour, Financial Knowledge, Financial Resilience

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1. Introduction

The RinggitPlus Malaysian Financial Literacy Survey (RMFLS) 2022 offers a comprehensive view of financial habits and attitudes across various linguistic and geographic demographics, revealing critical insights into Malaysia's financial landscape. The survey highlighted a concerning lack of focus on retirement planning, with many Malaysians exhibiting short-term financial management behaviors. It also underscored the vulnerability of individuals to financial shocks and their tendency to overspend, sparking broader discussions on the country's financial challenges (Singh & Malik, 2022). AKPK, a Bank Negara Malaysia (BNM) agency, corroborated these findings, emphasizing the significant impact of poor financial planning, which often leads to overwhelming debts.

The RMFLS survey reveals growing financial pessimism among Malaysians, with 32% of respondents feeling their financial situation has worsened since 2022. Emotional challenges such as anxiety, frustration, and embarrassment were prevalent, with more than half of the 3,211 respondents reporting these feelings (She et al., 2022a). Additionally, a cultural shift was noted, with 68% of respondents now turning to social media for financial advice, raising concerns about misinformation from unaccredited sources (Phung, 2022). The RMFLS survey also found that 71% of respondents save less than RM500 monthly, and 67% have emergency savings that would last less than three months, underscoring the urgent need for enhanced financial literacy and planning in Malaysia.

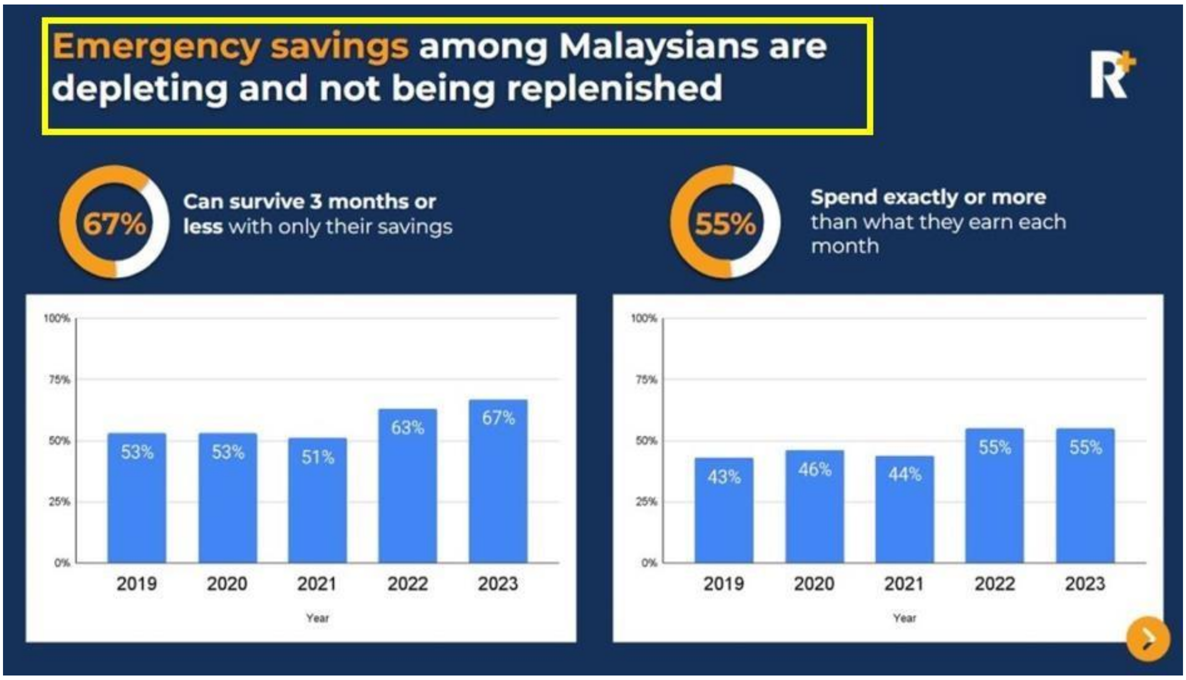

Figure 1: Emergency savings among Malaysians are depleting and not being replenished
Source: RinggitPlus Malaysian Financial Literacy Survey (RMFLS) 2022

2. Literature Review

In Malaysia, the demographic landscape is undergoing a significant transformation, with approximately 2.4 million individuals aged 65 and older, representing 7.4% of the total population (DOSM, 2021). Economically, the rising elderly population necessitates policies that address retirement planning, pension sustainability, and opportunities for continued workforce participation. The increase in life expectancy means that many retirees may spend almost as much time in retirement as in their working years, highlighting the critical need for thorough retirement planning and financial literacy. Unfortunately, many Malaysians face financial vulnerability, as spending often outpaces savings, leading to inadequate preparation for retirement (RinggitPlus, 2023). This financial insecurity is exacerbated by the ease of accessing credit and the prevalence of online shopping, which can promote impulsive spending (Rahman & Hossain, 2023).

