

DETERMINANTS OF SHARIA RETIREMENT FINANCIAL PLANNING MILLENNIAL GENERATION IN INDONESIA

Nurul Hasanah ¹⁾, Ratna Juwita ²⁾, Aprilia Nur Fitriana ³⁾, Muthi'ah Rahmah Syahidah ⁴⁾,
Ricardo Marcell Dimas Djiwandono ⁵⁾

^{1,2,3,4,5)} Politeknik Negeri Jakarta, Depok, Indonesia

Corresponding author: nurul.hasanah@akuntansi.pnj.ac.id

Abstract

The research was motivated by a phenomenon where many retirees in Indonesia could not enjoy a prosperous retirement, and some even had to continue working to meet their living needs. Based on this phenomenon, financial planning is very important for well-being in old age and needs to be done early when someone is still in their productive period. However, the millennial generation, as the largest population of productive age, does not yet have financial planning for retirement. In line with Indonesian society, which is predominantly Muslim, the goal of finance is not only for peace in this world but also in the afterlife. For this reason, the research aims to analyze the factors determining the millennial generation's Islamic retirement financial planning. The research method used is SEM-PLS with the variables studied including financial literacy, clarity of retirement goals, and financial attitudes as mediating variables. The research results show that financial literacy and clarity of retirement goals directly influence financial attitudes, but do not influence sharia retirement financial planning. Apart from that, financial attitudes also show that the results do not affect sharia retirement financial planning. Financial attitudes do not mediate the influence of financial literacy and clarity of retirement goals on Sharia retirement financial planning. The results of this research can be used as consideration for the government and pension fund companies in determining strategies and policies to improve the welfare of the Indonesian population.

Keywords: Sharia Retirement Financial Planning; Financial Literacy; Financial Attitude; Clarity Of Retirement Goals

Introduction

The aging population is a phenomenon that most countries face, and it can have a significant impact on their productivity and economic growth. This challenge is particularly relevant for Indonesia, as it has the largest Muslim population in the world. According to the Central Statistics Agency (BPS), Indonesia's population is projected to reach 275.773 million people by 2022. As per a report by The Royal Islamic Strategic Studies Center (RISSC), 237.56 million people, which is 86% of the total population in Indonesia, are Muslims (Rizaty, 2022).

Indonesia is a country with a large number of people in their productive working age. Many of these individuals work in the formal sector. According to BPS (2022), the formal sector will continue to dominate labor absorption in Jakarta in 2022. As a result, the number of pre-retirees in Indonesia is likely to increase in the future.

Retirement is a crucial stage in a person's life and needs to be planned for carefully. Being mentally and financially prepared for retirement is essential from an early age. Having a sound financial condition is a significant factor in enjoying a comfortable and independent retirement. Upon entering retirement, individuals may face challenges, particularly with regard to income, which will typically decrease compared to their pre-retirement income. A survey conducted by Goldman Sachs Asset Management (GSAM) found that more than half (51%) of retirees reported that their income after retirement was less than 50% of their pre-retirement income (GSAM, 2022). Meanwhile, living expenses will continue to be a constant factor.

According to the Financial Services Authority (OJK), around 93% of formal workers in Indonesia have no idea what their life will be like after retirement (Febrianto, 2021). This is particularly true for the millennial generation, which constitutes the largest population of the productive age. According to Syarifudin Yunus, Executive Director of the Financial Institutions Pension Fund Association (DPLK), 86% of the millennial generation in Jabodetabek do not have a pension program (Yunus, 2020). This is because this generation prefers to spend money on experiences rather than saving and investing. Deloitte's 2022 research reveals that almost half of the world's millennials (47%) finance their living expenses from their salaries and are concerned about covering their expenses. The same study also found that a quarter of millennials (31%) worldwide are unsure whether they will be able to retire comfortably. The current generation mostly uses their finances to meet their present needs and has not prepared for future needs (OJK, 2022).

