Financial Literacy and Financial Planning in the Retirement Family

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This theoretical literature study aims to provide an overview of the concept of the importance of financial literacy in financial planning, especially in old age. Financial knowledge in managing finances is very important, especially towards retirement age. Readiness to face retirement is the ability of individuals to make their lives comfortable in retirement, this can be achieved if the individual makes preparations. Individuals who work must be responsible for the life in retirement that they will face, including individuals who work in government. Government employees with pension fund facilities are not guaranteed to be able to live comfortably in retirement. The method used in this study is literature study. The findings of the study in general show that there are still many workers who have not done financial planning properly, due to a lack of understanding of the financial aspects that must be prepared for retirement. This condition is a serious problem considering financial literacy has a positive effect on financial planning, especially readiness to face retirement.

Keywords: Financial Literacy, Financial Planning, Pension Readiness

Introduction

A person who enters the final period of his career or job, which is called retirement, will be faced with various conditions of change, such as health problems, welfare and other psychological problems. Conditions like this should have been prepared in advance so as not to face difficulties. Kubicek pointed out that physical health before retirement, tenacity in pursuing goals, and flexibility in adjusting goals are beneficial for the welfare of men and women (Kubicek, B. et.al. 2011). In contrast, financial assets and job dissatisfaction are more strongly linked to psychological well-being of men in retirement and pre-retirement social contact with women. At this stage, if someone is not able to make adjustments properly, it can cause stress. This is as stated by Mukku and Sivakumar, that there is a feeling of lower self-
esteem, moodiness, physical health and financial insecurity as a consequence of mental health after retirement (Mukku, S.S.R. et.al, 2018). Meanwhile, according to the Central Statistics Agency (BPS, 2014, 2015), retired parents have an index of personal life (education, work, household income, health, and housing conditions) lower than the age group of 20-40 years. This indicates that Indonesian people who are entering retirement age are increasingly dissatisfied with their personal lives, Besides, the problem faced by retirees is that their income is uncertain and even tends to decline, including health problems that also decline (Garman, E. T and Forgue, R.E, 2000).

Based on data from the Central Statistics Agency (BPS, 2015), the life expectancy of Indonesia's population has increased from 66.0 years in 1995-2000 to 70.1 years in 2010-2015 and is expected to increase again to reach 73.6 in the 2020-2025 period. As Indonesia's life expectancy increases, the number of elderly residents will also increase. The increasing number of elderly in Indonesia will certainly cause problems, where at this time the elderly do not get income from work and tend to depend on offspring and younger generations. According to BPS data, the dependency ratio of Indonesia's elderly is equal to 12.71 meaning that every 100 people of productive age must bear around 13 elderly people. Another fact states that only 5.82 percent of elderly households have a pension guarantee. Being old and retiring is a natural thing for working individuals so they must prepare and be responsible for their own retirement, including individuals who work in a government environment (Jariah, M., 2012, Lusardi, A., & Mitchell, O. S, 2008). In this case, government employees are considered able to meet their daily needs and have savings for retirement (Mokhtar, N, et.al, 2015).

Retirement preparedness is the ability of individuals to make their lives comfortable in retirement and means having enough money to pay for basic expenses, medical expenses, long-term care costs and planning for retirement by having special retirement savings and investing by buying various financial products. This retirement readiness will only be achieved if each individual prepares for retirement (Helman, R, et.al, 2010, Shanmugam, A, 2017). Factors affecting pension readiness include financial literacy, saving behaviour and financial management (Juen, T. T., & Sabri, M. F, 2012). The 2016 Indonesian Financial Literacy Index by gender explains that the Women's Financial Literacy Index in Indonesia is lower than men. The Women's Financial Literacy Index in 2016 was 25.5% while the Male Financial Literacy Index was 33.2% (OJK, 2017). The low level of financial literacy in women can be an obstacle for women in managing their assets. The ability to manage assets can provide a promising financial future (Mottola, G. R, 2013). The application of financial management can help individuals plan for retirement so as to increase their readiness to face retirement and achieve retirement goals (Juen, T. T., & Sabri, M. F, 2012, Sabri, M. F. & Juen, T. T, 2012). Another factor of retirement readiness is saving behaviour, there is a strong relationship between prosperity in retirement and saving behaviour. Individuals feel protected by having retirement savings as a source of income in retirement (Russell, K., & Stramoski, S, 2011), thus financial
behaviour plays an important role in influencing individual welfare in the household, community, nation and the world at large. A financial activity that can be observed by economists is financial behaviour. Individual financial behaviour is influenced by identity, desires, knowledge, performance, achievement, personal characteristics, significance and psychological factors of a person (Bergner, R.M, 2011). Individuals who have financial knowledge can perform financial activities well in order to improve their welfare known as financial literacy. In this case a person is said to be ready to retire if his accumulation of savings is high enough, so that it is said to be sufficient to replace income that can meet his consumption needs close to his expenses before retirement. Individuals who are actively saving to prepare for old age tend to have a higher readiness in dealing with old age both economically and in terms of other welfare (Joo, S. & Pawels, V.W, 2002). Previous studies have shown that the workforce generation is not financially ready to retire. This is supported by the results of research conducted by Hongkong and Shanghai Bangking Corporation Limited, amounting to 33 percent of the population of the workforce who currently do not intend to start saving or preparing for their old age. Even 30% of the workforce who have approached retirement (aged 45 years and over) do not intend to save money to prepare for their old age (Ni Kadek. A, et.al, 2013).