2.1 Retirement Confidence

Retirement confidence represents an individual’s belief in their ability to achieve financial security and sustain a comfortable lifestyle during retirement. It is a sense of assurance rooted in proactive planning, consistent savings, and the perceived adequacy of financial resources to meet post-retirement needs. This confidence is shaped by an interplay of cultural, economic, social, and behavioural factors, each contributing to an individual’s preparedness. A key determinant of retirement confidence is financial literacy. Individuals who understand financial tools, investment strategies, and budgeting are better equipped to prepare for retirement.

Conversely, inadequate savings, over-reliance on uncertain income sources such as pensions or familial support, and a lack of structured financial planning can erode confidence. For instance, according to the RinggitPlus Malaysian Financial Literacy Survey 2022, 63% of Malaysians admitted they were unable to save more than RM500 monthly, reflecting insufficient financial readiness. Rising living costs, inflation, and increasing healthcare expenses exacerbate financial uncertainty, making early and consistent planning imperative. The Employee Provident Fund (EPF) data indicates that two-thirds of contributors aged 54 have less than RM50,000 in savings, far below the recommended threshold of RM240,000 to support basic post-retirement needs over 20 years.

Table 1: Retirement Readiness Data & Statistics

Retirement Readiness Data	Statistics
Malaysians unable to save	63%
EPF contributors with <RM50k	Two-thirds
Ideal retirement savings	RM240,000

Source: RinggitPlus Malaysian Financial Literacy Survey 2022, EPF 2022, EPF Guidelines

Retirement readiness among Malaysians is a growing concern, influenced by factors such as insufficient savings, an aging population, and evolving socio-economic dynamics. Recent data indicates that a significant portion of the population is unprepared for retirement, with many lacking adequate financial resources to sustain themselves in their later years. A 2022 survey by RinggitPlus revealed that 70% of Malaysians saved less than RM500 per month or did not save at all, marking a substantial increase from 52% in 2021. This trend is alarming, especially considering that the Employees Provident Fund (EPF) reported in November 2021 that approximately 3.6 million members had less than RM1,000 in their accounts. The EPF has recommended that individuals amass at least RM600,000 to ensure a comfortable retirement, a target that appears increasingly unattainable for many. The demographic landscape further complicates this issue. The Department of Statistics Malaysia projected that by 2030, 15% of the population will be aged 60 and above, classifying Malaysia as an aging nation. This shift places additional strain on social services and heightens the importance of individual financial preparedness.

2.2 Financial Attitude

Financial Attitude (FA) encompasses individuals' beliefs, feelings, and values about money, which shape their financial behaviour (Smith & Brown, 2023). A positive financial attitude encourages a proactive approach toward saving, budgeting, and investing, which are critical for retirement planning (OECD, 2022; Johnson & Lee, 2023). People with positive financial attitudes tend to prioritize future financial security over immediate gratification, resulting in better financial preparedness for retirement (Zulfaka & Kassim, 2021). For instance, mindful consumer behaviour—such as evaluating the ethics and environmental impact of purchases—has been linked to responsible financial decisions that enhance retirement confidence (Harris & Walker, 2023). Studies consistently show that individuals with a positive attitude toward money are more likely to adopt disciplined saving habits and engage in financial planning, thus boosting retirement confidence (Davis & Robinson, 2023; White & Miller, 2023).

H1: Financial Attitude has a significant positive effect on retirement confidence

2.3 Financial Behaviour

Financial behaviour refers to the actions individuals take to manage their finances, such as spending wisely, setting goals, saving, and budgeting (Patel & Green, 2023). Effective financial behaviour contributes to both short-term financial stability—by enabling individuals to manage daily expenses—and long-term financial well-being, including retirement preparedness (Anderson & Smith, 2023). A strong financial foundation built on proactive behaviour allows individuals to overcome challenges, seize growth opportunities, and align their actions with their financial goals, resulting in greater confidence (Martinez & Davis, 2023; Taylor & Brown, 2023). Studies have shown that individuals who actively save, plan, and manage their finances are better prepared for retirement and more resilient to unexpected financial shocks, which enhances retirement confidence (Anderson & Thompson, 2023; Johnson & Roberts, 2023).

