



31. Financial literacy and it's correlation with retirement planning

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ABSTRACT

Financial literacy encircles financial knowledge and skill which plays a pivotal role in effective retirement planning. It examines the better correlation between the higher financial literacy and retirement planning in which individuals with strong financial knowledge make informed decision, leading to better habits of saving, investment strategies and risk management. This correlation highlights the importance of understanding the concept of finance that simply includes budgeting, investing, and inflation in securing a better post work and healthy life in terms of finance. Financially literate individuals tends to start saving earlier with the mindset one can get a greater exposure about how to be financially free even they don't work and still they are getting something out of it with their knowledge, they invest more wisely, and plan better for their retirement incomes needs, ultimately they feel more confident about their future which indicates a better life with the help of their financial knowledge. This will be helpful for the people and their family as well which gives them hope to be more literate about the financial literacy. It explores the interplay between financial literacy and retirement planning, and achieving retirement goals by avoiding common pitfalls and understanding the need of investment through financial literacy, individuals can optimise their retirement outcomes as it will be helpful to them and gives hope to invest more.

Keywords – investing, budgeting, planning, risk management, financial knowledge

INTRODUCTION

Retirement planning has become one of the most important financial responsibility facing individuals in modern times and technology. Over the past several decades, demographic, economic, and institutional changes have significantly altered how the securities of retirement are meant to be achieved. Increased the expectancy of life, declining fertility Rates, and shifts from defined-benefit pensions system to define contribution schemes have transferred much of the responsibilities for retirement savings from government and employers to individual. As a result, people are now required to make financial decisions for their own saving, investment allocation, risk management so that the individual can easily bifurcate between these terminology, and long term financial plannings for their benefits. In historical pension system, retirement income was largely guaranteed through employer and government managed plans. However, contemporary retirement systems often depend on individual contributions, personal decision of investment planning and saving behaviour. This structure shift has evolved the importance of financial literacy. Individual must now fully understand the basic concept of compound interest, inflation, diversification, tax planning, and pension product in order to secure their planning of retirement through out their life and adequate amount of retirement income.

Financial literacy refers to the knowledge and ability to understand an effectively used various financial skills, including personnel financial management, budgeting, and investing. According to Lusardi and Mitchell (2014), financial literacy is a crucial determinant of retirement



preparedness. Individual with higher financial literacy are more likely to engage in retirement planning, accumulate wealth and avoid costly financial mistake. Conversely, those with limited knowledge of financial literacy those people often face inadequate saving, higher debt burdens, and financial insecurity in their post life.

Despite the growing importance of financial literacy, global surveys consistently reveal low levels of financial knowledge across the population. Many adults struggle to understand basic financial knowledge, concepts such as interest rates, inflation, recession, diversification, principal amount, bonds, Mutual funds, and other share market knowledge. These gaps and knowledge have serious implications for retirement outcomes specially in system where people must independently manage retirement funds on their own.

Retirement planning extends beyond just only saving money. it also involves setting long-term and short-term financial goals. Estimating their future wealth and future income need, selecting the appropriate financial products, managing and understanding how to tackle the risk through risk management. Therefore, financial literacy is not beneficial but essential for effective planning of retirement.

This study examines the relationship between the financial literacy and retirement planning behaviour. It explores that individuals those have the knowledge of finance have effective saving for their income needs in future. Furthermore, the study investigates how demographic variables such as age, sex, education, income influence this relationship.

