

UDC 331

FINANCIAL RISK TOLERANCE AND KNOWLEDGE OF FINANCIAL PLANNING FOR RETIREMENT ON RETIREMENT SAVING BEHAVIOR: A STUDY ON WORKERS IN BANDUNG CITY, INDONESIA

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ABSTRACT

This research aims to examine the influence of financial risk tolerance, knowledge of financial planning for retirement on retirement saving behavior at worker at Bandung City, Indonesia. A survey utilizing a quantitative research method and 100 respondents was employed. Data were analyzed using The Structural Equation Model-Partial Least Square (SEM-PLS) to evaluate the inner and outer model, also test the hypotheses. The results showed that Financial Risk Tolerance and Knowledge of Financial Planning for Retirement has simultaneously have a positive effect on Retirement Saving Behavior. The size of the impact value is seen from the original sample value of 54.1%. This research can contribute for development of financial literacy for retirement so companies can have awareness about it.

KEY WORDS

Financial risk tolerance, knowledge of financial planning for retirement, retirement saving behavior, worker.

Every individual who works in the government sector, the State Property Enterprise Agency (BUMN) will face the maximum age in work. For every worker who experiences time to quit working (retirement), of course, will face a variety of worrisome times for him. This form of concern, because of having an uneven income when to work, routine activities that change, there will be work activities to become no other activities. Retirement can be said to be one of the events in late adulthood that will require restructuring into the daily routine of life (Weiner, 2003).

Table 1 – Number of employees entering retirement age

| n/n | 2021 | 2020 | 2019 |
|---|------------|------------|------------|
| Age > 55 years | 24,681,950 | 24,461,382 | 23,468,696 |
| Proportion of the number of workers employed. | 19% | 18.4% | 17.8% |

Source: BPS (2021).

Based on the data, the number of cowards in Indonesia, currently entering retirement age, has reached 19% by 2021. Between 2019 and 2021, this number has increased. The amount of working age that enters the retirement period needs to be considered. Currently, the retirement age begins at age 58. A level of awareness for workers to face retirement is necessary so that everyone has a good plan to experience a change.

Bandung is the capital of the province of West Java, which has a large field of employment, so there will be a lot of workforces that will seek its work. By 2021, the number of workforces in Bandung City, which is 1,339,128 workforces. A large number of workers will need a similar preparation for the company in preparing for the retirement period of their workforce.

There are various retirement plans for workers, one of which is the aspect of financial preparedness. If an individual is unable to do financial storage properly, it will result that they will not retire comfortably (Alkhawaja & Albaity, 2022). Financial planning in the face of retirement should be done from the time of entry into work. Based on the findings of research by Keating & Marshall (1979) which explains that a new individual is interested in retirement

finance when entering the age of 48. In the face of retirement, each individual needs to have a goal after retirement and a clear planning when retired (Ferraro & Su, 1999). Savings for old age have a significant impact on environmental, cultural, socioeconomic, social, familial, and employment situations, claim Joo and Gramble (2005).

Pension planning will be very necessary in financial terms. When it comes to finance, you will find the risks that arise in it. Preparedness for this financial risk needs to be faced for individual workers, mainly in making investment decisions. Financial risk tolerance is defined as the highest probability of uncertainty for a person in making financial decisions (Croy et al., 2010). As for Kotlikoff (1993), who said that some of the ways to save money are through cash reserves, investment funds, accounting money deductions, deposits, stock purchases, or retirement program contributions. In terms of the argument put forward by Mori (2019), it claims that people historically saved money to finance their consumption. Based on these various aspects, this study will look at how the financial planning behavior of employees in Bandung by looking from the aspect of financial risk tolerance and knowledge of financial planning for retirement.

METHODS OF RESEARCH

This research is based on quantitative methods. Quantitative research is research that provides structured analysis with quantified data (Kurniawan A.D. & Puspitaningtyas, 2016). The population of this study is alike to the number of workforces of the city of Bandung. Based on data BPS Bandung City (2022), the number of workforce data in Bandung City in 2021, was 1,185,623 people. The sampling technique in this study uses the Slovin formula. Presentation of the separation accuracy of the sampling error of 0.1 ($e = 0.1$). Based on their calculations, it was concluded that the number of samples from this study was 100 respondents. The research instrument used is the Likert scale, which looks from one to five with a statement of strong disagreement that is stated by the number 1 and strongly agree with the number 5.

The study will look at three variables: financial risk tolerance, knowledge of financial planning for retirement and retirement savings behavior. The study will be analyzed using the Structural Equation Model-Partial Least Square (SEM-PLS). This method will provide measurements and structural models that can be tested simultaneously through its approach. SEM-PLS will provide an explanation of the correlation of analysis of the existing structural model with its indicators (Kamis et al., 2020).

RESULTS AND DISCUSSION

The study aims to analyze factors that influence retirement savings behavior (RSB). In this regard, the researchers looked at two aspects: financial risk tolerance (FRT) and the knowledge of financial planning for retirement (KFR). Based on this, it will be shown in Figure 1, related path diagrams using Smart PLS 4.