H2: Financial Behaviour has a significant positive effect on retirement confidence

2.4 Financial Knowledge (Basic)

Basic financial knowledge includes understanding fundamental concepts such as budgeting, saving, and managing debt (Brown & Davis, 2023; Smith & Nguyen, 2023). It equips individuals with the tools to make informed decisions, avoid pitfalls like unnecessary debt, and build financial security over time (Chua & Chin, 2021; Hamid et al., 2023). For instance, knowing how to create a budget or set up an emergency fund is crucial for maintaining financial stability and planning for retirement (Martinez & Davis, 2023; Thompson & Wilson, 2023). Research has consistently shown that individuals with strong basic financial knowledge are more likely to engage in positive financial behaviour, such as regular saving and investment, which directly contribute to retirement confidence (Goyal et al., 2021). This underscores the critical role of financial education in empowering individuals to manage their finances effectively and achieve long-term financial goals.

H3a: Financial Knowledge (basic) has a significant positive effect on retirement confidence

2.5 Financial Knowledge (Advanced)

Advanced financial knowledge encompasses more complex financial concepts, such as investment strategies, risk diversification, and understanding financial products (Green & Baker, 2023; Patel & Johnson, 2023). This deeper level of understanding enables individuals to assess the trade-offs between risk and return, select appropriate investment options, and optimize their financial resources for retirement (Brown & Davis, 2023). For example, individuals who understand investment portfolios and annuities are better positioned to ensure their savings grow sustainably, even in the face of inflation and economic uncertainties (Smith & Nguyen, 2023). Studies indicate that advanced financial knowledge is linked to greater financial resilience and confidence, as it allows individuals to navigate complex financial decisions with ease (Liu et al., 2021; Goyal et al., 2021). This knowledge empowers individuals to make strategic choices that enhance their retirement preparedness, ultimately boosting their confidence in securing a stable financial future.

H3b: Financial Knowledge (advanced) has a significant positive effect on retirement confidence

2.6 Financial Resilience (Expenditure shocks)

Expenditure shocks refer to unexpected increases in spending caused by emergencies such as healthcare costs, accidents, or unplanned financial obligations (Green & Martinez, 2023). These shocks can erode savings and disrupt long-term financial planning, undermining an individual's confidence in their ability to sustain a comfortable retirement. Research indicates that individuals who experience significant unplanned expenditures are more likely to deplete their emergency savings, which directly affects their ability to meet future financial goals, including retirement planning (Erdem & Rojahn, 2022).

Furthermore, financial resilience—the ability to manage such shocks without jeopardizing financial stability—plays a critical role in mitigating their negative effects (Anderson & Lee, 2023). Individuals with low financial resilience are less likely to recover quickly from expenditure shocks, resulting in prolonged financial stress and reduced retirement confidence (Smith & Brown, 2023). Studies have shown that individuals who lack a financial safety net or sufficient savings are particularly vulnerable to these disruptions, often experiencing diminished confidence in their ability to manage future financial challenges (Lusardi & Mitchell, 2022).

H4a: Expenditure shock negatively impacts retirement confidence

2.7 Financial Resilience (Income shocks)

Income shocks occur when individuals face unexpected reductions in income, such as job loss, reduced wages, or retirement itself (Erdem & Rojahn, 2022). These shocks can severely disrupt financial planning by reducing disposable income available for savings and investments, leading to long-term financial insecurity (Green & Martinez, 2023). For retirees, income shocks can be particularly damaging as they rely on fixed incomes such as pensions or savings, which may be insufficient to cover unexpected costs.

Research highlights that income shocks reduce an individual's capacity to maintain consistent saving habits, further hindering retirement preparedness (Anderson & Lee, 2023). For instance, households that experience income loss are often forced to draw on retirement savings prematurely, undermining long-term financial stability and reducing confidence in sustaining a secure retirement (Smith & Brown, 2023). Additionally, studies have found that income volatility contributes to increased financial anxiety, making individuals feel less equipped to face retirement (Lusardi & Mitchell, 2022). Effective financial resilience strategies, such as maintaining diversified income sources or building financial buffers, are critical in mitigating the negative impacts of income shocks.

