Retirement Planning Attitude in a Financial Behavior Perscpective. Case of Albania

Dr. Elona SHEHU[1]
Department of Economics & Finance,
European University of Tirana
elona.shehu@uet.edu.al

Blerta MOLISHTI[2]
European University of Tirana, Tirana, Albania
bmolishti@uet.edu.al

Abstract

Nowadays, an issue that is becoming more and more prominent and is receiving attention from everyone is retirement planning. Retirement planning behavior is defined as the behavior of individuals toward the design of planning schemes, which has emerged in recent years from research in behavioral economics (financial behavior). Studies carried

[1] Elona Shehu is a Doctor of Science in Banking and Corporate Governance field at European University of Tirana. She studied in Albania, Netherlands and one semester in Budapest, at Obuda University, doctoral school. She has about 12 years' experience in finance, where she was appointed as the Administrator of the European Education Initiative company. She also has more than 8 years of academic experience as lecturer assistant at first, lecturer from 2017 and was appointed as Head of Department for Economics and Finance recently. She has referred at several conferences and published a considerable number of papers.

[2] Blerta Molishti is a graduate student in Bachelor of Finance (Accounting), at Department of Economics, Business and Development, at European University of Tirana. During academic years she has been part of different student's clubs and JAA (Junior Achievement of Albania). She has been awarded with excellence certificates (a holder of full scholarship) for three years of studies at EUT; UET 1st place Certificate for the forum of finance students: "Earthquake, Pandemic and the Albanian Financial System" and 3rd place at "Stock Market Learning Competition" organised by German Sparkassestiftung. Lately she has been part of an internship as an accountant at "Jaso Consulting".

out time ago have shown that the realization of a planning has brought impacts both on saving behavior and on portfolio selection. Also, it is emphasized by the researchers in this field that there are some very relevant factors, which help the retirement planning behaviour. The main purpose of this paper is to get acquainted with the behavioral theory, then research and determine the factors that influence planning behavior and readiness for retirement, seeing and analyzing this whole "phenomenon" in basis of division of different age groups for individuals employed in our country. The factors highlighted by the research are financial literacy, saving attitude, future orientation. Methodological research approach of data generation is the combination of quantitative and qualitative methods, which was realized by developing a structured questionnaire. The questionnaire is divided into two sections respectively and is completed by 164 respondents with a variety of professional backgrounds. From the empirical data collected and the analysis carried out, it is concluded that the middle age group (36-50 years old) shows a greater approach in the planning behavior of savings for retirement readiness. As well as from the review of the literature, it is concluded that there is a positive correlation between the planning behavior of individuals and the aforementioned factors.

Key words: *behavioral theory, EMH, prospect and life cycle theory, financial literacy, saving attitude, future orientation, age group*

1. Introduction

In the everyday life, it is difficult to control certain factors, such as age and loss of savings value. Referring to Gjergji, Jegeni and Shehu (2011), Social Security Scheme is established to assist individuals in managing these problems and the pension fund, according to which individuals pay a certain amount of revenues to this fund during the working years in order to get them back again (together with a return rate) during old age years, a time when the ability to generate incomes decreases.

Liedtke (2006) states that the first social insurance schemes started to be designed in the late 19th century. The main initiator of these schemes was the German chancellor Otto von Bismarck who designed the first system of state pension in 1881, which would be implemented only a decade later. This scheme, which in the international literature is recognized with the term "Pay-As-You-Go", was intended to enhance the growth of workers' welfare aiming at the operation of the economy with a maximum efficiency. Contribution to these schemes was mandatory for workers and in some various ways the funds were provided directly by government funds.

After 1990's, Albania as well-made changes in terms of social security policies. Thus, in 1992 Albania enabled the legal framework necessary for the operation of a state scheme according to PAYG model. Later this led to the establishment of the Social Insurance Institute as the institution responsible for collecting contributions and distributing these funds to the beneficiaries of the scheme by managing in this way all social security policy of the country. This state pension scheme is based on the Pay-As-You-Go principle, which requires the current workers to pay contributions based on the current incomes. These contributions are used for payments to the current beneficiaries. The contributor receives only a promise by the government that they will be paid a retirement income in the form of the pension when they are in the age of retirement. According to Gjergji et.al (2011), three are the main reasons that explain the inefficiency of pension system in Albania:

- Increase of life expectancy and decrease of the contributors' level to the PAYG scheme
- The non-professional interference of the government only for political benefits
- High levels of informality in the labour market

Due to the uncertainty of individuals in the government ability to provide them the best living standard at an old age, due to the ratio of the contributors and beneficiaries and due to the low return of this scheme, individuals are concerned about their retirement planning. Furthermore, most of them are always considering private pension schemes, or individual saving accounts.

