ISSN: 2454-9940

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT

E-Mail :
editor.ijasem@gmail.com
editor@ijasem.org

www.ijasem.org

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT

ISSN2454-9940

www.ijsem.org

Vol 11, Issuse. 2 June 2020

RESEARCH PAPER ON ROLE OF FINANCIAL LITERACY IN RETIREMENT PLANNING

BY

Mrs. K. May Leena, MBA, *1, Mr. P. Kesava Giri, MBA *2,
Mr. G. Umamahesh, MBA;B.Ed. *3

ABSTRACT

Retirement planning, in a financial context, refers to allocation of savings and revenue for retirement. The goal of retirement planning is to achieve financial independence. It involves depositing money into a retirement account and purposefully saving money for future. It is a savings and investment plan that provides income during retirement. It is often created by companies or the government for the employees. A defined benefit plan and a defined contribution plan are both types of retirement plans.

The objectives of retirement planning are to maintain pre-retirement style of living, provision of goals, investing and monitoring. One reason individuals do not engage in retirement planning is they lack financial literacy. Financial literacy continues to be an important determinant of retirement planning. Being financial literate can help to manage their personal finances and plan ahead for life events such as retirement.

Though the act of retirement occurs in a day or week, the process of retirement planning necessarily unfolds over years. Retirement cannot be adjusted to overnight, but will instead require time and effort spent, in order that you successfully navigate crisis and grief processes and come to identify a particular retirement path that will be best for you. The efforts spent planning for retirement particularly for the financial aspects of retirement before it occurs will help insure that the retirement will be a smooth and painless process when it finally arrives.

INTRODUCTION

RETIREMENT PLANNING

Retirement planning is the process of determining retirement income goals and the actions and decisions necessary to achieve those goals. It includes identifying sources of income, estimating expenses, implementing a savings program and managing assets. Future cash flows are estimated to determine if the retirement income goal will be achieved. It refers to the allocation of savings or revenue for retirement. The goal of retirement planning is to achieve financial independence.

*1. Faculty, Department of Management, Siva Sivani Degree College, Sec-Bad-100
*2. Faculty, Department of Management, Siva Sivani Degree College, Sec-Bad-100
*3. Faculty, Department of Management, Siva Sivani Degree College, Sec-Bad-100

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT
ISSN2454-9940
www.ijsem.org
Vol 11, Issuse. 2 June 2020

In the simplest sense, retirement planning is the planning one does to be prepared for life after paid work ends, not just financially but in all aspects of life. The non-financial aspects include such lifestyle choices as how to spend time in retirement, where to live, when to completely quit working, etc. A holistic approach to retirement planning considers all of these areas.

The emphasis one puts on retirement planning changes throughout different life stages. Early in a person's working life, retirement planning is about setting aside enough money for retirement. During the middle of an individual's career, it might also include setting specific income or asset targets and taking the steps to achieve them. In the few years leading up to retirement, financial assets are more or less determined, and so the emphasis changes to non-financial, lifestyle aspects.

The process of retirement planning aims to:

- Assess readiness-to-retire given a desired retirement age and lifestyle, i.e., whether one has enough money to retire
- Identify actions to improve readiness-to-retire
- Acquire financial planning knowledge
- Encourage saving practices

Need of retirement planning:

- To help to maintain the required lifestyle
- To ensure self-sufficiency at retirement
- To provide for emergencies

Research Objectives

- To know why retirement planning is essential
- To know the importance of financial literacy for effective retirement planning
- To understand the level of awareness individuals, have regarding retirement planning.
- To study the factors that affects their retirement planning.

Research Design:

Type of Study: Quantitative research design with a cross-sectional or longitudinal approach.

Survey Method: Conduct surveys to gather data on financial literacy levels and retirement planning behaviours through a questionnaire.

2. Sampling:

Population: Individuals approaching retirement age or currently in retirement.

Sampling Method: Stratified random sampling to ensure representation across different demographic groups (age, income, education levels).

