

Differences in Retirement Saving Behavior of Service Sector Employees in Punjab

***Sandeep Kaur ** Dr. Ritu Lehal**

*Research Scholar, University School of Applied Management, Punjabi University, Patiala
Professor, University School of Applied Management, Punjabi University, Patiala

Abstract

Financial planning for retirement is inevitable part of everyone's life. Pension sector reforms upshot gradual shift from Defined Benefit to Defined Contribution schemes in both developing as well developed nations of the world. With this now individuals has to presume their responsibility to plan for their retirement. Financial planning for retirement has been always painstaking as an objective which can be always postponed over present needs. The main objective of the present research is to study the association between demographic factors and retirement saving behavior. Primary data is collected from Service Sector employees in Punjab using questionnaire. Simple random sampling is used to access the respondents. Data is analyzed with the help of SPSS. T-test and ANOVA are used to analyze the data. Results indicated no significant differences in terms of gender while reported significant differences in case of age, marital status, Education level and income level.

Keywords: Retirement Saving, demographic Factors, age, gender, income, marital status, education.

Introduction

“How is that people are motivated to go to a doctor but not motivated to go to a financial counselor if individuals are ultimately responsible for their own financial health.” (Bowditch, 2005)

The above mentioned quote highlights two fundamental and divergent aspects of people's financial planning behavior for retirement, firstly the absence of impetus to indulge in financial planning, and secondly the escalating accountability of the individuals for their financial circumstances during retirement. These annotations triggered the researcher's interest in researching individual financial behavior specifically for retirement focusing on particular financial planning actions undertaken by individual in this direction. Investigation into individual retirement specific financial planning behavior is gaining paramount significance in academic as well as practical life as the importance of financial provision for retirement is mounting for the individual, policy makers, companies and for the society as a whole.

1.2 Background of the Research- Indian Perspective

Like many other countries of the world, medical advancements forced India to face the phenomenon of “graying population”. Proportion of total world's old age population living in India is 6% (World Bank Statistics, 2019). The elderly population is growing at double rate than that of the whole population. In India, both males and females above the age of 60 years are expected to live beyond 75 years. This implies that an average person should require resources for approximately 15 years of his/her life after retirement. This requires people to build

a financial corpus for their post-retirement life's basic necessities and health related expenditure.

Recent economic, societal and demographic revolution has contrived retirement a major life upheaval for working class in India. Retirement is basically the end of working tenure of a person leading to a stage in life when the regular professional income starts to ebb. Financial well-being during post-retirement life can be ensured through developing a sufficient financial corpus during working years of life. But working class has not paid sufficient attention towards their financial planning for retirement. Financial planning for retirement has been found to be in a nascent stage in India due to lack of financial awareness, risk taking abilities and saving habits among working population.

Reaching near the stage of retirement, the question whether people are financially ready to face the post-retirement financial crisis strikes the mind. Financial sufficiency has been questioned on several grounds such as shift from traditional defined-benefit pension plans to defined-contribution plans and certain government pension benefits being reduced and delayed. There is no universal social security system in India. Such trends necessitated individuals to assume personal responsibility to save and invest for accumulating wealth for retirement's financial security.

Life expectancy of people has also improved and the credit for this increased life expectancy goes to recent advancements in the medical care sector. Longer life expectancy means more medical expenses due to the increasing chances of health ailments during old age. So, there is a great need for the working class to be financially prepared for such events of life when they do

need money. They will be able to take the advantage of specific medical care retirement plans only if they have invested in these plans during working years of their lives. The concern for developing financial plans for postretirement years has been increasing among working class due to the rising costs of medical care and for ensuring a comfortable living standard during old age.