As people approach retirement age, saving enough money to ensure a comfortable and financially secure future becomes an increasingly challenging task. Unfortunately, many retirees find themselves unable to achieve the necessary savings required for a comfortable retirement. According to data from OJK, seven out of ten retirees in Indonesia are forced to continue working to meet their basic living needs (Febrianto, 2021).

This is a clear indication of a mismatch between expectations and reality, as retirees should be able to enjoy a comfortable and financially prosperous old age, not continue working to make ends meet.

In Islam, Muslims are encouraged to plan their lives economically and financially to achieve fallah, which means success in this world and the afterlife. This means that a Muslim's financial goal is not only for peace in this world but also in the afterlife. Indonesia, being a country with a Muslim majority, is encouraged to carry out all activities, including future financial planning, based on Sharia principles. Sharia-compliant financial planning for retirement is very important for Muslims. Through this planning, retirees can ensure that their retirement income can meet their retirement goals and is free from usury.

Several research studies have identified certain factors that can influence retirement financial planning. These studies have found that financial literacy and financial attitude factors play a significant role in financial planning for retirement (Mustafa et al., 2023; Harahap et al., 2022; Kumakoma, 2023; Chen, 2023; Rosli, 2022; Park & Martin, 2022; Chelliah et al., 2022). In addition to these factors, goal clarity is also an important aspect of saving activities for retirement and has a positive effect on retirement planning for both young and old workers (Zhu & Chou, 2018). Furthermore, research conducted from a sharia perspective has also shown that clarity of goals has a positive impact on retirement planning (Syamlan & Easti, 2020).

Previous research has rarely discussed the financial planning of the millennial generation from a sharia perspective. The author is interested in researching retirement financial planning for the millennial generation in Indonesia based on a Sharia perspective. The research aims to analyze the relationship between financial literacy, clarity of goals towards retirement financial planning based on a sharia perspective, and financial attitudes as a mediating variable. The research results are hoped to provide contributions and input in determining appropriate strategies and policies to ensure comfortable and prosperous retirement for workers in Indonesia.

Literature Review

Financial Literacy

Financial literacy refers to an individual's knowledge and skills in understanding financial concepts, instruments, tools, and institutions, that are necessary for managing finances and making informed financial decisions (Safryani & Triwahyuningtyas, 2020). Financial literacy encompasses various aspects such as maintaining financial records, planning for the future, choosing the right financial products and services, staying updated on financial developments, and carrying out financial supervision, including managing debt and savings (Margaretha & Sari, 2015). Several studies have shown that financial literacy has a significant impact on retirement financial planning (Mustafa et al., 2023; Chen, 2023).

Goal Clarity

Having goals is an essential aspect of achieving what one desires by enhancing functionality and laying out future plans. It helps individuals to realize their future objectives and improve their quality of life. According to research conducted by Stawski and colleagues, goal clarity is a crucial psychological mechanism that motivates people to plan for their future (Syamlan & Easti, 2020).

Financial Attitude

Financial attitudes refer to the states of mind, opinions, and judgments that an individual holds about finances. These attitudes are an integral part of an individual's mindset, which influences their financial decision-making process (Pakow, 2013). Financial attitudes play a crucial role in determining an individual's success or failure in the financial sector, as they are considered to be a psychological tendency that influences one's evaluation of recommended financial management practices with some degree of approval or disapproval. By understanding their financial attitudes, individuals can align their attitudes and behavior accordingly, particularly in terms of financial management, budgeting, and decision-making (Yogasnumurti et al., 2020).

Retirement financial planning based on a sharia perspective

Financial planning from a Sharia perspective is a crucial element of Islamic finance that adheres to Sharia principles. It is legally enforced to comply with certain prohibitions, including riba, gharar, and maysir. In addition to these restrictions, financial planning with this perspective should focus on implementing maqasid al-syariah, which aims to improve human welfare by protecting their faith (dīn), self (nafs), reason ('aql), their descendants (nasl), and their wealth (mal). It is essential to emphasize the prohibition of usury and investments that do not comply with Sharia rules (Mahmud et al., 2019).

