

# CHAPTER I

## INTRODUCTION

### 1.1 Research Background

National development is carried out in the framework of full human development, and all Indonesian society continuously from young to old age. Everyone ideally not only thinks about well-being at work, but also thinks about well-being in old age or retirement. When entering old age, income will generally experience various fluctuations, this is due to old age expenditures, sudden needs to be met, until other needs that are mandatory to be met. Having a steady job, a sufficient salary, a career-supporting work environment, and a harmonious family are everyone's dreams. To achieve all of the above, we are faced with a lot of preparation, ranging from higher and relevant education, having a spirit of work, organizational ability or we must have the innovation and creativity needed according to the times.

Fifit & Saputri, (2021) says Retirement is the phase of life where the employees have reached the limited ages, they started the new chapter of life, where the physical abilities weakened, declining of productivity and having limitation in doing some activities as usual they done before. All company employees or government employees will definitely retire. The company's employment regulations and Civil Servants (PNS) limit the working period of employees to the age of 55 years. When entering the age of 56 years, the employee will retire. Certain civil servants, such as teachers and lecturers, have a working period of up to 60 years. For those who do not work as civil servants, they must manage their own

pension funds by doing preparation while they are work as an employee, or even find another job.

The level and number of civil servants (PNS) is increasingly being limited by the government. The acceptance of civil servants is always crowded every year, including the CPNS Test which is widely followed by the community both those who have not worked and those who have worked. Retirement is a period that will naturally approach every individual, the arrival of retirement which is based on the limitation of a certain age, own decision or getting terminate (PHK). The definition of a pension varies depending on the system or method utilized to implement it, as well as the location or organization that does it. Pension is a monthly payment made to pension recipients based on the rules and regulations. (Fahmi et al. 2019).

Currently, companies generally provide severance pay once up front and after that the company no longer provides monthly allowances. However, there are also companies that still provide monthly allowances, but the amount is much smaller than the monthly salary that was originally received when actively working, for example, only 50% of the last basic salary. Civil servant teacher for example (PNS) usually still receive allowances of up to 75% and at least 40% of the last basic salary (according to Law No. 11 of 1969 Article 11). If you only rely on income from these allowances, of course it is very difficult. For example, when you work, you earn Rp. 8 million with a basic salary of Rp. 5 million. After retirement, the allowance is only Rp. 3.5 million or 75% of the basic salary and that is the only income. Of course, with reduced income, the person has to save on various unnecessary expenses and that means lowering his standard of living.

Many individuals are unprepared for retirement, when retirement time is coming, an individual will lose routine activities that have been carried out for many years, income will decrease, and health conditions will also decline through declining ages. For this reason, it is very important for every individual to prepare themselves to face this period, not only physically and mentally but also financially. Astri et al. (2018) says most people will not be able to set aside their money to face retirement because they have nothing in their retirement plan. Most Indonesians are still unaware of the importance of retirement planning and this causes many people who are not aware to do retirement planning. Due to decreased birth rates and death, followed by an increase in life expectancy estimates, the number of elderly people has risen rapidly in both developed and developing countries, it consists of those who worked as civil servants and who do not Kemenkes RI, (2017)

The near-retirement segment is the segment wherein someone has all started to think the retirement as an important think, usually starts at the age of 45 years. At this phase, a worker is conscious that they will enter a brand-new level in their life, wherein in this case, calls for a scenario to evolve to the changes of environment, emotional changes, economic condition, income fluctuations, expenditure and so forth. Putranti et al. (2018) investigated that self-adjustment need to be thinking and done with the growing age, considerate with the upcoming duration of retirement (five years earlier than retirement itself) is mandatory thing to prepared. Under situations of a preceding profession change, a person begins off evolved making plans new hobbies, recreation, greater family time, and regularly they plan new careers, these things are really important to be done before we already get the retirement age, the influencing environment not only the social environment,

but also the working environment, which has a significant impact on employee job satisfaction (Diyanti & Affandi, 2017)

In Indonesia, pension funds do not seem like an emergency thing. As a developing country, many people have not thought about the future because they are still fighting for the present. Mansor (2015) In this way, the 21st century age is additional able to accentuate the groundwork for retirement from the part of financial, social and segment when contrasted with the past ages. This is on the grounds that with the retirement arranging set up, it might lead to feeling more certain about managing their life also it urges retired people to be more certain considering the future life. People who think and prepare for retirement phase will attempt to create and do long-term preparation.

