

## Retirement Preparedness and Subjective Well-Being: Evidence from Malaysia

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### Abstract

Organizations offer sufficient preparation to prepare their employees to succeed at work, but very few, if any, prepare their employees for life after work. A cross-sectional survey was undertaken, with a total of 514 Malaysian employees participating in the study. The Partial Least Squares-Structural Equation Modelling estimation technique was employed to analyse the data. The results revealed that retirement preparedness in organizations via financial knowledge, retirement goals and retirement confidence significantly enhances subjective well-being of employees. The study serves to discuss current policy issues that affect the government, financial institutions, the employees, the elderly and their families.

**Keywords:** Retirement Goals; Behavioral Intention; Financial Knowledge; Retirement Confidence; Retirement Readiness; Subjective Well-Being

### Introduction

The ageing of the population is a well-documented global phenomenon. It has drawn considerable interest from policymakers and the academic community due to its substantial impact on public health and national economies. Human beings are living longer lives than ever before. This demographic trend has increased the length of retirement, among other things, making it critical to consider what factors lead to a better retirement life. Many individuals around the world find themselves not properly prepared for their retirement, and an ageing population in many countries exacerbates the issue. Retirement preparation is a multi-step, time-consuming process that requires early attention, as individuals need to build a financial cushion to fund a comfortable, secure and enjoyable retirement. Despite its importance, studies have revealed that a significant percentage of adults fail to save enough for retirement. Unless actions are taken to strengthen income security for the elderly, the ageing population will undoubtedly raise levels of old-age poverty. The increasing household and individual debt situation in Malaysia have resulted in an unprecedented number of people declaring bankruptcy (Azma, Mahfuzur, Adeyami, & Rahman, 2019). This further aggravates the situation for working Malaysians who are planning to save for their retirement, when faced with bankruptcies and other financial difficulties.

According to the Credit Counselling and Debt Management Agency (AKPK), more than half of Malaysians may not be financially prepared for retirement (Hadi, 2019). About 80% of the working population would be unable to support themselves

in retirement. Malaysians are expected to live an average of 15 to 20 years after retirement, and as such, they must ensure that they have adequate funds. EPF has warned that their contributors must have a minimum of RM228,000 in savings by the age of 55 to be able to get a monthly withdrawal of RM950 to meet their basic needs for 20 years, based on the average life expectations of a retiree. Surprisingly, just 18% of contributors have the RM228,000 minimum savings target in their account by the age of 55 (Yong, 2020).

Malaysia is currently experiencing major demographic and structural shifts as the country's population ages rapidly, with senior citizens aged 60 and above accounting for 9% of the total population in 2018. (Hamid et al., 2018). An ageing population brings with it its own set of problems, such as an increase in the dependency ratio and increased government spending on health care and welfare. Judging by how unprepared Malaysians are for retirement, it is imperative that reforms be made to the retirement process to circumvent the lack of retirement readiness of Malaysians. It is important to provide a window of opportunity to reform the retirement processes within the next few decades, before the effects of an ageing population become apparent (Abela & Guven, 2016). In view of the increasing ageing population, there is a clear need for research on the predictors of retirement preparedness and its impact on subjective well-being. It is critical to focus on the new retirement environment in Malaysia in order to better appreciate the possible consequences of these shifting population patterns, as well as the ramifications for designing successful pension reforms.