Research Hypothesis

The research is based on the following hypotheses:

Direct Effects

H1 : Financial literacy influences financial attitudes

H2 : Clarity of goals influences financial attitudes

H3 : Financial literacy influences Islamic retirement financial planning

H4 : Clarity of goals influences sharia retirement financial planning

H5 : Financial attitudes influence Sharia financial planning

Indirect Effects

H6 : Financial literacy affects Sharia retirement financial planning which is mediated by the financial attitude variable

H7 : Clarity of goals influences sharia retirement financial planning which is mediated by the financial attitude variable

Methods

The purpose of this research is to analyze the factors that influence retirement financial planning among the millennial generation in Indonesia from a Sharia perspective. The study focuses on descriptive quantitative research and the population consists of the millennial generation in Indonesia, born between 1981 and 2000. Purposive sampling was used to determine the sample size of 100 respondents between the ages of 27 and 42, working in the formal sector, and domiciled in Indonesia. The Margin of Error (more) formula was used since the population size was large and unknown. The research uses a quantitative analysis approach, specifically Partial Least Square (PLS) with the smartPLS application. Financial attitude, financial literacy, goal clarity, and Islamic retirement financial planning are treated as latent variables with their respective indicators. PLS is a method used to implement Structural Equation Modeling (SEM)

Result and Discussion

Measurement Model Analysis (Outer Model)

In the analysis of the outer model, a reliability test is conducted by examining the composite reliability value of the indicator block that measures the latent variable. The composite reliability results will be considered satisfactory if the value is greater than 0.7. According to the test results, the composite reliability value for all latent variables in the study is greater than 0.7. The composite reliability values of the variables clarity of goals, financial literacy, financial attitudes, and Islamic retirement financial planning are 0.940, 0.830, 0.791, and 0.845 respectively. This indicates that all latent variables in the estimated model meet the composite reliability criteria. The lowest composite test result was 0.791 for the financial attitude variable. In addition to the reliability test, a discriminant validity test is also conducted at this stage, which involves examining the square root of the average variance extracted (AVE) value. Based on the test results, the AVE values for the variables clarity of goals, financial literacy, financial attitudes, and Islamic retirement financial planning are 0.840, 0.709, 0.662, and 0.580 respectively. This shows that the AVE value for all latent variables in the research model is greater than 0.5. The lowest AVE value is 0.580 for the Sharia retirement financial planning variable.

Structural Model Analysis (Inner Model)

Significance Test

Direct Effect

Direct effect analysis is useful for testing the hypothesis of the direct influence of a variable that influences (exogenous) on the variable that is influenced (endogenous). The following are the results of hypothesis testing categorized as a direct effect:

Table 1. Path Coefficient

	T statistics (O/STDEV)	P values
Goal Clarity -> Sharia Retirement Financial Planning	1.020	0.308
Goal Clarity -> Financial Attitude	2.056	0.040
Financial Literacy -> Sharia Retirement Financial Planning	0.407	0.684
Financial Literacy -> Financial Attitude	2.267	0.023
Financial Attitude -> Sharia Retirement Financial Planning	0.359	0.720

Source: (SmartPLS4, Data processed in 2023)

Based on the results of the statistical analysis, the following significant direct effects were found:

1. The influence of financial literacy on financial attitudes (Hypothesis 1/H1). Based on Table 1, there is a direct and significant influence of financial literacy on financial attitudes. This is indicated by the P-values of $0.023 < 0.05$. The path coefficient value shows a positive relationship, so the influence of financial literacy on financial attitudes is unidirectional.
2. The effect of goal clarity on financial attitudes (Hypothesis 2/H2). Based on Table 1, there is a direct and significant influence of goal clarity on financial attitudes. This is indicated by the P-values of $0.040 < 0.05$. The path coefficient value shows a positive relationship, so the effect of goal clarity on financial attitudes is in the same direction.