Many employees look forward to retirement in the hope that they can spend time relaxing. However, not many employees know about retirement and what they must do early to be able to maintain their current lifestyle. For government employees or state employees, especially in Indonesia, setting aside income is not a problem because the salaries of these state employees have been deducted directly for retirement, thereby reducing the proportion of income. At retirement, income earned will not be as great as the income while still working. The existence of this income difference can lead to economic dissatisfaction and the decline in the subjective well-being of an individual. This condition forced retirees, especially those who are still healthy, to keep working. Although the right of the elderly to work is guaranteed in Law No. 13 article 15 of 2008 concerning Elderly Welfare, working in the elderly is certainly not a recommendation given that their health condition continues to decline with age.

National labour force survey data (Sakernas) in 2014 showed that 47.48% of the elderly in Indonesia were still working to fulfill their living needs, with the percentage of elderly men (64.28%) higher than elderly women (33.03%) [3]. This high percentage not only shows the view that the elderly still have a decent ability to work, but also means that the level of welfare of the elderly is still low, so many of them still have to work in old age. Several studies have shown that those who are elderly or have retired choose to continue working for the sake of their future lives not only in financial terms but also in terms of their health and fitness (Ni Kadek. A, et.al, 2013, Shacklok, K.H, Brunetto. Y, and Nelson. S, 2009, Gin and Arber, 2005). Concerns about old age and not relying on offspring (children and grandchildren) keep these elderly people struggling to make money and to enjoy their old age. There are some of them
entering old age (retirement) peacefully because they have prepared their old age thoroughly, but a few of them are worried because not because they have not prepared for the future but because they do not have enough money and savings for their old age. This condition shows the gap between expectations and reality or the gap phenomenon. Based on the gap phenomenon, the authors are interested in studying financial literacy and financial planning in retirement age families.

**Literature Review**

Every human being has a life cycle, from the time he was born into the world until old age and finally experience a period of death. Likewise, for people who work, starting from new workers, experienced workers and eventually entering retirement or retirement. Retirement is identical to entering the old age. This life cycle is unavoidable. Working people are generally based on motives to get money for their living needs, and humans must undertake financial planning so that at the stage of entering old age they do not face the problem of financial difficulties. Therefore, it can be said that the life cycle with financial planning has a very close relationship. Most people are not ready to enter retirement, due to lack of preparation for retirement. This is as the result of Sabri & Juen's research (Sabri, M. F, & Juen, T. T, 2014), which explains that there is a significant relationship between financial management and pension readiness. Workers with good financial management have higher retirement readiness than other colleagues. The application of financial management causes workers to control their personal financial conditions and prevent them from financial problems in the future.

Entering retirement can actually be done by anyone, although on the other hand everyone as a consumer is often irrational. In economic studies, consumer behaviour is assumed to be rational, so that everyone will strive to achieve satisfaction and conditions of maximum prosperity. If the human being is rational then he will optimise his ability (income) to maximise his prosperity (Budiwati. N, 2018). Human rationality in shopping is part of economic literacy, economic literacy plays an important role in self-control managing limited resources (money), which influences the mental attitude to focus more on achieving financial goals in the future (Sina. P, 2012). Specific economic literacy in human life can be seen from financial management, those who have skills in managing money can be said to have financial literacy.