In retirement time every employee is equipped with money/pension funds that they save when they are actively undergoing a career as civil servants. The pension fund is intended to finance his life so that he can live a decent life in his old age. The amount of pension funds they get is determined according to the applicable laws and regulations by applying their rank and working period. Some say that the period and pension fund is an award as well as a guarantee of old age for every civil servant for his loyalty and services/devotion as long as he performs his duty, this becomes an interesting reason that many people decide to become civil servants as a permanent job in addition to other reasons.

Syamsir & Kunci (2020) investigated and found result that people must think emphatically in tolerating life changes drastically after retired, the retirement arranging conduct among representatives might be affected by individual



themselves, associates, family, businesses or government strategy, expressed that, people who need to cause arrangements before the retirement age will to feel more got and familiar when contrasted with people that didn't have early arrangement identified with life later retirement.

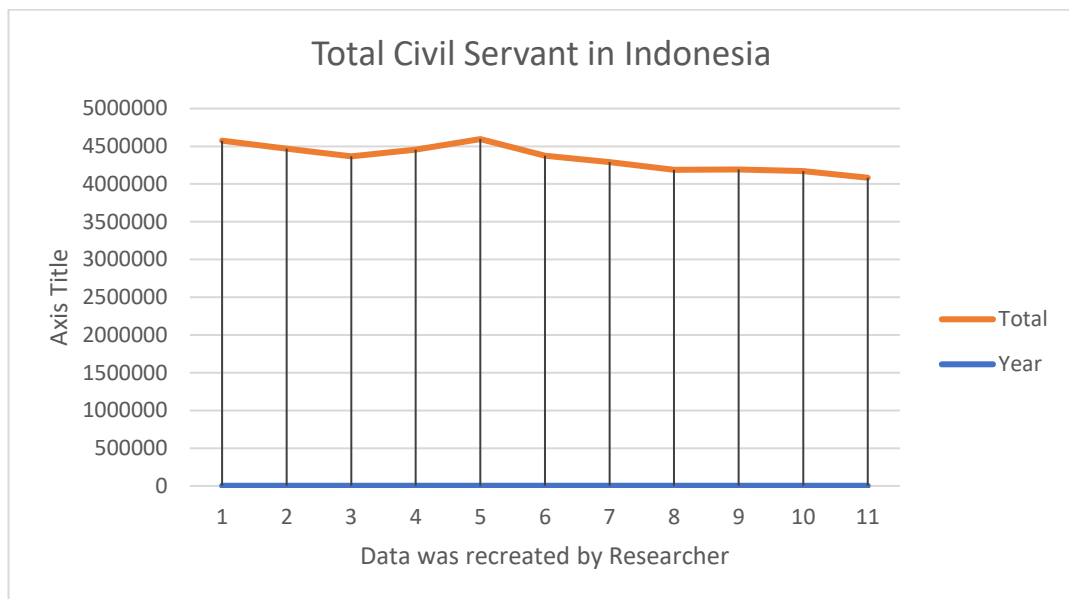
In Government Regulation No. 32 of 1979 on The Dismissal of Civil Servants it is explained that there are 8 (eight) reasons that can be used as the basis for the dismissal of a person from the Civil Service. One of them is because it has reached the retirement age limit. In general, the retirement age limit (BUP) of civil servants is 56 years old (Article 3 paragraph 2), Based on some research that has been done, towards the age of 56, it is expected that every civil servant should have prepared themselves in the face of retirement and can live it with peace without any burden. But in the reality not all retired civil servants can live it well. This may be because it is influenced by the mental burden that is in him or other causes.