PURPOSE OF STUDY

This study aims to asses how well young individuals grasp foundational financial concepts and determine whether this knowledge influences there understanding of retirement related decisions such as the importance of starting early, the impact of inflation on saving, and the benefits of diversified investment. By evaluation both financial literacy and retirement planning knowledge within the same group of respondents, the research attempts to identify patterns that may indicate a positive relationship between the two variables. another important purpose of this study is to identify specific knowledge gaps among youth. While many young individuals may conceptually understand the importance of saving for the future right now in their present time, they may lack the technical knowledge to require to make effective financial decisions by pin pointing areas where understanding is limited in calculations of interests, the study aims to highlight aspects of financial knowledge that require greater emphasis. Primary objective of this research is to examine the correlation between financial knowledge and retirement planning among working adults specially the study seeks to:

1. Determine whether the higher levels of financial literacy are engaged with increased retirement planning behaviour or not.
2. Identify and analysing the effects of demographic factors.
3. Identify which components of financial literacy most strongly influence retirement preparedness
4. Proved policy and practical recommendations for improving the outcomes of retirement



planning with financial literacy

SIGNIFICANCE OF THE STUDY

This research contributes to the polishing body of literature on personal finance, behavioural economics, and retirement planning, it offers implications and solutions related to policymakers, employers, financial institutions. The study also addressed societal concerns about aging populations and retirement insecurity. By identifying the link between behaviour of individual and knowledge, this research highlights the importance of financial education programs aimed at improving the stability of long-term finance. this research contributes in several important ways:

1. Educational relevance:

The findings highlight the need for structured financial education programmes in schools and colleges. By identifying specific knowledge gaps such as compound interest and inflation educators can design targeted interventions to improve financial competence.

2. Policy implications:

policymakers and education institutional can use such insights to advocate for financial literacy as a mandatory component of academic curricular, thereby promoting long term economic stability at both individual and societal levels.

REVIEW OF LITERATURE

THEORETICAL FOUNDATION

Human capital theory

Human capital theory refers that the invest of individuals in knowledge and education are important to improve the outcome of economy. Financial literacy can be viewed as a form of human capital that nourishes the ability of making good decisions. Individuals who invest in acquiring the knowledge of finance are better equipped to manage savings, retirement decisions, investments.

Life cycle hypothesis

The life cycle hypothesis proposes that individuals plan consumptions and saving behaviour over their life to maintain smooth and stable living standards. According to this theory, rational individuals save during their working years and dissave during retirement. However, good effect of life cycle planning requires accurate knowledge of financial principles. Without financial literacy, individuals may fail to save adequately or miscalculate the retirement needs on their own which will exacerbate their mindset.

Behavioural finance theory

Behavioural finance challenges the assumptions that individuals are fully rational. Financial literacy may help mitigate some of these biases by improving understanding and encouraging



long term thinking for their benefits.

Financial literacy: concept and measurement

several dimensions:

1. Basic numerical skills
2. Understanding the interest rates and compounding
3. Awareness of effect of inflation in the market
4. Knowledge of risk and diversifications
5. Familiarity with financial products

Lusardi and Mitchel (2011) developed three widely used financial literacy questioning on interest, inflation and diversification. These measures have been adopted globally to assess financial literacy levels.

Research indicates that financial literacy varies across demographic groups. Women, younger individuals, men, students, employed, unemployed, and those with limited education of education and knowledge about financial literacy.

Retirement planning behaviour

Retirement planning behaviour defined as the process of preparing the utilisation of financial knowledge after employment, it includes:

1. Setting retirement goals
2. Calculation of expenses after you retire
3. Investing in diversified platforms with financial literacy knowledge
4. Seeking professional advices

Studies show that individuals who actively plan for retirement in their early age have more wealth compared to the non-planners. Planning itself serves as a motivational tool that increase saving behaviour.

EMPIRICAL EVIDENCE LINKING FINANCIAL LITERACY AND RETIREMENT PLANNING

Extensive empirical research supports positive relationship between financial literacy and retirement planning.

1. Lusardi and Mitchel (2014) found that individuals who correctly answered financial literacy questions were significantly more likely to have retirement saving plans for their own.
2. van roji et al. (2011) observed that financial literate individuals were more likely to participate in stock markets and plans of pensions.
3. hung et al. (2012) concluded that financial literacy positively predicts retirement savings and preparedness.
4. Bernheim (1995, 1998) was among the first to note that policymakers and researchers might have overlooked the importance of financial literacy to explain savings and differences in saving behaviour.
5. Calvet, Campbell and Sodini (2007) show that in Sweden – a country that is often

considered to have well informed investors- many households hold under diversified portfolios or do not participate in financial markets at all.