Financial literacy is a combination of financial awareness, knowledge of financial products, skills or ability to carry out financial planning and management activities, and have the attitudes and behaviours needed for sound decision making (Atkinson, A., & Messy, F, 2012, Isabel, T., & Fernandes, M, 2015). Financial literacy, according to the Financial Services Authority (OJK) is knowledge, beliefs and skills which influence attitudes and behaviours to improve the quality of decision making and financial management in order to prosper (OJK, 2017). For this reason, in addition to understanding and knowing financial service institutions and their products, the
community is expected to be able to change people's behaviour in financial planning so that they can improve their welfare. As the meaning of financial literacy as knowledge in financial management related to decision making as well as in financial planning, in this case are basic concepts of finance such as basic knowledge of compound interest, differences in moral values and real values, basic knowledge of risk and the time value of the money itself (Chen, H., & Volpe, R. P, 2002).

Thus, economic literacy, including financial literacy is important for anyone who wants a happy life, as this is part of an important economic study that is providing solutions for humans in solving personal and social problems that surround them (Budiwati. N, et.al, 2018). Become literate both economically and socially, so that efforts are needed on how to grow economic and financial literacy in the community. This growing process is not an instant process because it requires a long process through planting or literacy education starting from informal education at home and then to formal and informal education (Budiwati. N, et.al, 2018), as the human life cycle.

**Method**

This study uses the Systematic Literature Review (SLR) method, which is a research method by identifying, evaluating and interpreting all relevant research results related to certain research questions, specific topics, or phenomena of concern (Kitchenham, B, 2004). Systematic review has a criterion where the review of the article is carried out in a structured and planned manner. Systematic review increases depth in reviewing and summarising research evidence. Systematic review aims to answer questions that are specific, relevant, and focused, while also capturing research results, reducing bias from review, synthesising results and identifying research gaps (Togerson C, 2003).

On the basis of the objectives of a Systematic Literature Review (SLR) study, this study was conducted with the formulation of specific and clear clinical questions, explicit and reproducible search methods, involving a critical review process in the selection of studies with structured and planned criteria.

**Discussion**

Financial literacy that developed in recent years has received more attention from various groups, especially in developed countries. Financial literacy can also be interpreted as an ability of an individual to be able to take a decision in terms of personal financial arrangements. The principle of literacy is a tool that can change behaviour from not smart to smart, such as how to use an income to invest, save, and make ends meet. Financial literacy is reflected by one's knowledge and cognitive abilities about finance which can be interpreted as the ability to use
financial knowledge that is owned to make decisions (Sina, P, 2012). How applicable financial literacy can be measured by the most prominent indicator is financial design by arranging both income and expenditure budget. No less important related to financial literacy is the aspect of financial planning, an understanding of the real value and nominal value of money, as well as an understanding of the problem of inflation.

Financial behaviour is positively influenced by financial literacy, while the effects of various forms of financial education on financial behaviour are less significant. Good financial planning, management and control activities are indicators of sound financial behaviour. Indicators of healthy / good financial behaviour can be seen from the way or attitude of a person in managing the entry and exit of money, credit management, and managing savings and investment (Hilgert, M. a. et.al, 2003). This is in line with Chen & Volpe's statement that there are four aspects of financial literacy, namely basic financial knowledge, savings and borrowing, protection, and investment (Chen, H., & Volpe, R. P, 2002).

A person's financial literacy can be seen from the cognitive processes or knowledge he has in managing finances and in attitudes towards personal finance that will influence financial behaviour or decisions in managing finances. Related to this, Budiwati et.al (2018) explained that knowledge is a prerequisite in decision making, therefore, for each individual to be intelligent in making decisions it is necessary to continue to increase his knowledge. When referring to one aspect of financial literacy that is basic knowledge. This basic knowledge is usually associated with decision making in investing or financing that can affect one's behaviour in managing money (Chen, H., & Volpe, R. P, 2002).

It is believed that someone who is literate in finance will have good financial management skills. In a study of Dutch adults, it was found that those with low financial literacy were more likely than others to base their behaviour on financial advice from friends and were less likely to invest in shares (Rooij, V, 2011). The most basic application of money management is to have a checking account, pay bills on time, record and store financial transactions, have financial planning and implement it, and re-examine the habit of spending money (Anthony, R., & Sabri, M.F, 2015). This condition, of course, was formed from a young age and in practice in adulthood, so entering retirement there is no financial difficulty. Good financial management can support pension readiness, mean a person has enough money to live comfortably in retirement, is able to pay basic bills in retirement, is able to pay bills for health expenses in retirement, has retirement savings, has the ability to invest retirement savings and has good work in preparation for retirement (Helman, R., et.al, 2010).