3. The influence of financial literacy on Islamic retirement financial planning (Hypothesis 3/H3). Based on Table 1, there is no direct influence of financial literacy on Sharia retirement financial planning. This is indicated by the P-values of $0.684 > 0.05$.
4. The influence of clarity of goals on Islamic retirement financial planning (Hypothesis 4/H4). Based on Table 1, there is no clear direct influence on Sharia retirement financial planning. This is indicated by the P-values of $0.308 > 0.05$.
5. Financial attitude variables towards Sharia retirement financial planning (Hypothesis 5/H5). Based on Table 1, there is no direct influence of financial attitudes on Sharia retirement financial planning. This is indicated by the P-values of $0.720 > 0.05$.

Indirect Effect

Indirect influence analysis is useful for testing the hypothesis of the indirect influence of an influencing variable (exogenous) on the influenced variable (endogenous) which is mediated by an intervening/mediation variable. The following are the results of hypothesis testing categorized as indirect influence:

Table 2. Spesific Indirect Effect

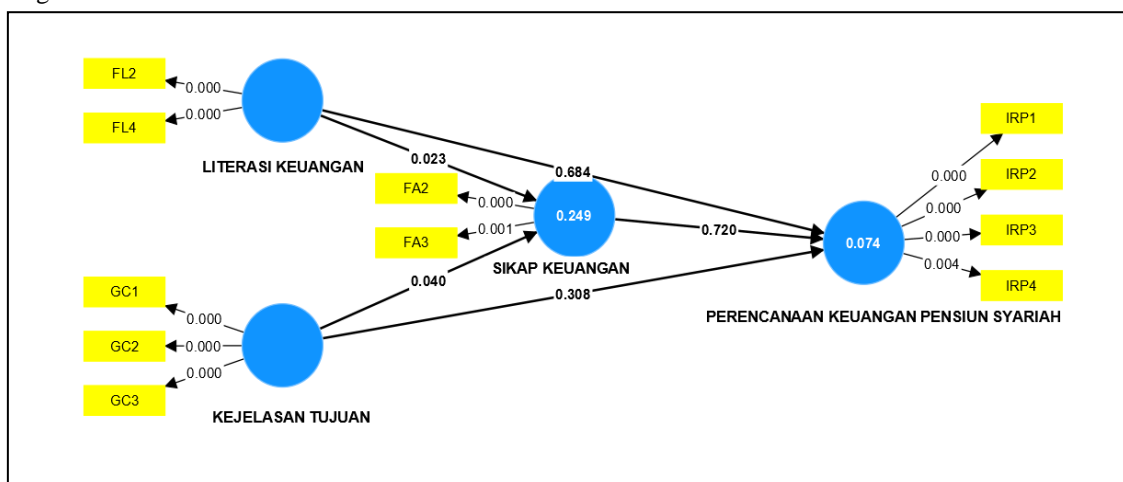
	T statistics (O/STDEV)	P values
Financial Literacy -> Financial Attitude -> Sharia Retirement Financial Planning	0.327	0.744
Goal Clarity -> Financial Attitude -> Sharia Retirement Financial Planning	0.305	0.761

Source: (SmartPLS4, Data processed in 2023)

Based on the results of the statistical analysis, the following significant indirect effects were found:

1. The influence of financial literacy on Islamic retirement financial planning through financial attitudes as a mediating variable (Hypothesis 6/H6). Based on Table 2, the p-value of the influence of financial literacy on Sharia retirement financial planning through financial attitudes as a mediating variable is $0.744 > 0.05$, meaning there is no significant influence. Thus, the mediating variable, namely financial attitude, is unable to mediate the influence of the financial literacy variable on sharia retirement financial planning.
2. The effect of clarity of goals on Islamic retirement financial planning through financial attitudes as a mediating variable (Hypothesis 7/H7). Based on Table 2, the p-value of the influence of goal clarity on Islamic retirement financial planning through financial attitude as a mediating variable is $0.761 > 0.05$, meaning there is no significant influence. Thus, the mediating variable, namely financial attitude, is unable to mediate the influence of the clarity of goals variable on sharia retirement financial planning.