Literature review

Numerous studies emphasize the positive correlation between financial literacy and retirement preparedness. Lusardi and Mitchell (2011) found that individuals with higher levels of financial literacy were more likely to engage in retirement planning activities, such as saving and investing, leading to better overall preparedness for retirement.

Financial literacy plays a pivotal role in shaping individuals' savings behavior. Choi, Laibson, and Madrian (2011) demonstrated that those with higher financial literacy are more likely to save for retirement, understand the importance of early saving, and make informed decisions about contributing to retirement accounts.

Research has shown that financial literacy significantly influences investment decisions in the context of retirement planning. Van Rooij, Lusardi, and Alessie (2011) found that individuals with higher financial literacy levels were more likely to make appropriate investment choices within retirement accounts, such as asset allocation and risk management.

Despite the overall positive association, there are identified knowledge gaps and vulnerabilities. For example, Lusardi and Mitchell (2007) highlighted that many individuals lack basic financial knowledge, particularly in areas related to interest rates, inflation, and risk diversification, which can impact their ability to make sound retirement decisions.

The literature emphasizes the importance of financial education in improving financial literacy and subsequently enhancing retirement planning outcomes. Bernheim, Garrett, and Maki (2001) argued that targeted financial education programs can bridge knowledge gaps and empower individuals to make more informed decisions about retirement.

Behavioral aspects and psychological factors also play a crucial role in retirement planning. Ameriks et al. (2011) discussed how behavioral biases, such as procrastination and present bias, can hinder effective retirement planning, and how financial literacy can act as a mitigating factor by promoting self-control and better decision-making.

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT ISSN2454-9940
www.ijsem.org
Vol 11, Issuse. 2 June 2020

The literature recognizes demographic variations in financial literacy and retirement planning. For instance, Lusardi and Mitchell (2008) found that certain demographic groups, such as women and those with lower educational attainment, may face additional challenges in achieving adequate financial literacy and retirement preparedness.

Scholars have discussed the policy implications of the relationship between financial literacy and retirement planning. Yakoboski and VanDerhei (1996) suggested that policymakers should consider strategies to enhance financial literacy, such as incorporating financial education into school curricula and workplace programs, to improve retirement outcomes at the societal level.

Recent literature explores the role of technological innovations and digital tools in improving financial literacy for retirement planning. Hung, Clancy, and Peter (2017) found that mobile apps and online platforms can enhance accessibility and engagement, providing personalized financial information to users and potentially improving retirement planning outcomes.

Financial literacy is considered a key determinant of long-term financial security, especially during retirement. Studies emphasize the need for individuals to acquire and maintain financial literacy throughout their life course to make effective and adaptive decisions as they transition into retirement (Lusardi, 2019).

Here are reasons why retirement planning in India is pretty essential like any other goals:

1. Increase in life expectancy
2. Shortfall in Employer Funded Pension/Pension Funds
3. Change of social structures
4. Lack of social security system
5. Desire to remain contributor
6. Nuclear setups
7. Rest and relaxation

Why at an early age?

Many people assume they can hold off saving for retirement and make up the difference later. But this can be a costly mistake. Waiting too long to start saving can make it very difficult to catch up, and only a few years can make a big difference in how much you'll accumulate. This doesn't mean there's no hope if you haven't set aside anything for retirement yet. It just makes it all the more important that you implement a plan today.

Start saving as much as you can, as soon as you can. The earlier you start, the longer compounding can work for you. Starting later in life robs yourself of the chance of taking advantage of compound interest, an important part of saving for retirement.

There are many benefits that come with creating a retirement plan at a young age. Creating the retirement plan at a young age means more years to save for retirement, which often means that you will create enough capital to retire at a younger age. When this occurs, the option for early retirement can be attainable.

- Taking advantage of employee matching contribution programs
- Using monthly automatic withdrawal programs that can transfer funds from the primary bank account, to a retirement account.

How much is needed?