Astri et al. (2018) People who are reluctant to do retirement planning could cause by some factors, they considered that the pension has been prepared by companies and countries in the form of social security programs, believing that their children will help the economy, that they can still find money, or that the assets they already have will be able to sustain the economy in the future, but in fact, state and private funds are only able to finance for a few years after entering retirement, and not everyone can work again or have children who can support the family economy after entering retirement., this becomes even worse when the fund is even exhausted before the expected time, making many retired civil servants have to find the nearest alternative to meet their needs.

Faezah et al. (2017) States that men look compared to women, men are more active in retirement planning. Furthermore, higher income levels and being the head of a household were found to enhance the chance of voluntary saves, but conversely low-income levels and not heads of households did not have retirement plans. According to research from many countries around the world, not only do individuals have low levels of financial literacy, which can result in insufficient retirement, but financial illiteracy can also be attributed to a lack of financial planning and insufficient retirement resources. Plans after retirement is very important to think about, since deciding to become a civil servant, because it will be a long-term plan.

Compared to other countries, Canada for example, Research conducted by Boisclair et al. (2014) about how Retirement Planning and Financial Literacy in Canada Getting results that mature Financial Literacy found that 42% of respondents can accurately address three straightforward inquiries estimating information interest compounding, inflation, and risk diversification. This is predictable based on evidence from various countries, and Canadians perform somewhat better than Americans but worse than people in other countries, such as Germany. Among Canadian respondents, the youthful and the old, ladies, minorities, and those with lower instructive achievement do more regrettable, an example that has been reliably found in different nations too. Retirement arranging is firmly connected with monetary proficiency; the people who reacted accurately to every one of the three monetary education questions are 10 rate focuses bound to have retirement savings.

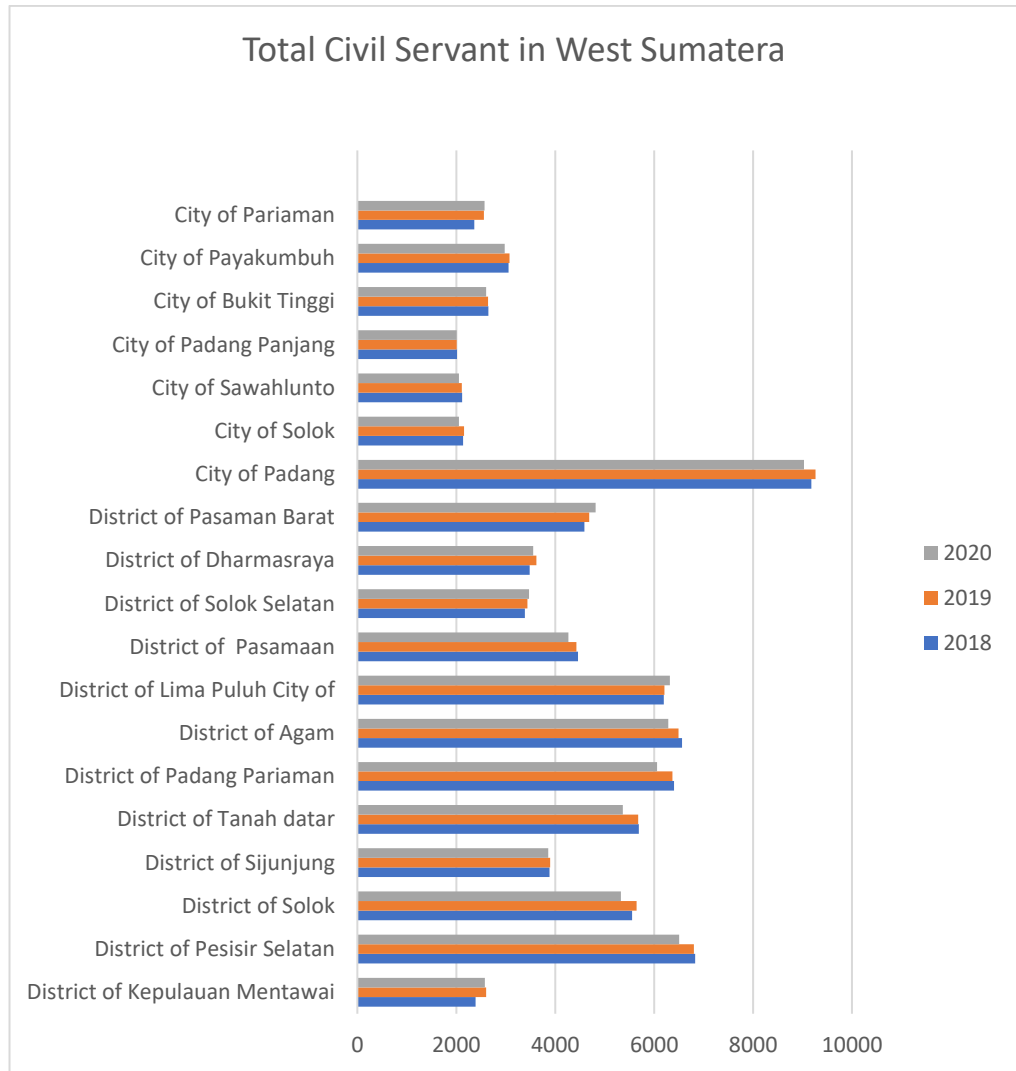
The National Civil Service Agency as the National Civil Service Supervisor as mandated by Law Number 5 of 2014 concerning State Civil Apparatus, in this case the need for accurate, integrated and up-to-date Civil Servant data is very important. Civil servant data is managed by Badan Kepegawaian Negara (BKN) as a national database where the data becomes a reference in the staffing process by all agencies. The following data is presented:



