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A Study on Relationship between Psychological Factors and Retirement Financial Planning

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ABSTRACT

No doubt, income during working age is the most important factor shaping post retirement wellbeing of an individual. However, studies show that within same income group people tend to develop quite different post retirement well being status. A large number of employees are not able to add any significant amount for their retirement specially when they could have done it while working. There are others who are able to accumulate wealth but their funds get eroded very quickly in the beginning phase of retirement life due to inflation or emotional expenses. Yet there are people who consistently manage to set apart some funds for retirement and even after retirement, they manage to sustain these savings while receiving regular incomes.

While most of the studies in the realm of retirement planning have worked upon demographic variables to analyze these differences, this study is an attempt to explore relationship between psychological variables and retirement planning behavior. Five psychological variables cognitive condition, goal setting, emotional stability, future orientation and retirement attitude were taken into account to predict retirement planning behavior. Analyses demonstrate that psychological factors play imperative role in retirement planning practices followed by individuals. Consequently, this study contributes to realistic and useful implication for retirement financial planning.

Keywords: Cognitive condition, emotional stability, future orientation, retirement attitude.

INTRODUCTION:

In the age of post liberalization era when nuclear families have become norm for society and defined benefit pension plans are just matters of past, retirement financial planning is an important affair of everyone's life. The way individual make financial decision during their working life would surely pave the way for level of comfort in post retirement life. Thus in the present financial set-up an individual is himself accountable for post retirement wellbeing. Lack of appropriate retirement planning may tap an individual into longevity and inflation risk. Maintaining same standard of living as pre retirement and financial independency are the major concerns for many in post retirement life. Although these concern are not impossible to manage but require different kind of approach on individual's own part.

A successful retirement financial planning is the outcome of not only financial factors but non-financial factors too. Income of individual, financial inheritance, earning members in family and financial responsibilities are some of key financial factors that have great bearing on retirement financial planning intensity. Some demographic factors such as age, education and job profile also explain a lot about retirement planning behavior. Moreover, there are psychological factors that intervene with financial & demographic factors and magnify or contract their effect on retirement planning process. Thus studying psychological factors and their apparatus may be a great help to strengthen retirement preparedness.

Various efforts have been made to identify variables that affect saving pattern and long term financial planning by economist and financial professionals but there are only few notable research work conducted by psychologist (Furnham and Argyle, 1998). In the field of long term financial planning, psychologist work out on experimental techniques to figure out contributory and corresponding relationship among different variables. Previous studies (Lusardi and Mitchell, 2007) reveal that only a small proportion of retirees have asset more than double of their pre retirement annual earnings. This means majority of people are failing to prepare themselves for retirement, but why is it so? What psychological factors differentiate planners and non-planners ? Studying psychological traits of population ranging from planners and non planner may help in improving retirement planning activities in general.

LITERATURE REVIEW:

Hershey (2004) proposed that various factors that influence investment and saving pattern of individual could be classified into four main categories, psychological factors, Socio-cultural norms, task characteristics and financial resources. Integration of these four variables decides outcome of planning, saving and investment process. Interestingly some of these factors are rigid and difficult to change but some factors may change with time and experience while others can be changed easily by proper education and learning (Van Rooij et al 2011). Financial educational programs must be developed in customized way considering the gap between psychological variables.

Retirement financial planning studies would not yield desired result if conducted in an isolated form without considering other interfering domain such as social dynamics, health, family structure, psychology, work etc (Feldman, S. K. 2000). It requires an interdisciplinary approach to track retirement planning at broader level. Models that incorporate psychology, sociology, physical fitness along with finance are better competent to predict saving and investment behavior of workers.

Retirement planning is process of smoothing consumption and investment so that pre & post retirement standard of living can be made even. The goal of retirement planning is not only to finance survival but also to endow with social participation and independence (Keizi, 2006). This process demands analyzing present financial condition, estimating future requirements and preparing a path to link both. This path is made up of seeking relevant information, regular saving, monitoring and making investments that have potential to produce regular and consistent income. When retirement planning is carried out cautiously it not only make sure comfort for post retirement life but develop financial discipline and provide peace of mind in working years too (Mowen and Jacobs-Lawson, 2003).