There really is no single number that would guarantee everyone an adequate retirement. It depends on many factors, including your desired standard of living, your expenses (including any medical costs) and your target retirement age. There are several key tasks you need to complete before you can determine what size of nest egg you'll need in order to fund your retirement. These include the following:

1. Decide the age at which you want to retire.
2. Decide the annual income you'll need for your retirement years. It may be wise to estimate on the high end for this number.
3. Add up the current market value of all your savings and investments.
4. Determine a realistic annualized real rate of return (net of inflation) on your investments.
5. If you have a company pension plan, obtain an estimate of its value from your plan provider.
6. Estimate the value of your social security benefits.

A retirement plan is a mixture of 5 things

1. Retirement goal planning is the first place to start
2. Investing for retirement is key
    - Create an emergency fund
    - Maximize workplace savings
    - Establish an IRA and a spousal IRA

- Establish an Automatic Investment Program for IRA
- Save in taxable investments

3. The next step is building an investment portfolio.
4. Make sure you gather important data about all your assets that will fund your retirement.
5. Implementation

What if you do not plan to retire?

- Loss of control of your future.
- Being in debts instead of planning for the future.
- Leave family with financial and emotional stress.
- Low disposable income
- Low employment growth
- The rising costs of living and the high rate of inflation
- A rising tax burden
- A lack of confidence in the future.
- Start relying on children

Why financial literacy matters?

Financial literacy is crucial to help ensure consumers save enough to provide adequate income in retirement while avoiding high levels of debt that might result in bankruptcy and foreclosures. A study from financial services company TIAA-CREF showed that those with high financial literacy plan for retirement and in essence have double the wealth of people who do not plan for retirement. Those with lower financial literacy tend to buy on credit, and are unable to pay their full balance each month and end up spending more on interest fees.

The basic financial literacy has not moved forward and that can derail retirement planning. This is especially true when savings have to be used to replace not just earnings but also to address debt repayments. Only about a third of workers (34%) have a basic understanding of interest compounding, inflation and risk diversification. Financial literacy is a very strong predictor of retirement planning around the world. A lack of financial literacy and incorrect assumptions about the generosity and eligibility conditions of retirement programs can lead workers to plan to retire at ages that are either too young or too old. And even the many retirement calculators now available still require some basic levels of financial knowledge. Consumers are not adequately educated to make decisions to choose among different product options offering varying interest rates and maturities.

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT ISSN2454-9940

www.ijsem.org

Vol 11, Issuse. 2 June 2020

There is a need to arm workers with the financial knowledge they need to manage their finances, including retirement savings. Being financial literate can help to manage their personal finances and plan ahead for life events such as retirement.

Financial literacy makes a person

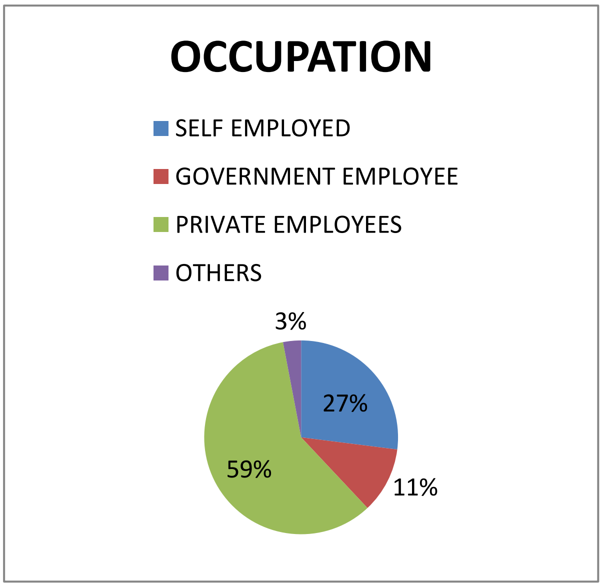
- Alert
- Financially independent
- Know about various investment products/avenues
- Strong and confident about future
- Reducing debts before retirement age
- Initiate savings and making the most of superannuation savings

Benefits of retirement planning:

