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FINANCIAL LITERACY AND FINANCIAL RESOURCES RETIREMENT

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Abstract

The purpose of this study is to analyze and synthesize a theory that explains the relationship between financial literacy and pensioners' financial resources in the sandwich generation. This study uses a qualitative approach with the literature review method, which is an approach that examines and synthesizes previous research by selecting relevant literature, analyzing and solving and interpreting the synthesis of literature. This study examines 43 articles sourced from the Google Scholar database, Mandeley Search, Emerald Insight and Harzing's Publish or Pherish. This study presents the theoretical basis, other explanatory variables and research results from previous literature. Theories that underlie it include life cycle theory, expected utility theory, and planned behavior theory. The synthesis of the research results shows that good and reliable financial literacy has a close relationship with retirement financial resources. This research contribution provides important knowledge and effective strategies for increasing financial resources during retirement.

Keywords: *financial literacy and financial retirement resources*

INTRODUCTION

Retirement planning is a plan that is optional but important to be understood by people because people who plan for retirement so do not need to work hard in old age. (Herrador-Alcaide et al., 2021)states that retirement planning is in the form of setting a strategy for a better future, which is why an income management plan is needed for various savings, expenses, and investments as a basis for planning retirement. If an individual can plan for retirement, their old life will be more prosperous.

A prosperous community life must be connected to understanding financial issues, management, and strategies for running a business and daily life. Therefore, in order for people to achieve prosperity and be financially independent, they must have a clear understanding of their financial situation. Financial Literacy or knowledge of finance has become a knowledge that is closely related in everyday life (Ratnawati et al., 2017).This welfare can be achieved through a public understanding of finance known as financial literacy. This understanding of finance includes people's knowledge, skills and confidence in managing personal finances better (Van Rooij et al., 2011).

If an individual has skills, experience and awareness of finance, automatically, personal financial management can also run well. Financial management is part of personal financial management activities, which is the process of an individual meeting the needs of life through structured and systematic financial resource management activities (Ratnawati et al., 2017). According to (Prameswari & Nugroho, 2023), financial management is a person's ability to organize, manage, plan, and store their daily finances. With good money management, an individual will not be trapped in behavior more concerned with wants than needs.

The sandwich generation is a term popularized by a professor of social work in the United States, Dorothy A. Miller (1981). The sandwich generation refers to a generation that is "squeezed" between two different generations, between their ageing parents and their children or their siblings who still need help at eighteen years of age or older. Most of the sandwich generation phenomenon occurs in families with low incomes, where the sandwich generation itself needs a sufficient source of income to meet the needs of their family members (Lin et al., 2017).

Life Cycle Theory

The life cycle theory was founded by Modigliani and published in two research papers in the early 1950s with his graduate student, Richard Brumberg. In the 1950s, Franco Modigliani and Richard Brumberg developed theories about shopping behavior. This theory states that individuals make informed decisions about the amount they want to use for their expenses at each stage of life.

Life cycle theory was used to show how individuals allocate their income and expenses, which vary depending on age (Lusardi & Mitchell, 2017). This research aims to understand how the sandwich generation allocates some of its income to prepare for retirement. Based on life cycle theory, during the age before retirement, individuals must change their financial behavior related to saving and investing. This study aims to test whether it is similar to retirement planning for the sandwich generation.

Expected Utility Theory

The concept of probability was introduced in the 17th century by Pierre de Fermat, Blaise Pascal, and Christian Huygens. It resulted in formulating the first mathematical theory of decisions with risky alternatives (Marc, et al., 2010). John von Neumann and Oskar Morgenstern introduced the theory of expected utility to define rational behavior when individuals decide on an uncertain future. This theory suggests that individuals must act in a certain way when faced with decision-making under uncertainty. In this point of view, the theory is "normative," which shows how people should behave rationally. It contradicts the "positive" theory, which shows how people behave (Ackert & Deaves, 2009).

When individuals decide to retire, they are uncertain about the right period and retirement income (Safari et al., 2021). When individuals decide to plan for retirement, they must consider future losses and expected gains (Klapper & Panos, 2011). They always behave in such a way that the plan adopted for their retirement will give results as expected. The goal is to offer retirees a comfortable income during their retirement years (Lusardi & Mitchell, 2017). The plan needs to incorporate strategies to reduce future losses and maximize future profits, such as diversification, involving financial knowledge, calculation skills, financial education and risk attitudes towards financial products (Klapper & Panos, 2011).

Theory of Planned Behavior

The theory of planned behavior was introduced by (Ajzen, 1991) as a process for understanding what determines behavioral intentions and actual behavior towards financial or product decisions. This theory suggests that attitudes, subjective norms or social influences and control of perceived behavior or ease or difficulty are the basis of the intention to perform a particular behavior. Theories of planned behavior and financial literacy are positively correlated. Behavioral intentions in financial literacy significantly positively impact the intention to adopt financial products or financial decisions (Kennedy, 2013).

The theory of planned behavior relates to this research because financial literacy is shown to affect financial decision-making. When individuals decide on a financial plan to adopt during their retirement years, they adopt certain behaviors that can be determined by their perception of the retirement plan and risk attitude towards the financial retirement plan. Suppose they consider retirement plans as important to them (Sekita, 2011).