**Figure 1. 1 The Growing of Civil Servants in Indonesia from 2011 until Juni 2021**

Source: Data was recreated by Researcher

Based on the figure 1.1 above we can see that the number of active civil servants as of 30 June 2021 was 4,081,824, or decreased by 3.33% compared to 31 December 2020. The number of civil servants has continued to decline since 2016.



**Figure 1. 2 Total civil servants in West Sumatera since 2018-2020**

Source: Data was recreated by Researcher

The number of employees who will retire in West Sumatera (West Sumatera) from January to May 2021 is 465 people. This was conveyed by the Acting Regional Personnel Agency (BKD) of West Sumatera, Fitriati M, she said the number of employees who will retire in 2020 is 1,183 people. As for 2021, according to her, the estimated retirement until the end of the year from June to December is 526 retirees. All pensioners are paid from APBN funds. According on the data above, we can see that retired civil servants in Indonesia, especially in West



Sumatra, are large and the number of existing civil servants is also large, it can be seen that planning a pension fund since the first decision to become civil servants is very important to think about.

However, it will be more difficult for retirees if they still have dependent with monthly salary as main finance, especially those who have no income outside of their retirement income. Retirees will face a difficult time if they have entered retirement phase. Because they have a lot of free time and this free time does not give them more income as usual. Retirees experience avoid in their daily activities so there are some civil servants who have started to think about filling the spare time of retirees by starting entrepreneurship. In fact, many retirees are successful in running a business and making various efforts such as entering the business world, the investment world and even many retirees who get help from family members such as their children, so that they can increase their income, and retirees are not worried about the pension they receive. unable to meet the needs of daily life. In terms of health will also be guaranteed, because the body will move to do a job and routine after retirement.

This problem also has correlation with the research doing by Lusardi et al. (2011) from National Bureau of Economic Research in Cambridge on May 2011, they did by doing The Health and Retirement Study's survey module on planning and financial literacy measures how people make financial plans, gather the information needed to make these plans, and implement the plans. They discovered that financial literacy is widespread among older Americans, particularly among women, minorities, and those with the least education. They also discover that those who are financially savvy are more likely to plan and succeed in their planning, and

they rely on formal methods such as retirement calculators, retirement seminars, and financial experts rather than family/relatives or coworkers. These findings have implications for targeted financial education initiatives.