Saving for retirement is among the most important decisions of an individual's lifespan to ensure financial security and well-being during old age. Men being more financially knowledgeable have more prospects to invest in retirement schemes. Being aware about different deductions available under Income Tax Act, 1961 they try to save in such a way that leads to maximum tax saving despite wealth accumulation for old age. But women give priorities to the needs of others than their own. They are basically involved in meeting the needs of their dependents family members and fulfilling the requirements of their children. Women earn, spend and save but they don't pay sufficient attention for their post-retirement period's financial security. Women reach the retirement age with little or no savings but a little bit planning for retirement into their working years can help them a lot in their old age. Women are less prepared to face the event of retirement because instead of having money to save, women avoid to save due to their risk taking abilities. Low level of financial literacy among women is prime cause for their risk averse behavior while saving for retirement.

Literature revealed that women already tend to be less prepared for retirement than men (Hannson et. al 1997). Although, women raced ahead of men in almost all spheres but when it comes to retirement planning they are lagging behind men. Women tend to save a large proportion of their monthly salaries but still they do not take retirement planning seriously. According to the United Nations Department of Economic and Social Affairs, in India, the life expectancy of females is 69 years while it's 66 years in case of males. Due to this, women will need additional funds to manage their living expenses of old age. Besides this, women usually spend lesser years in workplace than men due to child care and family responsibilities. A recent study by Korn Ferry Hay Group revealed that Indian women earn 18.8% less than men. Women have been found to have more health problems than men so they should take retirement planning seriously to avoid shortage of funds in old age otherwise they will become victims of poverty in the golden years of their life.

2. Insights from Literature

Although there are numerous factors which have influence over retirement saving behavior of employees

but demographic factors such as gender, age, marital status, education level, and income level have reported predominant effect.

2.1 Gender

Literature revealed gender differences to be significant predictor of retirement saving behavior. Both genders think and perform differently in terms of their saving activities (Yakoboshi and Dickemper 1997). Men are found to be better prepared for their retirement planning in comparison to women (Lusardi & Mitchell, 2008). Glass and Kilpatrick (1998) reported that women are less prepared for their retirement due to lack of adequate financial resources than men. Several studies revealed that individuals regardless of their gender who are more financially literate, richer are more tolerance to risk (Dufflo & Saez, 2002; Lusardi, 2007). Gender difference do not bring any effect to the decision making on retirement as Joo and Grable (2001) highlight that women involvement rate in seeking assistance from professional are slightly higher in contrast to men. Recent finding by Grace, Weaven and Ross (2010) showed that men and women do not think, perceive, and act for retirement planning in the same way. Hence, the gender can be hypothesized as below:

Hypothesis 1: Gender has a significant impact towards retirement saving behavior.

2.2 Age

Age has emerged as a significant and consistent variable in human behavior towards retirement planning (Richardson & Kilty, 1989; Joo & Pauwals, 2002; Devaney, 1995). It is concluded by Lee and Law (2004) that people are more inclined to take action for retirement as their age and income increases. Further, these results were supported by Montalto, Yuh and Hanna (2000). Income and age are found to be significantly associated in influencing one's behavior towards retirement planning (Lee & Law, 2004). DeVaney (1995) revealed that age, educational level, household incomes and size are inter-correlated to guide pre-retirees in initial process of planning but this study contradicted with others Gorham, Bechman and Haldeman (1995) showing where age is found to have negative association to saving decisions suggesting that regular saving is the common practices for younger respondents. Therefore, the age can be hypothesized as below:

Hypothesis 2: Age has a significant impact towards retirement saving behavior.

2.3 Marital Status

Empirical literature revealed that investment decisions, especially for retirement purposes, are affected by marital status (Li et al., 1996; Lundberg and Ward-Batts, 2000; Johannisson, 2008). Married individuals are found

to be more concerned about the financial stability of their family, therefore, they are expected to be more likely to save for retirement. Lusardi (2001) also finds that individuals who have not thought about retirement are less likely to be married. Blau et al. (2002) and Johannisson (2008) indicate that the decision on whether to save for retirement is made jointly within the marriage.

So, the Marital can be hypothesized as below:

Hypothesis 3: Marital status has a significant impact towards retirement saving behavior.