Financial Resources Retirement

According to (Moorthy & Rahman, 2012), retirement planning is an individual action involving allocating funds to achieve desired life goals in the future. In this case, the individual conducts financial planning to secure his financial resources during retirement and ensure he has enough funds to meet his living needs and achieve future financial and non-financial goals.

The desired life goal is comfort and well-being when retirement (Anderson et al., 2017). Well-being in retirement is highly dependent on patterns of retirement planning behavior carried out while still working. Individuals who have made preparations before retirement age will feel safer and more comfortable than individuals who do not have planning related to life after retirement. Although retirement planning is beneficial to one's future life, the reality is that only some individuals are motivated to do retirement planning (Morgan & Trinh, 2019).

Financial Literacy

In (Chen and Volpe, 1998) states financial literacy refers to knowledge and understanding of financial topics in financial management. It covers the individual's ability to understand the basic concepts of economics related to finance, as well as how to apply them well. There are many areas in finance, such as personal finance, corporate finance, banking finance, investment finance, and insurance finance.

According to (Bialowolski et al., 2020), Financial literacy is an individual's ability to assess and make effective decisions regarding finance. Financial literacy is important for a pension fund plan, for example, such as knowledge on how to allocate or set aside income for retirement fund planning (Grohmann, 2018). Financial literacy is an important part of achieving financial prosperity (Fazli Sabri & Tze Juen, 2014). This is because low financial literacy will have an impact on financial decision making based only on perception and lack of desire to receive financial advice. This will have an impact on financial well-being (Anderson et al., 2017).

METHODS

This research uses a qualitative approach with the literature review method, which is a method that examines and reviews previous research by selecting literature from the research, conducting analysis, mapping and interpreting with the synthesis of previous research literature. A literature review should be used consistently with methodological assumptions in qualitative research. It means that it must be used inductively so that it does not direct the questions asked by the researcher. One of the main reasons for conducting qualitative research is that the research is exploratory (Ali,H.,& Limakrisna,2013).

The author uses the google scholar database, Mendeley search, Emerald Insight and Harzing's Publish or Perish. To access articles relevant to the topic. The author determines several keywords in the literature search relevant to the research topic. The author uses the keywords "financial literacy and financial resources retirement. From the Number of articles generated from the literature search, the author filtered the data by excluding several articles that did not match the topic and research criteria. The author carried out the data exclusion process by filtering inappropriate titles, filtering inappropriate abstracts and filtering inappropriate full text so that 40 articles were obtained according to the author as research samples.

RESULT AND DISCUSSION

Life cycle theory describes how individuals manage their financial resources throughout their life cycle, including retirement. Individuals' income and expenses tend to vary throughout their life cycle. Financial literacy helps individuals to manage their income wisely and allocate funds appropriately between current needs and retirement savings (Aren & Aydemir, 2015).

The theory of expected utility states that individuals make decisions based on expected utility, namely the utility obtained from the expected results of a decision. In the context of financial literacy and retirement financial resources, individuals who understand financial literacy can more accurately evaluate the risks associated with investment choices and measure the expected utility of each choice (Moko et al., 2022). This enables them to make more informed and intelligent decisions in maximizing their financial resources for retirement (Joyce et al, 2021).

The theory of planned behavior states that better financial literacy can influence retirement financial resources through positive attitudes, supportive subjective norms, self-control, and self-control perceptions of financial literacy, with higher motivation, environmental support, and perceived ability to improve (Kerdvimaluang & Banjongprasert, 2022). The theory of Planned Behavior assumes that an individual's attitude towards a behavior will affect their intention to do it. If individuals have a positive attitude towards financial literacy, i.e. find it important and useful, they tend to be more motivated to increase their financial literacy.

This theory is supported by research from (Anderson et al., 2017), (Klapper & Panos, 2011), (Safari, et Al., 2021), (Fazli Sabri & Tze Juen, 2014), (Clark, et al.,2015), (Morgan & Trinh, 2019), and (Joyce et al., 2021), which states financial literacy has positive impact on financial resources retirement.

Based on the theory and research findings above, it can be concluded that financial literacy has an important relationship with financial resources retirement in the sandwich generation because the sandwich generation who have good financial literacy tend to be better able to manage and optimize their financial resources, make wise financial decisions, and plan their finances holistically for a financially stable retirement.

CONCLUSION

Based on the results of research on financial literacy that impacts retirement financial resources for the sandwich generation (the generation that takes care of parents and children simultaneously), financial literacy plays an important role in influencing their financial situation in retirement. The following are the conclusions that can be drawn:

- The sandwich generation, who have a high level of financial literacy, tends to better manage their financial resources for retirement. They better understand investing, risk management, long-term financial planning, and managing income and expenses.
- Good financial literacy helps the sandwich generation make more rational and wise financial decisions. They can choose investment instruments according to their risk profile and financial goals, manage risks and protect their financial resources from unexpected situations.
- The sandwich generation with good financial literacy tends to be more able to allocate their financial resources effectively between retirement, family, and parental care needs. They can develop a balanced financial strategy and avoid misuse of financial resources that could affect their financial stability in retirement.
- Good financial literacy also allows the sandwich generation to plan their finances holistically. They can consider retirement living costs, health care needs, children's education costs, and other financial commitments in their financial planning. It helps them ensure their financial resources are sufficient to meet their needs and maintain financial well-being in retirement.

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