There are five things that are expected from personal financial management, namely being able to pay back daily expenses, being able to pay bills on time, comparing prices when going to spend money, participating in retirement planning programs, and having knowledge of how to
Financial literacy is very supportive in terms of one's decision making because financial literacy is a financial concept that is needed by individuals to make financial decisions with the aim of shaping the economic life of the individual who does not experience difficulties, especially for individuals who enter retirement. (Braunstein, S., & Welch, C, 2002). Nyamute & Maina's (2010) research results explain that financial literacy has an important role in better management of pension funds. Financial knowledge is part of financial literacy, which determines financial welfare after retirement. This financial knowledge is used to make investment decisions, thus making someone feel calm and comfortable about life. A calm and comfortable life will affect one's productivity. The low financial literacy of individuals has an impact on their lifetime welfare (Lusardi, A., & Mitchell, O. S, 2008). Researchers have reported that poor financial decisions undermine productivity in the workplace (Garman, E. T, et.al, 1999)

Using the 2004 Health and Retirement Study to examine basic financial knowledge of adults over the age of 50, Lusardi and Mitchell (2008) developed questions relating to understanding compounding interest and the effects of inflation and risk diversification. They found widespread financial illiteracy that was very severe among the elderly, women and those with limited education. The results related to the elderly are very surprising because most respondents over the age of 50 tend to have more experience with credit cards and bank accounts and have had at least one mortgage. Likewise, studies conducted by Studies by the Organization for Economic Co-operation and Development (OECD) show evidence of international data on financial literacy that financial illiteracy is common in many developed countries such as Australia, Japan, and Korea, and developed countries in Europe.

A number of studies have found that financial literacy has been shown to influence the behaviour of retirement planning, which consequently affects retirement wealth, and also that many people have a limited understanding of the main financial concepts (Lusardi, A., & Mitchell, O. S, 2008, Rooij. V,M, 2011). This is a concern given that the responsibility for providing pensions has increasingly shifted from governments, institutions, and employers to individuals, many of whom are not ready to plan for pensions. Thus, everyone is required to be able to carry out financial planning, this is reinforced by the findings that financial planning is a process of regulating one's life goals (Budisantoso, et.al, 2002), such as setting strategies for how to achieve family financial goals in the short, medium and long term.

There are five stages in financial planning based on manager age, and must be sequential from productive age to retirement, namely:
1. Aged 20-30 years, during which time people began to build a financial foundation. At this age someone in the process of pursuing a career in any field and must create financial habits. The right steps that need to be taken are investing income, buying property, buying insurance (life, health, etc.) and planning for pension funds.

2. Age 30-40 years, where during this period a person starts to solidify the family's financial foundation with strategic steps, among others, fertilising assets and increasing the amount of finances he has.

3. Age 40-50 years, which in this age is the peak period of independence that is the time to enjoy the results of investments that have been invested in several investment portfolios, enjoying a career and business.

4. Age 50-60 years, namely the period of preparation for retirement. What needs to be done is to clear all debts / credit and increase the availability of sufficient funds for retirement.

5. Age 60 and above, where in this age that is less productive, a person can still do non-profit social activities and enjoy retirement with sufficient funds collected from the beginning of work.

Through grouping based on age, it can be seen at what stage a person must achieve and determine the next steps. Research on the effect of financial literacy on the financial arrangements of individual household partners at a young age (18 to 30 years), shows that individual financial planning responsibilities need to be carried out as early as possible, because financial mismanagement will be very detrimental and difficult to repair in the future. In addition, lack of financial knowledge causes households to be unable to manage finances well, spending some money to buy something that is not needed (not according to priority). Other conclusions from the study include a high level of awareness of financial literacy that has a positive influence on daily decisions and encourages higher levels of savings which ultimately improve the quality of life in the long run (Budisantoso, et.al, 2002).

Increased awareness of financial knowledge can be interpreted as ready to face retirement. Retirement preparedness is the ability of individuals to make their lives comfortable in retirement and means having enough money to pay for basic expenses, health care costs, long-term care costs and to plan for retirement by having retirement savings and investing by buying financial products (Helman, R, et.al, 2010). Therefore, retirement readiness will only be achieved if each individual prepares for retirement (Shanmugam, A, 2017). The case in Indonesia is that the level of Indonesian Financial Literacy is in 7th position out of 10 other countries. Therefore the Indonesian government through OJK itself is expected to be able to increase financial literacy by providing education to the public about the importance of financial literacy in financial planning in Indonesia.
The Indonesian Financial Services Authority (OJK) divides the level of financial literacy in Indonesia into 4 groups as follows:

1. **Well Literate**

   Namely having knowledge and beliefs about financial service institutions and financial service products, including features, benefits and risks, rights and obligations related to financial products and services, and having skills in using financial products and services.