People who foresee major future difficulties and think about them in positive way are most likely to plan for retirement. These future oriented people plans ahead for the future consequences. Attitude towards retirement, goal setting and time perspective were also positively associated with retirement planning. People who discount future at higher rate are less like to plan for retirement compare to people who discount future at lower rate (VanDalen, 2010).

OBJECTIVES:

- To evaluate the relationship between Cognition and retirement financial planning.
- To assess the relationship between Goal setting and retirement financial planning.
- To evaluate the relationship between Emotional stability and retirement financial planning.
- To assess the relationship between Future orientation and retirement financial planning.
- To measure the relationship between Retirement attitude and retirement financial planning.

METHODOLOGY:

This study aimed at establishing & measuring relationship of psychological factors with retirement financial planning and analyzing if change in individual psychology can improve retirement planning behavior of individuals. In order to measure the five identified psychological factors and retirement financial planning status of respondents, a multi dimensional survey questionnaire covering various aspect of retirement preparedness, issues that exhibit psychology of people, demographic factors and basic investment & saving elements was prepared after reviewing related literature on subject matter. Opinions from people having experience in this field have also been taken for preparing final questionnaire.

Responding to this kind of questionnaire requires some prerequisite quality; therefore, a purposive (administered) sampling technique has been used. A pilot testing was conducted before finalizing the questionnaire. In all 158 questionnaires were received from respondents and out of them 150 were complete in all aspect. Questions about financial knowledge, evaluation capability, future planning, attentiveness, spending habits, money management practices and feeling about retirement have been included in survey. Demographic questions and some other question were measured on nominal scale and rests of the questions were measures by using five point likert scale.

Descriptive Statistics:

Table No 4.1

	Sum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
Age	309.00	2.0600	.07984	.97781	.956
MaritalStatus	255.00	1.7000	.03754	.45979	.211
Dependent	230.00	1.5333	.05152	.63104	.398
Income	286.00	1.9195	.06701	.81801	.669
Gender	192.00	1.2800	.03678	.45050	.203
Education	238.00	1.5867	.05022	.61510	.378
Experience	316.00	2.1067	.08146	.99763	.995

Descriptive statistics components like mean, standard deviation, variance, kurtosis and skewness were calculated to have a comprehensive understanding of the collected data. Highest mean was observed in experience and lowest mean was observed in gender. It was observed that 59 % respondents were married and 41 % were single. The Cronbach's Alpha value is 0.786, which shows higher level of consistency for the scale used in this study.

Analysis and Interpretations:

Table No 4.2

Hypothesis	F Value	Sig. value (2 Tailed)	Result
H_0 1 Cognition does not have any significant relationship with retirement financial planning.	1.791	.038	Rejected
H_0 2 Goal setting does not have any significant relationship with retirement financial planning.	2.523	.002	Rejected
H_0 3 Emotional stability does not have any significant relationship with retirement financial planning.	1.521	.199	Accepted
H_0 4 Future orientation does not have any significant relationship with retirement financial planning.	2.951	.002	Rejected
H_0 5 Retirement Attitude does not have any significant relationship with retirement financial planning.	4.983	.000	Rejected

A one way Anova test was run to determine if there were any significant relationship between cognitive abilities of a person and his retirement financial planning practices. As per basic assumptions of one way Anova, independency of data was ensured. Retirement financial planning scores of all the groups were normally distributed as Shapiro-Wilk test indicated sig. value for each group in the range of 0.108 - 0.860 ($p > 0.05$). Homogeneity of variance was checked by Levene's Test. It confirmed that retirement financial planning (dependent variable) have the same *variance* across different groups ($p = 0.644$).