2.4 Education Level

Extensive research has been carried out on studies covering education level. Literature revealed that education level is among the significant factors affecting retirement planning preparation (Hogarth, 1985; Joo & Pauwels, 2002). Further, Devaney (1995) mentioned that the influence of education level can serve as a motivator for individuals to initiate the retirement planning preparation. In addition, Joo and Pauwels (2002) revealed that individuals may experience and achieve better confidence level in their retirement planning life due to their higher education level. Individuals with higher education level tended to be more confident and do better in their retirement planning compared to people who had received lower levels of education level. Hence, the level of education and confidence found to be positively related. In contrast, because of limited education which had been given to them in the past, older women are found less likely to have higher education (Lusardi, 2004). Therefore, the education level can be hypothesized as below:

Hypothesis 4: Education level has a significant impact towards retirement saving behavior.

2.5 Income level

Next, demographic variable studied in relation to retirement planning is income. Income level is perhaps another important variable. Income is important in the sense that one's must have enough money or wealth resources in order to make retirement preparation work (Richardson & Kilty, 1989). According to Ruhm (1989), individual's preparation regarding retirement income differs from one another. In addition, Joo and Grable (2001) identified that among other socioeconomic aspects, most of the time the attitude towards help-seeking from professional towards retirement planning is partially influence and control by income factor. The statistical analysis shows that people who have higher income are more motivated to seek professionals help regarding investment-related decision, but the people who come from lower income group which had less income are less likely to look for professional help on retirement investment decisions. For this reason, income

can be considered very much associated to the retirement income source (Richardson & Kilty, 1989). Based on Kim, Kwon and Anderson (2005) addressed that attitude and behavior towards retirement are influence by income in general. Income is a critical and essential measurement in some matter relating to retirement especially when in retirement education program (Joo & Garman, 1998) and professional financial help-seeking (Joo & Grable, 2001). Hence, the income level can be hypothesized as below:

Hypothesis 5: Income level has a significant impact towards retirement saving behavior.

3. Research Methodology

3.1 Objective of the study

The prime aim of the present research study is to study the differences in retirement saving behavior of service sector employees from the state of Punjab.

3.2 Unit of analysis

The unit of analysis in the present study is Service Sector employees from four sectors namely Banking, Insurance, Education and Health.

3.3 Sample Size and Sampling Technique

The sample size for the current study is determined by using Krejcie and Morgan's formula i.e. 384 respondents if population size is more than 1,00,000. Therefore, accordingly, 400 respondents are taken from four sectors namely Banking, Insurance, Education and Health with 100 employees from each sector. Convenience sampling technique is used to access the respondents and questionnaire method is used to collect primary data from the respondents.

3.4 Data Analysis

Primary data collected from respondents is analyzed using SPSS 25. This statistical tool is used to analyze the association between the variables to accomplish the goals of the study. Anova and t-test are applied to analyze the data.

4. Results and Discussion

4.1 Descriptive of Demographic Profile

Table 4.1 summarizes the demographic profile of the respondents which includes variables such as gender, age, marital status, education level, spouse employment and annual income. An equal number of respondents are taken from males and females i.e. 200 respectively. Respondents' age distribution ranges from 30 to 60 years and all the respondents are from Service sector. In terms of marital status, majority of respondents are married. Furthermore, educational profile of respondents indicates that majority of respondents are post-graduate while only 5.3% are doctorates and 8.8% have done professional programs. With regard to the income level, majority of respondents are in 5-10 lacs category and only 20.3% lie in above 10 lacs category.