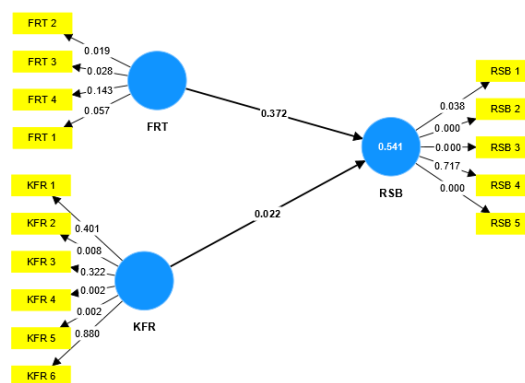


Figure 1 – Diagram Path Analysis (Source: by researcher, 2023)

Based on Figure 1, it is concluded that the variable KFR can be described through six indicators such as KFR1, KFR2, KFR3, KFR4, KFR5, KFR6. On the variable FRT can be described on four indicators, namely FRT1, FRT2, FRT3, FRT4. RSB can be described in five indicators: RSB 1, RSB 2, RSB 3, RSB 4, RSB 5. Overall, the variable can explain the variation of each indicator that measures it.

Table 1 – Descriptive Statistics

| Variable | Minimum Score | Maximum Score | Mean |
|--|---------------|---------------|------|
| Financial Risk Tolerance (FRT) | 1 | 5 | 2.62 |
| Knowledge of Financial Planning for Retirement (KFR) | 1 | 5 | 2.97 |
| Retirement Saving Behaviour (RSB) | 2 | 4 | 3.34 |

Source: by researchers (2023).

Based on the descriptive statistical table, it can be seen that the variable FRT has a minimum value 1, a maximum value of 5 and an average value of 2.62. The KFR variable has a minimum value of 1, a maximum value of 5 and a mean value of 2.97. The last on the RSB variable, has a minimum value of 2, a maximum value of 4 and an average value of 3.34. Based on the data, it can be seen that the FRT has the smallest average value so it is possible to say that the workers currently have a fairly small tolerance and a rather small KFR value. However, from the aspect of RSB has a mean value.

Table 2 – Calculation Results of Inner Weights

| | Original Sample | Sample Mean | Standard Deviation | T Statistic | P-Value |
|------------|-----------------|-------------|--------------------|-------------|---------|
| FRT -> RSB | -0.230 | -0.082 | 0.256 | 0.897 | 0.372 |
| KFR -> RSB | 0.716 | 0.701 | 0.309 | 2.320 | 0.022 |

Source: by researchers (2023).

Based on the results of the hypothesis in this study will be carried out with the value of the parameter coefficient and the t-statistical niali (t-table), where the value must be greater than 1.960 and the p-value that has a value less than 5% (Hwa et al., 2017). Based on the results of the hypothesis, it was obtained that FRT has a smaller statistical T-value so that it can be said that the test results are not positive and significant to RSB. The original value of the sample was negative to RSB, with a magnitude of 2.3%. Thus, the hypothesis of FRT against RSB can be said to be rejected. Further on the test results of the hypothesis related to KFR, resulting in a higher value than T-Statistics. Thus, it can be said that the KFR variable has a positive and significant influence on the RSB variable. The original value of the KFR sample versus RSB was 71.6%. It can be said that the value of the hypothesis may be said to have a positive influence.

Table 3 – Calculation Results of R-Squared

| | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics (O/STDEV) | P values |
|-----|---------------------|-----------------|----------------------------|--------------------------|----------|
| RSB | 0.541 | 0.672 | 0.108 | 5.024 | 0.000 |

Source: by researchers (2023).

In addition, seen from the r-squared test to see thanks to both variables simultaneously influenced or not against RSB. Based on the results of the r-squared test showed that FRT and KFR simultaneously had a positive and significant effect on RSB. The size of the impact value is seen from the original sample value of 54.1%. This suggests that at least 45.9% of RSBs are affected by other variables, other than those that have been tested in this study.

When looking at each variable indicator, it is possible to know that each of the variables has a value to know the magnitude of its influence on each variable. On the FRT variable, it can be known that on the indicators FRT 1, FRT 2, and FRT 3 have a positive and significant influence on the variable FRT. The original sample values of each, i.e., FRT 1 had an impact magnitude of 81.7%, FRT 2 had an influence magnitude of 70.7% and FRT 3 had an effect

magnitude of 78.3%. FRT 4 has no positive and significant effect on the FRT variable. Overall, FRT 1 has the greatest size of influence.