Means of the groups are in the range of 2.2 - 4.03, represented respectively by respondent who scored lowest to highest for retirement planning. Table of Anova shows that calculated F model value is 1.791 which is > than F statistic value 1.647 and P value is 0.038 less than 0.05. Hence, null hypothesis, Cognition does not have any significant relationship with retirement financial planning stands rejected.

Hypothesis H_o 2 was set to check the relationship between goal clarity and retirement planning. Normality of data was supported by Shapiro-Wilk test with significance value ranging between 0.089 - 0.899 ($p > 0.05$) for all the groups. Equality of variance was violated at sig. value $p = 0.038$ ($p < 0.05$) given by Levene's Test therefore Welch test was conducted at sig. value $p = 0.422$ ($p > 0.05$) which sustained the assumption. Output of the one way anova test delivered F model value 2.523 higher than table value 1.647 and P value 0.002 less than

0.05. Hence, null hypothesis, Goal setting does not have any significant relationship with retirement financial planning, stands rejected.
Hypothesis H_o 3 was rejected at F model value 1.521 (< table value 1.647) and P value 0.199 less than 0.05. Normality of group data was confirmed through Shapiro-Wilk test with significance value ranging from 0.316 to 0.747 (p > 0.05). Variances across the groups were Homogeneous confirmed by Levene Statistic test at p value 0.432 (p>0.05). Thus, respondents in the sampling frame do not consider emotional stability as one of the psychological trait that has any meaningful relationship with retirement financial planning. These results were contradicting with the studies conducted by Mowen, D. A. (2000). They found emotional stability a dormant forecaster for relevant future orientation and retirement planning behavior.
Hypothesis H_o 4 projected that Future orientation does have significant relationship with retirement financial planning. This result was upheld at p value .002 (< 0.05) and F model value 2.951 higher than table value 1.647. Data was normally distributed for each class as Shapiro-Wilk test calculated minimum sig. value at 0.111 (> 0.05). Variance across the groups were consistence supported by sig. value 0.849 through Levene Statistic test. Correspondingly Hypothesis H_o 5 projected that Retirement Attitude has great bearing on retirement financial planning. This result again was supported at p value 0.000 and F model value 4.983. Thus, out of the entire five psychological factors tested, attitude towards retirement was found to have maximum forecasting potential in the direction of retirement planning.

FINDINGS AND DISCUSSION:

Self assessed financial awareness emerged as a useful predictor from this study for retirement financial planning behavior. In this way, people who thought that they were better aware about issues relating to retirement financial planning also assumed that they were better prepared for them. This finding leads to establish causal relationship between financial knowledge and behavior. It proposes that financial awareness programs conducted to raise retirement planning awareness can work as handy tool to increase retirement preparedness.
Respondents who scored high ratings on future orientation were found to be better prepared financially for retirement. Thus, future orientation is also a significant predictor of financial preparedness. Future oriented people are more involved in retirement planning activities than others.
Surprisingly, the retirement relevance measure was negatively down related to retirement readiness. In this way, individuals who were the least prepared for retirement discovered this issues to be the most important. These results can be interpreted as respondents who are not actively involved in retirement planning exercise are more worried and may want to talk about the issues either in the form of persuasive communications (e.g., advertisements) or straight interference (e.g., training and education).

CONCLUSIONS:

This study is also subject to common shortcomings found in survey-based researches. Since samples were selected by purposive sampling method, there might be a chance of response bias. Considering these limitations findings from this study should be taken in broader terms. From application point of view, this study suggests that despite income being the most important factor deciding the amount of saving, there are other personality traits, which can be used as useful tool to predict and shape health of retirement financial planning. People undergo various psychological pressures relating to their present and future oriented financial matters. They also vary in their tendency to plan & save and this variations may have their roots in psychological attributes. Understanding and working up on these psychological attributes may bring a paradigm shift in retirement saving, investment and consumption pattern. Retirement planning Process can be smoothen if these psycho economic dimensions of one's personality are appropriately matched with suitable retirement planning solutions.

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