Figure 1 illustrates the research results based on the conducted tests:



Source: (SmartPLS4, Data processed in 2023)

Figure 1. Test Result

Table 1 displays the test results that illustrate the impact of financial literacy and clarity of goals on financial attitudes. The findings suggest that financial literacy and clarity of goals have a significant effect on financial attitudes. Individuals with higher financial literacy tend to have better financial attitudes, indicating that financial literacy plays a crucial role in shaping people's financial behavior. One way to improve financial attitudes is by increasing financial knowledge through attending financial seminars and enhancing awareness and skills. In addition to financial literacy, clarity of goals for retirement also contributes to forming financial attitudes. People who have clear goals for their retirement tend to have a more focused

attitude towards finances. Moreover, Table 1 shows the results of testing the direct impact of financial literacy, clarity of goals, and financial attitudes on Sharia retirement financial planning. The findings indicate that neither financial literacy nor clarity of goals nor financial attitudes have a direct impact on Sharia retirement financial planning. Furthermore, Table 2 presents the results of testing the indirect influence of financial literacy and clarity of goals on Sharia retirement financial planning. The findings suggest that financial literacy and clarity of goals, mediated by financial attitudes, do not have any impact on Sharia retirement financial planning.

Conclusion

After conducting tests and analyses, it has been concluded that financial literacy and clarity of goals have a significant impact on an individual's financial attitude. This suggests that a person's understanding of financial concepts, ability to manage finances, and clear retirement goals are crucial in shaping their financial attitudes, particularly for the millennial generation. However, financial attitude, financial literacy, and clarity of goals do not significantly influence Sharia retirement financial planning. The research also indicates that financial attitudes cannot mediate the effect of financial literacy and clarity of goals on Sharia retirement financial planning.

References

- Badan Pusat Statistik. (2022). Jumlah Penduduk Pertengahan Tahun (Ribu Jiwa) 2020-2022. Diakses tanggal 29 Maret 2023. Retrieved from <https://www.bps.go.id/indicator/12/1975/1/jumlah-penduduk-pertengahan-tahun.html>
- Badan Pusat Statistik. (2022). Sektor Formal Makin Mendominasi Penyerapan Tenaga Kerja di Jakarta. Diakses tanggal 29 Maret 2023. Retrieved from <https://jakarta.bps.go.id/pressrelease/2022/11/07/991/sektor-formal-makin-mendominasi-penyerapan-tenaga-kerja-di-jakarta.html>
- Chelliah, P., Shanmugam, A., & Suang Sin, T. (2022). A Study on The Factors Impacting Retirement Planning Among Low-income Workers in The Northern Region, Malaysia. *Journal of Entrepreneurship and Business*, 10(2), 69–84. <https://doi.org/10.17687/jeb.v10i2.928>
- Chen, Bingzheng, & Ze Chen. (2023). Financial Literacy Confidence and Retirement Planning: Evidence from China. *Risks* 11: 46. <https://doi.org/10.3390/risks11020046>
- Febrianto, Heru. (2021). Duh, 93% Pekerja Formal Belum Punya Perencanaan Dana Pensiun. Diakses tanggal 29 Maret 2023. Retrieved from <https://ekbis.sindonews.com/read/379236/34/duh-93-pekerja-formal-belum-punya-perencanaan-dana-pensiun-1616940210>
- Goldman Sachs Asset Management. (2022). Retirement Survey & Insights Report 2022. Diakses tanggal 29 Maret 2023. Retrieved from <https://www.gsam.com/content/gsam/us/en/institutions/market-insights/gsam-insights/2022/retirement-survey-insights-2022.html#section-none>
- Harahap, Subur, Armanu Thoyib, Sumiati Sumiati, and Atim Djazuli. (2022). The Impact of Financial Literacy on Retirement Planning with Serial Mediation of Financial Risk Tolerance and Saving Behavior: Evidence of Medium Entrepreneurs in Indonesia. *International Journal of Financial Studies* 10: 66. <https://doi.org/10.3390/ijfs10030066>
- Kerdvimaluang, Narit. (2022). Financial Attitudes and Subjective Norms Influencing Retirement Planning. *The EUrASEANs: Journal on global socio-economic dynamics*, 1(32), 68-76.
- Komalasari, F., & Mulyadi, R.Z. (2023). The Influence of Financial Literacy, Financial Attitude, and Peer Influence toward Retirement Saving Behavior Moderated By Gender: A Case in Indonesia. *Journal of Economic Empowerment Strategy (JEES)*, 06(01), 27-40.
- Kumankoma, E.S. (2023). Financial Literacy and Retirement Planning in Ghana. *Review of Behavioral Finance*, 15(1), 103-118.
- Mahmud, M., Foziah, H., Ghaza, P., Nurfadzilah, N., Rashid, N., & Shukr, A. (2019). Islamic Wealth Management Towards Retirement Planning Among Private Sector Workforce in Malaysia. *International Journal of Recent Technology and Engineering (IJRTE)*, 8(3), 7100-7103.
- Margaretha, F., & Sari, S. (2015). Faktor Penentu Tingkat Literasi Keuangan Para Pengguna Kartu Kredit di Indonesia. *Journal of Accounting and Investment*, 132-144.
- Mustafa, W.M.W.; Islam, M.A.; Asyraf, M.; Hassan, M.S.; Royhan, P.; Rahman, S. The Effects of Financial Attitudes, Financial Literacy and Health Literacy on Sustainable Financial Retirement Planning: The Moderating Role of the Financial Advisor. *Sustainability* 2023, 15, 2677. <https://doi.org/10.3390/su15032677>
- Otoritas Jasa Keuangan. (2022). Generasi Muda Sehat Finansial? Bisa!. Diakses tanggal 29 Maret 2023. Retrieved from <https://sikapiuangmu.ojk.go.id/FrontEnd/CMS/Article/40776>
- Pankow, D. (2013). Financial Values, Attitudes, and Goals. *North Dakota State University Fargo, North Dakota* 58105. 4.
- Park, H. & Martin, W. (2022). Effects of risk tolerance, financial literacy, and financial status on retirement planning. *Journal of Financial Services Marketing*, 27, 167–176. <https://doi.org/10.1057/s41264-021-00123-y>