The number of civil servants who will enter retirement and investment enthusiasts in Indonesia make them have to be alert and ready to manage finances in such a way as to be effective and efficient, in addition to being used to meet needs, readiness to enter retirement is an important point that must be considered, how does the retirement period of civil servants not have financial difficulties, have passive income, and other financial sources. Research doing by Lusardi et al. (2011) found and showed a measurement of impatience is a strong predictor of retirement saving. They said that Financial literacy has a strong correlation with total and accumulation retirement savings, but it appears to be a weaker predictor of investment decision sensitivity to framing.

These findings have implications for policymakers interested in improving retirement well-being by addressing shortcomings in behavior and economic decision making that may impede long-term financial and physical health planning, decision making, and investments. Recently, many retired civil servants have to look for continuing work after entering retirement, because many needs cannot be met if they only expect pension funds. The sudden need makes pensioners have to look for other alternatives, some even have to owe to the bank and apply for similar loans to other agencies, this is very unfortunate because pensioners basically don't have another skill for work which in fact is different from their initial job, this is a consideration for the provider work while the age of retirement is already categorized as not the Labor Force.

Based on previous research from Widya (2013) they revealed that almost 9 out of 10 employees in Indonesia are not financially ready to face retirement. Based on observations Nicky Theng, CFP, FLMI, FSAI Chairperson of the Association of Financial Institution Pension Funds, that most employees do not prepare themselves mentally early for retirement. Employees are just starting to think about how to deal with their well-being in retirement in their 50s. The ideal purpose of retirement is so that one can enjoy his old age happily, but in reality, it is not so. Change of state from working to not working is considered by some individuals as a situation that not fun. Retirement is considered the end of everything, for individuals who cannot accept this situation. According to Lusardi, (2019) the psychological effect on transition to retirement, among which are identity problems caused by loss of work, loss of self-confidence, loneliness, and feelings of anxiety and depression.

For actually retirement is not always a difficult time. There are also many people who manage to live their retirement happily. They enjoy retirement as an exciting and long-awaited period, so they undergo retirement as the end of work and enjoy their old age. Therefore, it is very important to prepare early in the face of retirement, and it would be better if the preparations were made long before retirement arrived. So that there is enough time for preparation both physically and mentally and financially because finances are no longer stable. For this reason, employees need to be given awareness and always reminded of the risks of old age (retirement).

If we talk about someone's perspective on an event, we will get to know the term "locus of control". Locus of controls refers to an individual's control over their belief and their work in self-efficacy, Or the definition of locus of control is a

person's belief in who is in control of the fate and events they experience, this includes the belief that success or failure in carrying out various activities within his life is caused by his own control or control from outside himself. Ariani, (2015) defines a locus of control as the way how individuals see an event whether the event can be influenced and managed by that person or not.

Understanding locus of control according to Ghufroon & Risnawita (2011), they suggest that a person's locus of control is a representation of his beliefs about the source of his behavior. One of the factors that influence individual behavior is the locus of control, besides that some experts also believe that locus of control states the degree to which a person can accept personal responsibility for what happens to him. Therefore, every decision that will be made by someone who understands the notion of locus of control will consider many factors that will occur in the future as a result of the decisions he makes at this time.

In understanding locus of control, there are two types of locus of control. Internal locus of control is an individual's belief that the one who controls his destiny is himself. He believes that if he wants to change his fate, then he must try. Or the meaning of internal locus of control, which is a belief that there is great potential in him that can determine his own destiny. A person with an internal locus of control believes that it is not destiny that determines him, but what he does that determines his destiny.

In opposite, external locus of control is an individual's belief that his destiny is controlled by something that is beyond his control. If there's something wrong with him, then it's someone else's fault, or it's just him being unlucky. It can also be



defined as a person's perspective in which all the results he gets, good or bad, are beyond their control, so someone with an external locus of control will have more confidence in factors that are beyond their control. Such as luck, fate, or chance.