Considering retirement as a very important element that utilizes the living standard, this study is mainly focused on retirement planning in Albania. Pension Scheme in Albania has been going through many obstacles related to policymaking. This article is not going to analyse the policymaking approach or the efficiency of the pension scheme. Nevertheless, this article aims to analyse the financial behaviour of the individuals planning their retirement.

During the last decades, a new theory finds a huge boost in development and use by many local and foreign economists and analysts. This theory is called behavioural theory. A theory that manages to explain and give a result that the decisions of individuals are also indicated by some other additional elements (whether these are economic or not in their composition) compared to what the traditional models of this field explain. In this paper, this theory will be in the framework of the study of the behaviour of individuals, respectively divided into different age groups, related to the readiness that these people have for their retirement planning. Nevertheless, what is meant by the term retirement and then by the retirement planning behaviour? The concept of retirement means the time or moment when an employed individual stops working because he/she has reached the defined retirement age. Age, which is determined by the tax laws of our country and finds its difference in both genders, that women and men do not have the same retirement age. The work of Krishna Moorthy and other researchers who are part of it (2012) have drawn conclusive results showing that different age groups of employed individuals tend to have different perspectives on planning behaviour for retirement readiness and that many individuals have come to understand the importance of planning earlier in their lives, which from their study was influenced by three factors that included: environment, individuals, and psychology.

1.1 Research focus and objectives

The scope of this article is to analyse retirement planning approach in Albania, through four main variables: (i) demographic profile, (ii) financial education, (iii) saving attitude and (iv) concern about future consequences (CFC). Hence, the research focus is to analyse whether factors such as: financial education, saving attitude and future orientation have an influencing role in the financial planning behaviour and readiness of individuals for retirement. In addition to the research focus, the main objectives of this paper are:

- to analyse each of the variables mentioned above;
- to draw a set of conclusions based on the sample of respondents;
- to conclude whether this hypothesis stands for Albanian Pension System;

Based on the literature framework, the main hypothesis taken into consideration about this paper is: *"Financial knowledge determines financial planning behaviour and retirement planning incentive."*

1.2 Methodology

The hypothesis stated in the section above, in terms of methodology is tested through a qualitative approach. This method provides a better overview of the results on the population, the design of the problem as well as its purpose. Primary data is designed and collected from a semi structures questionnaire, which was disseminated through Google Forms as an effective way of generating high response level, due to effectiveness and time management.

The questionnaire consists of 15 questions, most of which are build based on a Likert scale. In order to follow a logistic structure, as stated in the literature review section, the questions are organised in sections, where grouped questions aim to drive conclusions for these variables: demographic profile, (ii) financial education, (iii) saving attitude and (iv) concern about future consequences (CFC).The first section of the questionnaire aims to build a demographic profile of the respondent; the second section is oriented towards financial education and the last section designs findings about saving attitude and future orientation concern.

The population for this study consists in adults aged over 21. The sample consists of random individuals in different fields who may or may not have knowledge in the field of finance. To have a robust analysis and to exclude the gender effect, after the data was generated, using the random effect the final sample was an equal distribution of female and male respondents and the number of observations analysed are 164.

2. Literature Review

Behavioural finance is a relatively new concept. The main studies in this field date back to the 18th century, from the most important works of the "father" of economics, Adam Smith. Sewell (2010) mentions that the theory or behavioural finance deals with the treatment of psychological "stimulations" that influence the decision-making behaviour of individuals having a direct impact on the financial markets. For Oprean (2012), this new discipline rejected the traditional theory of the efficient market hypothesis (EMH), arguing that markets are no longer rational, but "piloted" based on psychological elements, such as: beliefs; emotions; greed and perceptions. What is the traditional theory about and why did such a theory fail? Olsen (2010) argued that in the efficient market theory, individuals make choices and decode their problems in a logical and rational way. The lack of feelings and the impact of psychology in finance on traditional theories, mainly on the efficient market hypothesis, led to the need of using the theory of financial behaviour. This theory aims to understand these behavioural anomalies, through the explanation of psychological and social phenomena that individuals experience both in the workplace and financial markets.