- Rizaty, Monavia Ayu. (2022). Jumlah Penduduk Muslim Indonesia Terbesar di Dunia pada 2022. Diakses tanggal 29 Maret 2023. Retrieved from <https://dataindonesia.id/ragam/detail/populasi-muslim-indonesia-terbesar-di-dunia-pada-2022>
- Rosli, Norashikin bt. (2022). Determinant of Employee's Retirement Planning: A Literature Review. *Jurnal Kejuruteraan, Teknologi dan Sains Sosial*, 8(1), 314-325
- Safryani, U., Aziz, A., & Triwahyuningtyas, N. (2020). Analisis Literasi Keuangan, Perilaku Keuangan, Dan Pendapatan Terhadap Keputusan Investasi. *Jurnal Ilmiah Akuntansi Kesatuan*, 319-332.
- Syamlan, Y., & Easti, R. (2020). Islamic Retirement Planning Among Indonesian Bankers. *EQUILIBRIUM: Jurnal Ekonomi Syariah*, 8(1), 25-40.
- Yogasnumurti, R. R., Sadalia, I., & Irawati, N. (2020). The Effect of Financial Attitude and Financial Knowledge on Personal Financial Management of University Students Moderated by Gender. *International Journal of Research and Review*, 7(2), 649-657.
- Yunus, Syarifudin. (2020). 86% Generasi Milenial Tidak Punya Program Pensiun, Kok Bisa?. Diakses tanggal 29 Maret 2023. Retrieved from <https://pdplk.com/blog/86-generasi-milenial-tidak-punya-program-pensiun,-kok-bisa.html>
- Zhu, A.Y.F & Chou, K.L. (2018). Retirement Goal Clarity, Needs Estimation, and Saving Amount: Evidence from Hong Kong, China. *Journal of Financial Counselling and Planning*, 29(2), 328-342.