Retirement readiness can be achieved if each individual makes early preparations for this period (Shanmugam et al. 2017). Retirement will be marred by a lack of retirement planning preparation, but retirement planning is not simple (Lee & Law, 2004). According to Moorthy et al. (2012), retirement fund planning is a part of long-term planning, and people who have worked should start planning as soon as feasible because retirement fund planning will become a burden if done later in life.

Research on the relationship between locus of control and retirement planning is very rarely done, but according to the results of research by Abel & Hayslip (2015) They explain and find that a program and planning in retirement preparation can provide a context in which a person's attitude toward retirement and the state of retirement preparation can be assessed using a sample of Fifty-nine married individuals from a large southwestern corporation. Without this framework, previously held retirement attitudes and feelings of control among WLC individuals appear to be shifting as a result of future uncertainty. Someone will be more aware of their future, make a mature plan and even set aside some materials that will make them feel easier in the future.

Civil Servants are certainly considered and judged as individuals who able to have knowledge and skills in managing personal finances well. In particular, civil servants who are in charge of busy activities and cannot be separated from financial



management activities mean that they have a financial background. Especially for civil servants with a financial background, it is considered already have good financial knowledge which automatically also gives skills in managing personal finances properly and correctly. In addition to the attitude towards retirement, retirement planning is also considered as a factor that determines a person's success in adapting to his retirement in the future.

However, in reality, only a few people do retirement planning because they are too busy with their current job, can't, or don't want to plan for the future according to Adams & Rau (2011). In Indonesia, adjustment problems and other psychological problems in those facing retirement have not been systematically studied. In addition, although there are several government institutions, such as state-owned enterprises and private companies that already have retirement preparation programs, in practice only a few institutions have structured programs, including company X where this research was carried out. Early detection of readiness to enter retirement will be very useful for the preparation of the right program. From online literature searches, in Indonesia until now there have not been many systematic studies on retirement preparation published in academic journals and the scope of the research also places more emphasis on the period after a person retires. Iskandarsyah et al. (2020).

According the result of research doing by Iskandarsyah et al. (2020) they found that the regression analysis that put attitude towards retirement and retirement planning as predictor, while the outcome variable is quality of life, shows that retirement planning is a significant predictor for the physical domain ( $\beta=0.22$ ,  $p=0.01$ ), psychological domain ( $\beta=0.4$ ,  $p=0.01$ ), and environmental domain

( $\beta=0.24$ ,  $p=0.01$ ) of quality of life. However, attitudes toward retirement are not statistically significant.

Civil servants are also considered to have positive financial behavior as a result of good level of financial knowledge and skills so that it is useful for preparation their retirement for a sense of security in old age. But the condition of the author's observation as a student who has family, friends, neighbors, and the people he knows, it turns out that not all civil servants have a budget or record of cash inflows and their personal financial cash outflows, so there is an assumption that not all civil servants have abilities in manage their financial. This condition is a challenge for civil servants and ASN whether they are able to have a better ability of financial literacy so that impact on the ability to manage finances well for a good future without and a calm old age that starts from thinking about ways and methods to the right retirement plan have to depend on others.

Readiness for retirement is an individual's ability to make comfortable life in retirement, this can be achieved if the individual make preparations, employee government is considered able to meet their daily needs and has savings for retirement because they have stable finances, monthly income, and various other incentives. Becoming a civil servant requires various conditions, especially certain levels of education that must be completed, the higher the level of education, the higher the level of salary and income. According to (Fifit & Saputri, 2021) a person's level of education basically has no effect on their retirement planning attitude. Though education is important for everyone, the higher the level of education a person should obtain, the more insight they will have. Furthermore,

education can help individuals shape their future perspectives, one of which is retirement.

Education is a set of efforts and processes undertaken by a person in order to optimize their abilities, control their attitudes and behavior in social situations, and improve their thinking skills. In Indonesia, there are various levels of education with varying levels of learning. (Muhammad Nazil, 2018) found a research result which states that a person's low level of education will result in an improved retirement financial planning. The results of this study are the level of education has a significant negative effect on retirement planning. Thus, when viewed from the results of the study, it gives a meaning that having a low level of education will make a person more likely to be able to manage his financial condition, this can happen because of the awareness that the individual has about the lack of ability possessed so as to be able to enjoy retirement. those who deserve it must have a much more mature plan than someone who has more abilities.