2.1 Prospect Theory

Subash (2012) quotes that along with behavioural theory, Prospective theory was developed, as part of the large group of behavioural economics. This theory was designed by Kahnesky (1979) as a psychological alternative to the expected utility theory, which states that different people have different abilities and reactions in different situations. As this theory defines, the behaviour of individuals is shown to be very fluctuating, for example: people experience more pain from loss than satisfaction from a benefit that is the same (loss aversion). Kahneman (1979) states that prospect theory is related to the strategy of how economic agents subjectively structure an outcome, which has an influence on the portion of utility they expect or receive. So, in short terms, making these decisions affects the consumption of individuals and their savings attitude.

2.2 Life Cycle Theory

According to Deaton (2005), the development of this theory started in the early 1950s by Franco Modigliani and is based on the economic approach of individuals, which they carry out to conceive the structuring of many life cycle choices, such as: consumption, saving, education, job offer, etc. Numerous theoretical studies have shown that people make smart choices when it comes to how much they want to spend based on their age and ability to work. It is observed that hard working people are more inclined to have a retirement plan.

Modigliani's theory points out that one of the main reasons that individuals save money is related to their need to provide for retirement, so savings starts at a younger age based on their willingness to work.

2.3 Factors influencing planning behaviour for retirement readiness

According to Ng, Tay, Tan & Lim (2011), retirement planning is not a mandatory option, but an individual choice to prepare for the uncertainties of the future. This structure focuses on economic aspects of planning such as: pension plans, social security program and personal savings of the individual. On behalf of this issue, Hershey (2007) proposed three dimensions to be considered when planning for retirement: (i) capacity, (ii) willingness and (iii) opportunity. In addition to these proposals, the planning behaviour is also influenced by several factors that are very important in their content and which are explained as follows:

2.3.1 Demographic factors

Recent studies of Hershey, Jacob – Lawson, McArdle & Hamagami (2007), also Hira, Rock & Loibl (2009), as well as Mustafa, Dept, Abdul, Shah, Usahawan, Yusof & Politeknik (2017) confirm that that there is a relationship between demographic elements and retirement planning behaviour (RPB). In addition, they state that these common demographic characteristics determining this retirement planning behaviour (RPB) include gender, age, income, and education level. Based on this literature perspective, each of these factors is included in this article.

According to Yakoboshi & Dickemper (1997) the gender difference is a determinant in retirement readiness, because women and men have different behaviours if we asked them the same questions or put them on the same hypothetical situations. For income, Kim, Kwon & Anderson (2005) focused on the fact that the preparation of individuals in determining the sufficiency of income affects the attitude they have for their retirement planning behaviour. Joo & Pauwels (2002) show that age is related to helping people in the retirement planning process and motivating them to take retirement precautions. Meanwhile, in terms of educational level, they state that through access to information and education, individuals broaden their perspective for the future Nd become aware of the retirement risks. Hence, highly educated individuals are expected to have a retirement plan in a younger age.

2.3.2 Financial Literacy

Alba & Hutchinson (1987) mention that retirement planning should be combined with financial education, which makes individuals handle their financial resources effectively. Also putting these knowledge and skills to work helps them make the right economic decisions. According to Bernheim (1998) and his studies show a positive correlation between financial knowledge and a variety of financial behaviours related to wealth, savings, and portfolio choice. From Nga & Yeoh (2018) we quote that the development of skills requires the understanding of concepts such as: inflation risk, investment risk, etc., which prepare the retirement readiness portfolio. As Selvadurai (2018) mentioned, an increase in financial education will be followed by an increase in financial knowledge, therefore the pension plan should contain "abundant" financial knowledge.