- It helps to maintain desired lifestyle during old age
- Helps to plan for key life stages events leading upto retirements
- Provides financial security to you and your dependents
- Enables to make the best use of your hard earned money post retirement
- Cover any contingencies arising from uncertain events which can compromise ability to meet your financial goals

DATA ANALYSIS

1) OCCUPATION

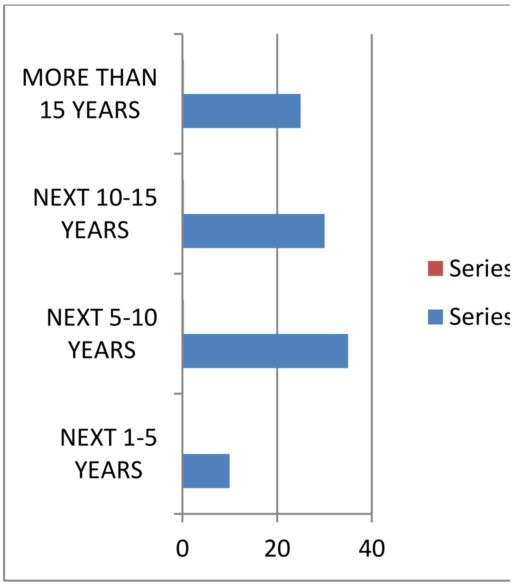


(50 RSPONDENTS)

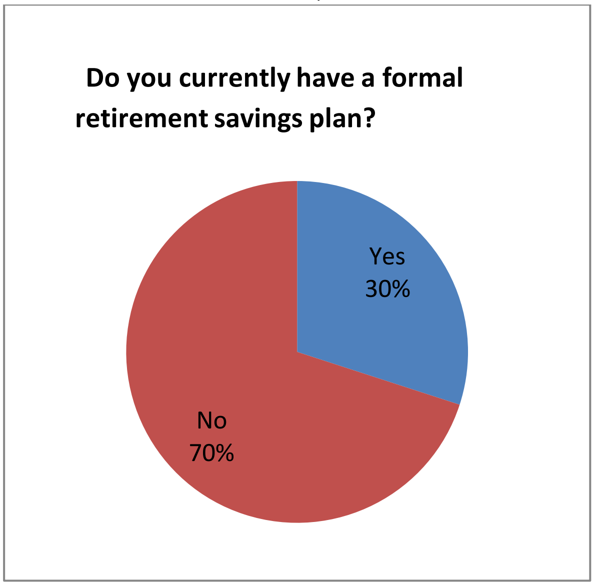
From the data

2) What age you plan to retire?

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT
ISSN2454-9940
www.ijsem.org
Vol 11, Issuse. 2 June 2020

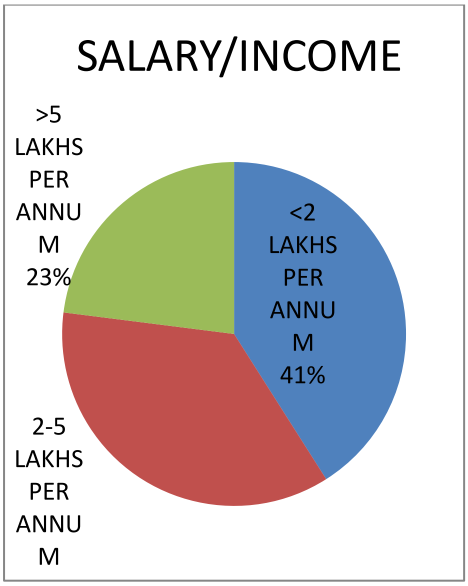


(50 RSPONDENTS)



(50 RSPONDENTS)