2. **Sufficiently Literate**

   Namely having knowledge and beliefs about financial services institutions and financial products and services, including features, benefits and risks, rights and obligations related to financial products and services.

3. **Less Literate**

   Namely only having knowledge about financial services institutions, financial products and services.

4. **Not Literate**

   Namely do not have the knowledge and confidence in financial service institutions and financial products and services, and do not have the skills in using financial products and services.

The results of a survey conducted by the OJK (2017) in 2016 on literacy and inclusion provided an overview of the financial attitudes of the community regarding community goals that are still dominated by short-term goals such as meeting daily needs and sustaining life. In the OJK survey 96.81 percent of the public claimed to have different financial goals, including 49.11 percent to fulfill their daily lives, 17.68 percent for survival and 8.00 percent for children's education costs. According to the Financial Services Authority (OJK) there are several benefits of financial literacy in the form of regulations, viz

1. **Regulator**

   Establishment of PUJK's commitment in increasing financial literacy. Increasing financial literacy is becoming more significant and focused because it is carried out entirely by PUJK.
2. PUJK (Financial Services Business Actor).

An increase in the level of financial literacy will encourage the use of financial products or services by the community which will automatically contribute to the growth and development of PUJK (including an increase in total assets) on an ongoing basis.

3. Public

Increased public confidence included in the financially excluded group to start using products and utilising formal financial services. Increasing the level of financial literacy will allow consumers and the public to have the ability to determine products or financial services that are appropriate to the needs and abilities which in turn will help improve the level of life and increase financial conditions (financial well-being).

Related to the issue of financial planning, especially for pensioners in Indonesia as revealed by the OJK, it is generally seen as bad or in general the Indonesian people do not have good financial planning, coupled with a low level of financial literacy when compared to some neighbouring ASEAN countries. Several financial planning studies for pensioners have been carried out by several industrialised countries and the result is a lack of readiness (Hershey, D. A., & Mowen, J. C, 2000, Lusardi, A., & Mitchell, O. S, 2008). The general lack of planning, in addition to the high level of variability in planning behaviour, should be a concern given the relationship between retirement planning and wealth in retirement. It is therefore important to understand what factors determine the level of individual involvement in retirement planning.

Other research on retirement financial planning highlights the gender side that has evolved over time and shows mixed results. Several studies have found that men have a greater tendency to plan their finances than women (Jacobs-Lawson, et.al, 2004). In addition, a survey on the use of financial planning services by baby boomers in the United States, found that women were less likely than men to arrange their own retirement plans and were more likely to consult with financial planners [38]. In addition to research on gender, other research can be seen from the educational side, generally showing that those with higher levels of education tend to have better financial planning (Chatterjee, S. & Zahirovic-Herbert, V, 2011, Bucher-Koenen, T., & Lusardi, A, 2011, Rooij. V, 2011).

How should you deal with retirement? In addition to financial planning, no less important is determining the next step, especially in its application. The most basic application of money management is to have a checking account, pay bills on time, record and store financial transactions, have financial planning and implement it, and re-examine the habit of spending money (Anthony, R., & Sabri, M. F, 2015). If financial planning is done well, this indicates readiness to face retirement. Preparedness to face retirement is to have enough money to live
comfortably in retirement, be able to pay basic bills in retirement, be able to pay bills for health expenses in retirement, have retirement savings, have the ability to invest retirement savings and have good work in preparation for the period retirement (Helman, R, et.al, 2010).

With good financial literacy, individuals will make the right financial decisions so that the goal of prospering their economic life, this includes life in retirement, can be enjoyed (Braunstein, S., & Welch, C, 2002). Nyamute & Maina (2010) in their research said that financial literacy has an important role in better management of pension funds, so that financial knowledge as part of financial literacy money very much determines financial welfare after retirement. This financial knowledge is used to make investment decisions. The low financial literacy of individuals has an impact on their lifetime welfare (Lusardi, A., & Mitchell, O. S, 2008).

**Conclusion**

For every person who works it is important to have financial literacy to carry out financial planning, especially when facing old age when not working anymore and no longer being productive. Readiness to face retirement is the ability of individuals to make their lives comfortable in retirement. This can be achieved if the individual makes preparations. Individuals who work must be responsible for the life in retirement that they will encounter, including individuals who work in government and non-government environments, even though employees with pension fund facilities are not guaranteed to be able to live comfortably in retirement.

**Contribution / Originality**

The results of this study provide references to important aspects and steps of financial planning for future life. Financial literacy education is needed both informally and formally by involving various related parties, so that the community will become literate and prosperous throughout their lives.
REFERENCES