2.3.3 Saving Attitude

According to Canova, Rattazzi & Webley (2005) the retention of savings exhibits two cases of intention. In the first case, the purpose of savings is to ensure individual independence and autonomy, while in the second case, the purpose of savings is to provide and maintain a good standard of living after retirement. Joo & Pauwels (2002) state that individuals who manage to actively save for retirement tend to have a higher level of retirement readiness.

According to Engel, Blackwell & Miniard (1990) this willingness and ability of individuals to save for retirement tends to have significant relationship with three factors, such as: environmental influences, individual differences and psychological process factors. Also, it is estimated that the effort of self-control and the performance of a careful planning are seen to have a great implication in the savings results. Hence, we expect that individuals having a saving attitude, are more likely to have a better retirement experience.

2.3.4 Future Orientation

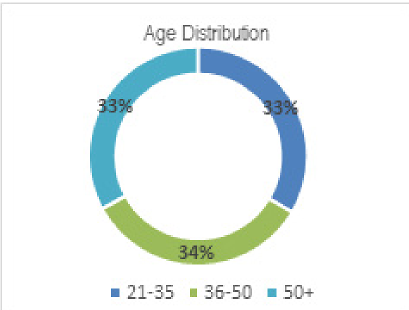
Howlett, Kees & Kemp (2008), correlate the concept of future orientation with the choices that people make in the present and the impact they will have in the future. Otherwise, this is also known as concern about future consequences (CFC). Rabinovich, Morton & Postmes (2010) determined that the future perspective can influence people's attitudes toward a particular behaviour. Those who visualize the future as closer are more likely to be prepared for a saving and planning behaviour. According to Xiao (2008), this variable shapes the person's attitude and behaviour regarding planning decisions. Xiao states that: "…people who have more awareness of the future consequences of future orientation will tend to maximize their future well-being…"

3. Findings

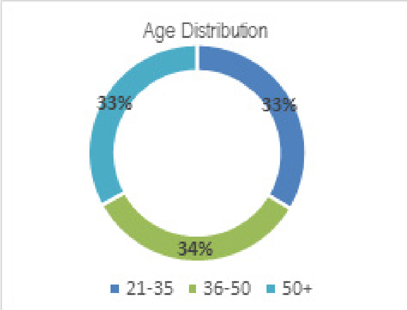
This section provides evidence of the main findings conducted in this research. The analysis of the findings is organised into three parts in line with the research focus, hypothesis, and objectives of this study: findings regarding demographic profile, financial literacy and saving attitude.

3.1. Demographic profile

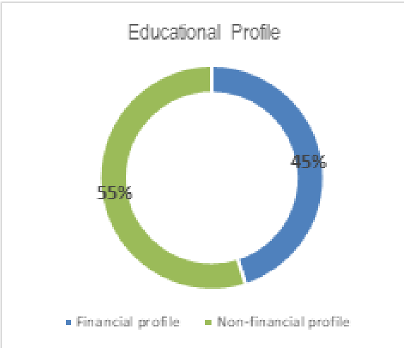
Aiming to produce unbiased results, the data sample was balanced. Using random command, the data was divided into two equal groups, consisting of 82 female respondents and 82 male respondents. This balanced sample, contributes in generating a better gender approach.



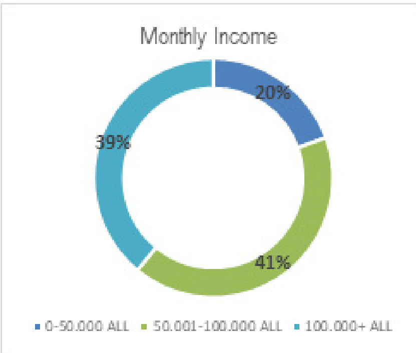
In terms of age distribution, the sample was also balanced, aiming to produce robust results and findings. Out of 164 individuals, 55 of them comprise the age group 21-35, 55 (36-50) and 54 respondents are 50+ years old. Considering this balanced distribution, we expect to have a better insight of the saving attitude.



In terms of educational background, out the total sample, around 10 % of the respondents have a basic educational background; approximately 31% have completed a bachelor's degree; 48% have completed a master's degree and around 11% have an upgraded educational background and have completed PhD or executive programmes.