Besides having appropriate level education, people who have mature ages also more considered to prepare retirement phase. Retirement planning is the process of determining the goals of managing income in the future retirement, which includes identifying sources of income, estimating needs and costs, and implementation of savings and asset programs, M Sufian (2016) states that people with a young age tend to think that they are too young and it is not time to think about retirement, while people with an older age think that they cannot save optimally for retirement planning because of their interest in meeting their needs. family life or other interests. In M Sufian, (2016) research, age has a positive effect on retirement planning.

Research conducted by Moorthy & Kai (2012), shows that age has an effect on significant impact on retirement planning. Retirement planning should start from early so that they can provide better benefits for planning future goals and future dreams. This is supported by research conducted by M Sufian (2016) who found that age has a significant effect on retirement planning. Where is the society with age young people tend to delay or have not thought about retirement planning, whereas People with old age tend to find it difficult to set aside funds for the benefit of the masses retirement due to having responsibilities for family needs. In addition, getting older, a person will think about many things, started from reduced income phase, routine expenses need to be met, impromptu expenses, children's needs, and sometimes health problems that must be considered from an early age.

Indonesian people tend not to think about the allocation of pension funds because they think that the pension money received in the future will be more than enough when the pension arrives, but in fact many people have retired but have to look for additional income due to several factors that cause them to have more spending. According to Kumar, et al (2019) someone with a relatively young age considers retirement is a long way to think and plan. However, for someone who approaching retirement, they are more active in retirement planning activities. Nevertheless, Basically, the older people get, the more they want it well-being in his life. Age was measured using a nominal scale with a score of: (0) 25-45 years and (1) 46-65 years. This refers to Moorthy & Kai (2012) that someone aged over 45 years have more concern for retirement planning.

Several studies have also examined pensions and pension preparations for civil servants/ASNs, one of those study who research the relationship among



financial literacy, financial preparation with retirement planning is research conducted by Adrianto & Hamidi (2022). They found that Financial literature is important in ASN's financial planning. The study also discovered that ASNs with better financial literature tend to perform better in financial management by having Keywords: future wealth, cash, and pension budgets. The study concluded that there is a positive investment relationship between ASNs' salaries and their behavior to have non-Taspen (non-investment behavior, pension fund, ASN compulsory retirement saving) income. When compared to those with a low salary, these ASNs are more likely to have a pension plan. ASNs with a larger number of children are more likely to have a better cash budget.

Based on the background above, the writer considered and analyzed some variable that have impact on Civil Servants Readiness to Enter Retirement Time in terms of ability to fulfill their needs and financial plans, and the writer decided to do research which titled: **“The Influence of Financial Literacy, Locus of Control, Income Level, Education Level, and Ages on Civil Servants Retirement Planning”**.

## 1.2 Research Question

Based on the description above, the research question can be formulated as follow:

1. How does *Financial Literacy* give influence on *civil servants Retirement Planning*?
2. How does *Locus of Control* give influence on *civil servants Retirement Planning*?



3. How does *Income Level* give influence on *civil servants Retirement Planning*?
4. How does *Education Level* give influence on *civil servants Retirement Planning*?
5. How does *Ages* give influence on *civil servants Retirement Planning*?