These findings suggest that knowledge influences behaviour. However, questions remain regarding the causality and the extent to which other factors contribute to retirement outcomes.

Demographic influences
 Age: education, and income consistently influence both financial literacy due to accumulated experience.

education: higher education levels correlate with the stronger knowledge of finance.

METHODOLOGY

RESEARCH DESIGN

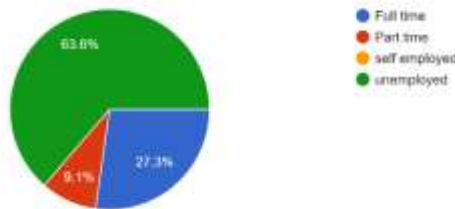
This study adopts a quantitative correlation design. The objective is to examine whether a statistical relationship exists between financial literacy and retirement planning behaviour.

POPULATION AND SAMPLING The study targets people from 15 – 30 years, a sample of 11 respondents was obtained using convenience sampling through online google form. The google form included demographic questions and included by two other sections which was related to financial literacy and the other one was retirement planning questions.

Employment

status

Employment status
 11 responses



The majority of the respondents were young individuals aged between 15 and 25 years, predominantly female, currently in college, with low incomes and unemployed status.

Section 1: Financial literacy questions

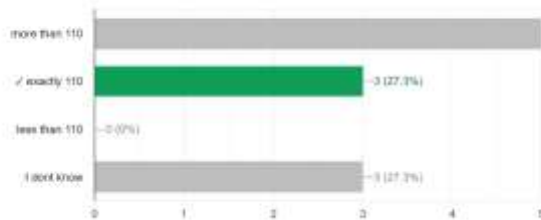
1. Basic interest calculation

If you deposit 100 in a savings account earning 2% interest per year, how much will you have after one year?
 8 / 11 correct responses



2. Compound interest

If you leave the 100 in the account for 5 years at 2% interest, will you have?
 3 / 11 correct responses



3. Investment diversifications

Buying shares in one company is usually safer than investing in a mutual fund.
 7 / 11 correct responses

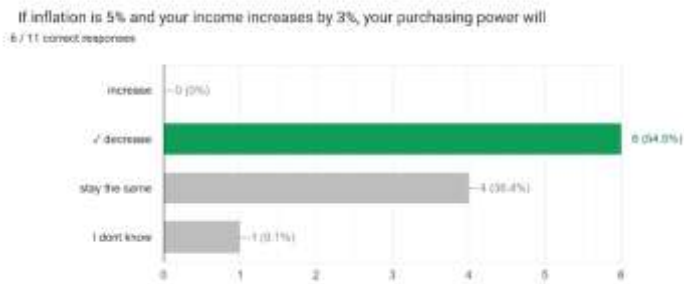


4. Regular saving benefits

Saving regularly over time helps you:
 8 / 11 correct responses



5. Inflation and purchasing power

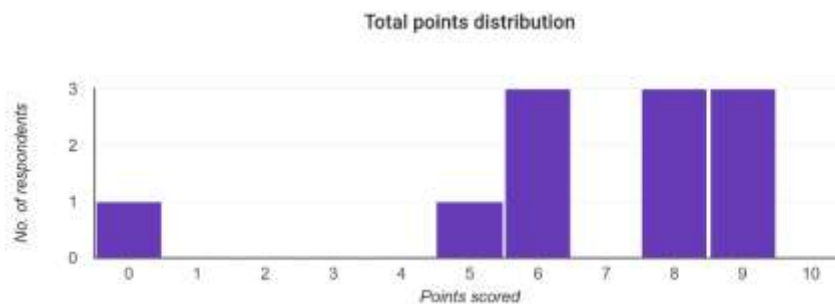


Results suggests comparatively stronger awareness of retirement planning concepts than basic knowledge of finance.