From the collected results, we can state that the participation of the respondents consists of both individuals with a financial profile and those who do not have a financial profile. In terms of percentage, this division consists of 45% of the participants having a financial profile and 55% of them were from another profile (non-financial).



Aiming to have a general overview of the respondents, we decided to have an income. assessment of the sample. Individuals were questioned about their net monthly income. Referring to Instat report, where the average wage in Albania is about 54.000 ALL, this article finds out that 20% of the respondents have a below average income; 41% have a average income and 39% have an income above average.

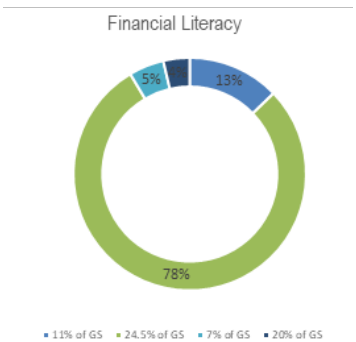
Considering the educational background of the respondents, the findings are in line with the expectation that the higher the educational background, the higher the monthly income generated.

3.2. Financial Literacy

The second section of the questionnaire aims to generate an insight about financial education, financial literacy. Throughout these responses we can evaluate the weather individuals are able to handle their financial resources effectively. The questions in this part sometimes have a financial nature, sometimes they want to get a point of view from the respondents. All three age groups were asked the same questions.

The results show that the level of information about the pension scheme is below average for about 17% of the respondents, considering a self-evaluation of the each of the respondents. Most of them consider themselves as well informed about how the pension scheme works in Albania. Nevertheless, after they were asked about how much of their gross salary goes for social insurance 78% of the respondents have provided correct information. In terms of financial literacy, most of this sample is financially educated.

In addition to this variable, respondents were also tested for their knowledge about financial instruments and which of these instruments they usually use. About 90 per cent of the respondents are aware of the financial instruments and have general knowledge about financial risks (inflation, investment etc.), but most of them are familiar with treasury bonds and deposits.



Cross questions were used to test the credibility of the respondents. After they were given a mini case with inflation and interest rate evaluation, we came out having about 85% of the responses in line with previous questions about financial education.

3.3 Future Orientation and Saving Attitude

Future orientation was also an important variable taken into consideration. Long term perspective in terms of retirement plan came out to be important (combining here important and very important) for all the sample. 92 per cent of the respondents have a saving attitude and confirmed that they have a saving plan for the retirement and 60 save more than 10% of their monthly income.

4. Conclusions

The results of the study show a valuable contribution to conclude that the financial planning behaviour for retirement shows a positive and relevant correlation with several factors, which simultaneously tend to help in the preparation and readiness of individuals for retirement. Specifically, they contribute in the understanding hat there are differences in this behaviour even between different age groups. From the results of the analysis, it is testified that these factors such as: financial education, future orientation, saving attitude have a direct and immediate impact, as they are such indications that show us that different individuals manage to perform the right choices to have a safe portfolio of their decisions and consequently, they will express a higher attitude for retirement planning.

Throughout this analysis these statements are confirmed: (i) financial knowledge leads individuals in activities aimed at achieving a good financial planning, which helps them in maintaining a pleasant living standard during and after being part of the workforce; (ii) future orientation resulted from the respondents as a very important element, since having a visualization of the future perspective creates more facilities in their saving attitude; (iii) the attitude towards savings shows a positive relationship with financial planning behaviour, because having a savings plan expresses the individuals attitude to face uncertainties (in this case, it shows a readiness for retirement).

The study of a socio-demographic character, such as age, served to understand the difference in behaviour that each of the age groups shows when fulfilling the questionnaire. As a concluding remark, individuals in the age group of 36-50 years old, have a clearer outlook for the future and from the questionnaire it was noticed that they have a good savings plan (expressed in higher %). The hypotheses raised at the beginning of this paper, is verified by the conclusions obtained from this research study.

Regarding the recommendations given on this topic, it is worth noting that responsible persons or professionals in the field of financial planning should make more efforts to establish specific programs aiming the enhancement of financial literacy in younger age. We suggest that financial education should be part of the curricula and study programmes in high school and more present to stakeholders. Having a well understanding of financial literacy, being aware of uncertainties and being able to make right decisions, helps towards a better living standard and retirement planning.

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