H4b: Income shock negatively impacts retirement confidence

2.8 Moderating Effect of Parental Influence

Parents moderate the relationship between financial attitude and retirement confidence by instilling positive attitudes toward money management through guidance, role modelling, and discussions on the importance of saving and financial planning. This influence strengthens the link between financial attitude and retirement confidence, as individuals with supportive parental influence are more likely to adopt disciplined saving habits and prudent financial behaviour, ultimately improving their retirement confidence (Fan & Henager, 2022; Khawar & Sarwar, 2021).

H5a: The moderating effect of parents on the relationship between financial attitude and retirement confidence

Parental influence acts as a moderator in the relationship between financial behaviour and retirement confidence by shaping financial habits early in life through observation and hands-on learning experiences. Parents who model responsible financial behaviour, such as budgeting and saving, enhance their children’s ability to engage in proactive financial management, thereby strengthening the connection between financial behaviour and retirement confidence (Goyal et al., 2023a; Wee & Goy, 2022).

H5b: The moderating effect of parents on the relationship between financial behaviour and retirement confidence

Parents moderate the relationship between basic financial knowledge and retirement confidence by providing foundational financial education through direct teaching or involvement in household budgeting and savings discussions. This early financial socialization equips individuals with essential skills to manage everyday financial challenges, reinforcing the positive impact of basic financial knowledge on retirement confidence (Schwab, 2022; Fan & Henager, 2022).

H5c: The moderating effect of parents on the relationship between financial knowledge (basic) and retirement confidence

Parental influence moderates the relationship between advanced financial knowledge and retirement confidence by fostering a learning environment that encourages the exploration of complex financial concepts, such as investing and risk management. Parents who provide access to financial resources or encourage critical thinking about financial decisions enhance the impact of advanced financial knowledge on retirement confidence (Wee & Goy, 2022; Chawla et al., 2022).

H5d: The moderating effect of parents on the relationship between financial knowledge (advanced) and retirement confidence

Parents moderate the relationship between financial resilience to expenditure shocks and retirement confidence by teaching their children the importance of emergency savings and contingency planning. Individuals with strong parental influence are more likely to develop strategies to manage financial shocks effectively, thus reinforcing the connection between resilience to expenditure shocks and retirement confidence (Khawar & Sarwar, 2021; Goyal et al., 2023a).

H5e: The moderating effect of parents on the relationship between financial resilience (expenditure shock) and retirement confidence

Parental influence moderates the relationship between financial resilience to income shocks and retirement confidence by instilling adaptability and resourcefulness in financial management. Parents who provide a safety net or model coping strategies during income fluctuations equip their children with skills to navigate financial instability, strengthening the link between resilience to income shocks and retirement confidence (Fan et al., 2022; Schwab, 2022).

H5f: The moderating effect of parents on the relationship between financial resilience (income shock) and retirement confidence

3. Related Theories

3.1 Life Cycle Hypothesis

The life cycle hypothesis is a fundamental concept in economics that explains how individuals manage their finances across different stages of life. Originally developed by economists Franco Modigliani and Albert Ando in the 1950s, this theory suggests that households make financial decisions based on their anticipated lifetime income, aiming to balance consumption and savings throughout their lives (Mustafa et al., 2023). The core idea is that people strive to maintain a consistent lifestyle, adjusting their spending in accordance with their current earnings and future expectations (Safari et al., 2021).

The life cycle hypothesis assumes that individuals engage in rational economic planning, carefully allocating their resources to ensure financial stability and a comfortable standard of living from their working years through retirement, thereby improving retirement confidence (Ando & Modigliani, 1963). As a cornerstone of economic theory, the life cycle hypothesis suggests that individuals aim to maximize utility across their lifetime by strategically managing consumption and savings (Fornero & Monticone, 2023). The hypothesis posits that individuals, driven by rational financial planning, save systematically during their working years to ensure a consistent standard of living in retirement (Safari et al., 2021).