Table 4.1: Demographic Profile

Variables	Categories	Frequency	Percentage
Gender	Male	200	50.0%
	Female	200	50.0%
Age	less than 30 years	49	12.3%
	31-40 years	110	27.5%
	41-50 years	107	26.8%
	51-60 years	134	33.5%
Marital Status	Single	95	23.8%
	Married	300	75.0%
	Divorced	5	1.3%
Education level	Graduation	94	23.5%
	Post-graduation	250	62.5%
	Doctorate	21	5.3%
	Professional Program	35	8.8%
Annual income	2,50,000-5,00,000	151	37.8%
	5,00,000-10,00,000	168	42.0%
	Above 10,00,000	81	20.3%

4.2 Reliability of the Instrument

In order to check the reliability of the instrument, the value of Cronbach Alpha () is calculated. If the value of Cronbach Alpha () is more than 0.7, then scale is considered to be reliable for the study. Table 4.2 exhibits that the value of Cronbach Alpha () is 0.906 which is more than the prescribed limit, therefore scale is considered reliable for the purposes of the study.

Table 4.2 Construct Reliability of Retirement Saving Behaviour

Variable	Items	Reference	Cronbach alpha
Retirement Saving Behaviour	5	Joy M. Jacobs-Lawson, Douglas A. Hershey	0.906

The results from independent t-test are portrayed in Table 4.3 As the significance value is more than .05 hence, it is found that males are not significantly different from females in terms of their retirement saving behavior. In contrast, VanDerhei and Osleen (2000) found that men tend to allocate more contributions for retirement plan.

Table 4.3: Independent t-Test for Gender

Items	Mean	S.D.	Significance value	
Gender	Male	3.8010	1.01575	0.536
	Female	3.7460	0.73797	

Table 4.4 depicts the results of Anova-test in regard to age, marital status, education level and income level. With respect to age, results are found to be statistically significant as the significance value is less than 0.5 and the value of F reflects high variation in different age categories with respect to retirement saving behavior. Further, marital status also influenced the retirement saving behavior of service sector employees. Married employees are tend to have a more positive attitude towards retirement saving than unmarried and divorced employees. F ratio also depicts that significant variation exist on the basis of marital status. Results are found to statistically significant in this case. Along with this, significant differences are demonstrated in terms of education level. Furthermore, income level shows significant differences between different income groups. High value of F portrayed significant variation among different income categories. These findings are consistent with several previous research studies. For example, a positive relationship was reported between education level and retirement saving in Hogarth, (1991)

Table 4.4: ANOVA Test

Factors		Sum of Squares	Mean Score	F-Value	Sig. value
Age	Between Groups	32.197	10.732	15.081	.000
	Within Groups	281.802	.712		
	Total	313.999			
Marital Status	Between Groups	10.710	5.355	7.010	.001
	Within Groups	303.289	.764		
	Total	313.999			
Education Level	Between Groups	8.465	2.822	3.657	.013
	Within Groups	305.535	.772		
	Total	313.999			
Income Level	Between Groups	40.692	20.346	29.554	.000
	Within Groups	273.307	.688		
	Total	313.999			

On the basis of analysis that has been carried out, the findings for hypotheses tested are stated in Table 4 as below.

Table 4.5: Summary of Hypothesis Results

No. of Hypothesis	Statement of Hypothesis	Results
H1	Gender has a significant impact towards retirement saving behavior.	Accepted
H2	Age has a significant impact towards retirement saving behavior.	Accepted
H3	Marital Status has a significant impact towards retirement saving behavior.	Accepted
H4	Education Level has a significant impact towards retirement saving behavior.	Accepted
H5	Income Level has a significant impact towards retirement saving behavior.	Accepted

5. Conclusion and Future Implications

The statistical results portray that demographic factors have association with retirement saving behavior. There is no gender disparity with regard to retirement saving behavior. Both males and females are equally concerned about retirement savings. But when it comes to other demographic dimensions like age, marital status, education level and income level there are significant variations. Aged people tend to save more in contrast to young generation. Further, married people are more concerned for retirement savings. Being highly educated establishes positive association with retirement saving behavior. Those who are in high income bracket tend to save more for retirement.

As a recommendation for future research, a more comprehensive study about the factors that influence the retirement saving behavior is needed to point out the determinants of retirement planning.

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