Table 4 – Calculation Results of Outer Model

| | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics (O/STDEV) | P values |
|--------------|---------------------|-----------------|----------------------------|--------------------------|----------|
| FRT 1 <- FRT | 0.817 | 0.609 | 0.424 | 1.925 | 0.057 |
| FRT 2 <- FRT | 0.707 | 0.579 | 0.297 | 2.380 | 0.019 |
| FRT 3 <- FRT | 0.783 | 0.647 | 0.351 | 2.235 | 0.028 |
| FRT 4 <- FRT | 0.688 | 0.512 | 0.466 | 1.478 | 0.143 |
| KFR 1 <- KFR | 0.386 | 0.324 | 0.458 | 0.843 | 0.401 |
| KFR 2 <- KFR | 0.792 | 0.690 | 0.290 | 2.727 | 0.008 |
| KFR 3 <- KFR | 0.495 | 0.445 | 0.498 | 0.995 | 0.322 |
| KFR 4 <- KFR | 0.919 | 0.811 | 0.285 | 3.225 | 0.002 |
| KFR 5 <- KFR | 0.844 | 0.771 | 0.270 | 3.128 | 0.002 |
| KFR 6 <- KFR | 0.061 | 0.059 | 0.404 | 0.151 | 0.880 |
| RSB 1 <- RSB | 0.542 | 0.496 | 0.258 | 2.102 | 0.038 |
| RSB 2 <- RSB | 0.889 | 0.869 | 0.060 | 14.901 | 0.000 |
| RSB 3 <- RSB | 0.773 | 0.733 | 0.187 | 4.124 | 0.000 |
| RSB 4 <- RSB | 0.161 | 0.235 | 0.442 | 0.364 | 0.717 |
| RSB 5 <- RSB | 0.884 | 0.834 | 0.143 | 6.174 | 0.000 |

Source: by researchers (2023).

In addition to the variable KFR described on six indicators. In the six indicators there are three indicators that have a positive and significant influence on the variable KFR, namely KFR 2, KFR 4, and KFR 5. On each of these indicators there is a value of influence, that is, KFR 2 has an influence value of 79.2%, KFR 4 has an effect value of 91.9%, and KFR 5 has an impact value of 84.4%. KFR1, KFR3 and KFR6 have no positive and significant effects on KFR. Overall, KFR 4 has the highest magnitude value on the KFR variable.

Further on the variable RSB described on its five indicators has four indicators that have a positive and significant influence, namely RSB 1, RSB 2, RSB 3 and RSB 5. The size of influence of each variable is that, RSB 1 has a value of size of impact of 54.2%, RSB 2 has a size of effect of 88.9%, the RSB 3 has an amount of impact value of 77.3%, and RSB 5 has a value of impact size of 88,4%. RSB 4 is one of the indicators that has no positive and significant influence values. Overall, RSB 2 has the greatest value of influence on the RSB variable.

DISCUSSION OF RESULTS

Based on the results of the studies carried out, it can be seen that the variable FRT has no positive and significant effect on RSB. The results are similar to Alkhwaja & Albaity (2022) research. According to Dahlbäck's (1991) research, those who are risk-tolerant typically have less money in their bank accounts and more debt. Instead of setting money away for future needs and receiving no additional return, they would prefer to invest it in higher-risk assets that may provide larger returns. But based on the results, KFR has a positive and significant effect on RSB. This suggests that, if an individual has known related to the importance of saving money for retirement, then would have behavior to save his money.

In addition, seen from the aspects of FRT and KFR simultaneously will have a positive and significant impact on RSB. Showing that if an individual has known related to the need to store money on the old day and look in terms of risk then will act to save his money. According to the scholarly research, higher degrees of financial risk tolerance are linked to higher levels of investing expertise (Gibson et al., 2013). According to Huston, S (2010) mentioned that financial literacy is a skill that can help people make financial decisions effectively. Individuals who are financially intelligent are expected to have a basic understanding of financial concepts such as flower tribe, inflation rate, flat interest rate, and risk. This statement helps to assert that in looking at a worker's behavior to decide to save his old day due to his knowledge sufficient to measure the level of risk faced.

CONCLUSION

In this study, we looked at the variable aspect of Retirement Saving Behavior (RSB) in which workers in the city of Bandung performed the behavior or actions carried out in planning their finances for the old day. There are two variables in this aspect: Financial Risk Tolerance (FRT) and Knowledge of Financial Planning for Retirement (KFR). Based on the entire study results showed that if the hypothesis of each variable was tested it was obtained that FRT had no positive and significant effect on RSB. Different from KFR which has a positive and significant influence on RSB. When these two variables are reviewed, that is, FRT and KFR simultaneously have a positive effect on RSB.

This shows that the behavior of the employee in carrying out his retirement financial planning in making his decisions not only look from the risk aspects of his financial but also from the financial knowledge needed in planning his pension. Preparing for the old day is an important aspect of the life level When you are not already entering the productive time in work, so various old day planning is necessary. The results of this research are expected to provide knowledge or input to further research because in looking at retirement planning behavior is not only seen from two aspects. Furthermore, the employees can pay attention to how the financial risks faced by making investments with the expectation of better outcomes are offset by knowledge of adequate retirement financial planning.

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