3.2 Risk Aversion Theory

Modern portfolio theory explores this risk-return trade-off, emphasizing that investors should balance their asset allocation to maximize returns while keeping risk within manageable limits (Smith & Lewis, 2023). Risk-averse individuals tend to allocate a smaller portion of their assets to riskier investments, such as stocks, and prefer safer options like bonds or money market funds (Bajtelsmit et al., 2023). This conservative approach reduces the likelihood of significant losses but also limits potential returns, which could result in lower retirement savings over time, especially if these safer investments do not keep pace with inflation (Bellante & Green, 2023; Hariharan et al., 2023).

Empirical evidence supports the connection between risk aversion and retirement savings behaviour. Risk-averse individuals are less likely to invest in risky assets, preferring more stable options to safeguard their wealth (Gomez & Jones, 2023; Horneff et al., 2023; Smith & Walker, 2024). However, this conservative strategy can hinder the growth of their retirement portfolios, potentially leaving them with insufficient funds in the long term (Kumaraguru et al., 2022).

3.3 Conceptual model

The conceptual model for this study examines the interplay between financial attitude, financial behaviour, financial knowledge, financial resilience, and parental influence in shaping Malaysians' retirement confidence. Financial literacy is conceptualized as a multidimensional construct encompassing financial attitude, financial behaviour, and financial knowledge (basic and advanced), each of which is hypothesized to have a direct positive effect on retirement confidence. Similarly, financial resilience, defined by an individual's ability to manage expenditure and income shocks, is posited to influence retirement confidence by highlighting the importance of adapting to unexpected financial challenges.

Parental influence is incorporated as a moderating variable, emphasizing its role in shaping early financial attitudes, behaviour, and knowledge, which may subsequently affect the strength of the relationships between financial literacy, financial resilience, and retirement confidence. This model adopts a holistic approach, integrating psychological, behavioural, and contextual factors to provide a comprehensive understanding of the determinants of retirement confidence. By linking these constructs, the model highlights the dynamic nature of financial preparation for retirement, addressing gaps in the existing literature and offering a well-rounded framework for analyzing retirement confidence in Malaysia.

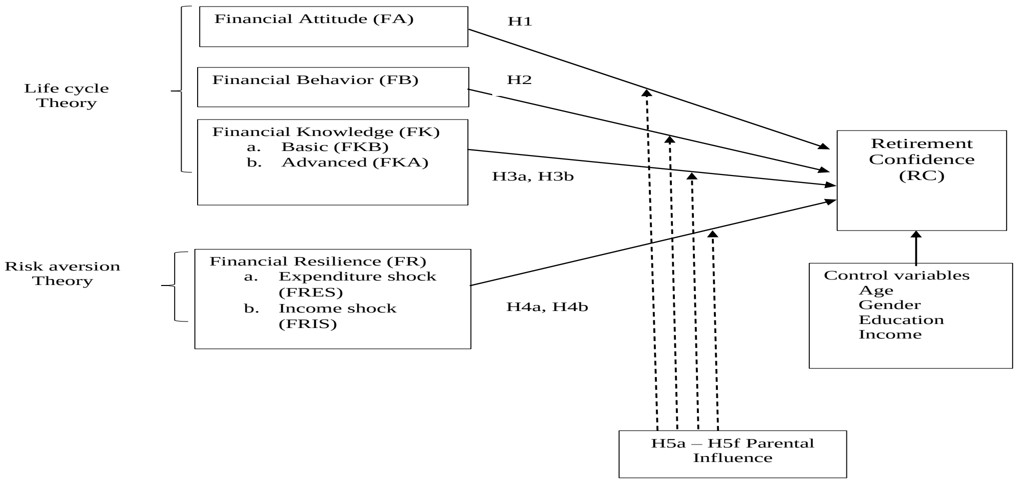

Figure 2: Conceptual Model
Source: (Author, 2024)

4. Conclusion

Building retirement confidence involves not just accumulating savings, but also developing the necessary skills and mindset to navigate the financial, emotional, and lifestyle changes that come with retirement (Chua & Chin, 2021). Financial literacy is crucial in this process, equipping individuals with the knowledge to manage their finances effectively, make informed investment decisions, and plan for potential risks, such as healthcare costs or income fluctuations (Liu et al., 2021; Hamid et al., 2023).

Parental influence also shapes financial behaviour, with parents playing a critical role in teaching financial skills and shaping attitudes toward money. These early lessons significantly impact how young adults manage their finances, particularly in preparation for retirement (Fan et al., 2022). Retirement confidence is a multifaceted concept that requires a combination of financial components, proactive planning, and a strong support system to ensure long-term financial security and retirement confidence.

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