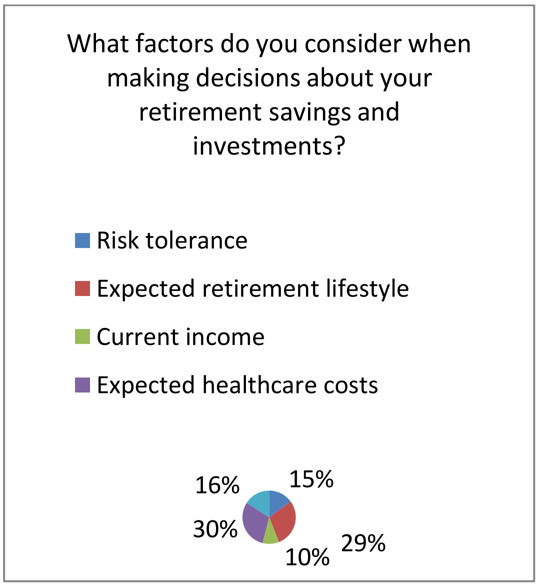
3) Salary/Income:



(50 RSPONDENTS)

4) Do you currently have a formal retirement savings plan?

5) What factors do you consider when making decisions about your retirement savings and investments?



(50 RSPONDENTS)

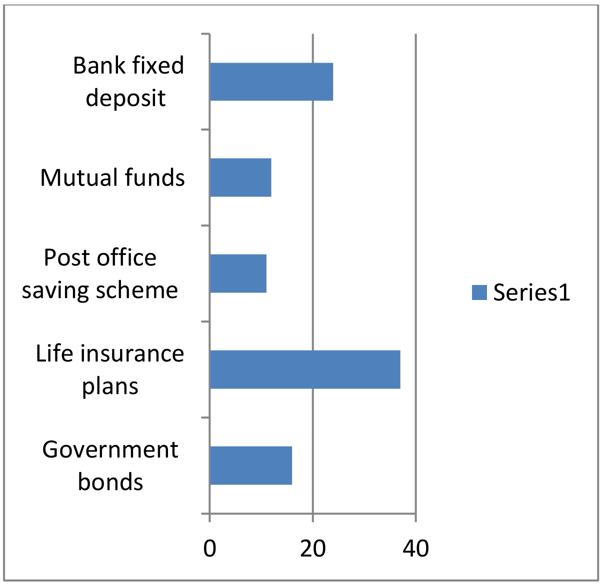
INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT

ISSN2454-9940

www.ijsem.org

Vol 11, Issuse. 2 June 2020

6) Which are the secured plans you prefer to have investment in?



(50 RSPONDENTS)

Findings

1) It has also been seen that the level of financial literacy for retirement planning varies with occupation and qualification among individuals, as individuals having private jobs i.e., 59% of the total are more involved with their retirement planning and graduates and postgraduates are likely to focus more towards retirement as compared to others.
2) Out of the total 49% of individuals save 10-25% of their annual income for their retirement.
3) 93%of individuals prefer to save for retirement and out of that only 58% have started saving for it. While remaining i.e., 41% haven't planned yet while some of them have ongoing loans and other family expenses.
4) Future and present needs of family and healthcare are the major affecting factors of the individual's retirement planning and maintaining an income stream after retirement is the major concern for the individuals to save for their retirement.
5) Out of individuals those who prefer secured investment, 70% individuals are more likely to invest in life insurance plans and 55%to invest in bank fixed deposits.

REFERENCES:

Lichtmacher, M. (2019). Regulating Retirement: Understanding the Impact of New Best Interest and Fiduciary Standards on Retail Investors. . *Mary's LJ*, *50*, 1059

McGrattan, E. R., & Prescott, E. C. (2011). *On efficiently financing retirement*. Federal

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT
ISSN2454-9940
www.ijsem.org
Vol 11, Issuse. 2 June 2020

Reserve Bank of Minneapolis, Research Department

Hershey, D. A., Jacobs-Lawson, J. M., McArdle, J. J., & Hamagami, F. (2007). Psychological foundations of financial planning for retirement. *Journal of Adult Development*, *14*, 26-36

Clark, R. L., Morrill, M. S., & Allen, S. G. (2012). The role of financial literacy in determining retirement plans. *Economic inquiry*, *50*(4), 851-866.