### 1.3 Objective of the Research

Based on the formulation of the problem, the research objectives are as follows:

1. To examine *the impact of financial literacy on civil servants in West Sumatera city to enter retirement time.*
2. To examine *the impact of Locus of Control on civil servants in West Sumatera city to enter retirement time.*
3. To examine *the impact of Income Level on civil servants in West Sumatera city to enter retirement time.*
4. To examine *the impact of Education Level on civil servants in West Sumatera city to enter retirement time.*
5. To examine *the impact of Ages on civil servants in West Sumatera city to enter retirement time.*

### 1.4 Contribution of the Research

The contribution of this research are as follows:

#### 1. Theoretical Benefits

I hope that it can be useful as a learning tool so that the knowledge I got from this research could be a consideration for those civil servants and

for everyone who still confuse about their financial planning after the retirement phase is coming. Provide information and an overview of The Influence of Financial Literacy, Locus of Control, Income Level, Education Level, and Ages on Civil Servants Retirement Planning

## **2. Practice Benefits**

### **2.1 For Researcher**

The results of this study will increase knowledge and understanding of the importance of education about Financial Planning before decided to be civil servant and enter the retirement time. In addition, the results of this study provide insight into decision making after enter the retirement time.

### **2.2 For Further Research**

The results of this study are expected to be a reference for further research to formulate new problems in further research. This research is also expected to deepen knowledge in the field of Financial Management, especially for civil servants. In addition, this research can be used as reference material in explaining investment behavior, and interest for those anyone who want to be a civil servant someday.

## **1.5 Scope of the Research**

The scope of this research is about the Impact of Financial Literacy, Investment Planning, and Income Level on civil servants' readiness in West Sumatera city to enter retirement time. Where the variables Financial Literacy, Investment Planning, and Income Level are will be measured through a questionnaire filled out by several respondents and for the scope of this study are Civil Servants in West Sumatera.

## **1.6 Outline of Research**

This research is divided into five chapters to make it easier and moderate the forwarding of content. They are as follows:

### **Chapter I INTRODUCTION**

This chapter contains the background of the research, the problem statement, the objective of the research, the benefit of the research, the scope of the research and ended with the structure of writing.

### **Chapter II LITERATURE REVIEW**

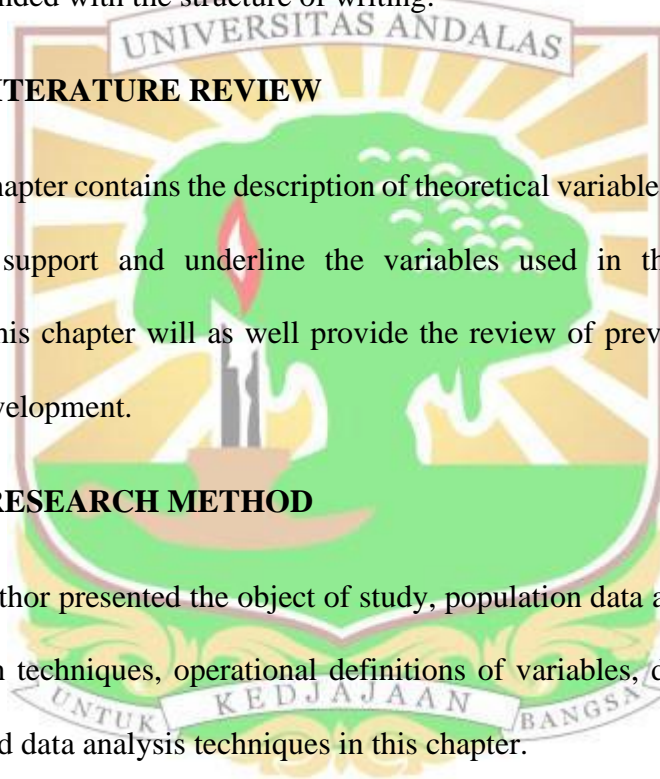
This chapter contains the description of theoretical variables that include the theories that support and underline the variables used in the research and framework. This chapter will as well provide the review of previous studies and hypothesis development.

### **Chapter III RESEARCH METHOD**

The author presented the object of study, population data and data sources, data collection techniques, operational definitions of variables, data presentation techniques, and data analysis techniques in this chapter.

### **Chapter IV ANALYSIS AND DISCUSSION**

This chapter contains the result analysis of the research, the respondent description, descriptive analysis, and respondent answer from the result of filling the questionnaire.



## Chapter V CONCLUSION

This chapter contained the conclusion of the conducted research, the implication, limitation, and suggestion of the research.