DATA ANALYTICS

Data were analysed using descriptive statistical methods, including frequencies, percentages, mean score, median and range.

Insights



Results suggest comparatively goof knowledge and awareness about retirement planning concepts than basic financial calculation concepts.

CORRELATION

The overall average score was 6.73 out of ten, with a median of 8 out of ten. Data suggests a positive relationship between financial literacy and retirement planning awareness. Respondents who performed better in basic financial concepts also tended to answer retirement related questions correctly. However, specific weaknesses such as compound interest comprehension may limit optimal retirement planning behaviour. Literature supports this finding, financial literacy underpins retirement competency (Lusardi and Mitchell, 2014) and deficits can negatively influence future saving behaviour (Fernandes et al. 2014)

DISCUSSION



CONCLUSION

This study confirms a significant positive correlation between financial literacy and retirement planning behaviour. Individuals with greater financial knowledge are more pro active in preparing for retirement. Financial literacy functions as a critical tool in promoting retirement security. However, demographic and structural factors also influence outcomes. Policymakers must prioritise financial education initiatives to enhance long-term economic stability. Improving financial literacy is not merely an academic concern but a societal necessity. As retirement responsibility increasing shifts to individuals, empowering them with knowledge becomes essential for sustainable financial well-being. The primary objective of this study was to examine the level of financial literacy among youth and to determine how their financial knowledge is correlated with their planning of retirement specially, the research sought to (1) asses the understanding of basic financial concepts such as interest rates, inflation and diversification, (2) evaluate awareness of retirement planning principles, and (3) explore whether stronger financial literacy is associated with better retirement planning knowledge. The findings indicate that while respondents demonstrate a foundational and basic understanding of the financial knowledge they somehow lack in the calculation of simple interest and compound interest but it is not a disadvantage for them because they know the basic knowledge so they can improve on their own after understanding it further more. This is a significant finding, as compound interest is one of the most powerful mechanisms for wealth accumulation over time. A limited grasp of this concept may reduce Individuals ability to fully appreciate the long-term benefits of early and consistent retirement savings. Interestingly, the study revealed that participants who performed better on retirement planning have better knowledge on financial literacy as well and if we are talking about the limitation of the planning there are some solutions for the better economy in school there should be finance related course which every student should cover it so that in future they don't face issues regarding understanding the knowledge of finance.

Example of real life case there was one lady who caught for tax evasion but when in court , judge was questioning her again and again that you don't know this is illegal but then she replied that" I did not know " because we were never taught about this in school that 50 crores in cash is illegal and simply she was not at fault but clearly lack of knowledge about finance caught her into this problem. So, this is the basic problem in every household if there are 4 people living in the house only 1 or none of the people out of the total can be known about the understanding of basic knowledge in finance. Another unique finding is that despite most respondent belong to low income and unemployed categories, awareness of retirement planning was relatively high. This may reflect growing exposure to financial discussions through education, social media, or public awareness campaigns. However, awareness alone does not necessarily translate into financial behaviour. Without strong financial literacy skills, individuals may struggle to convert knowledge into effective long term financial action. The correlation observed between financial literacy and retirement planning awareness



supports existing literature that emphasizes the foundational role of financial knowledge in long-term financial security. Participants who answered more financial literacy are likely to perform well with their planning of retirement.

Although the small sample size limits generalization, the research provides meaningful preliminary insights. It suggests that improving financial literacy especially in areas involving interest calculations and inflation can directly enhance retirement preparedness. Financial education programs should focus not only on raising awareness but also on building numerical confidence and long-term financial thinking. In conclusion, financial literacy and retirement planning are closely interconnected. A solid understanding of financial principles empowers individuals to make informed decisions, start saving earlier, diversify investments wisely, and safeguard their future financial well-being. Investing in financial education today is ultimately, an investment in stronger and more secure retirement plan tomorrow.

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