# Chapter 2 - Literature Review

## 2.1 Theoretical Overview and Related Research

In this chapter, the theoretical underpinnings of the research is put into perspective and a review of related literature drawn from major repositories such as Scopus, Web of Science, Science Direct, ProQuest3, SSRN, and RePEc among others is provided. This chapter provides an in-depth review of the relevant literature to establish the theoretical and empirical foundations of the study. The review is organized into four main parts: theoretical foundations and conceptualization of retirement financial behaviour, demographic factors, psychological factors, and financial literacy. Each section draws on previous research to explain key concepts and hypotheses related to retirement financial behaviour.

### 2.1.1 Theoretical frameworks

The study of retirement financial behaviour has drawn insights from various fields, notably Economics, Psychology, Consumer Behaviour, and Behavioural Finance. This interdisciplinary approach seeks to explain the complex factors that influence how households save for retirement (Ingale and Paluri, 2023). Central to these explanations are two foundational theories in psychology: Ajzen's (1991) Theory of Planned Behaviour (TPB) and Fishbein’s (1979) Theory of Reasoned Action (TRA). Both models have been widely adopted in behavioural studies, including retirement savings, to predict and explain how attitudes, intentions, and perceived control shape financial behaviour.

The TPB posits that individuals’ intentions to perform certain behaviour are influenced by their attitudes toward the behaviour, subjective norms, and perceived behavioural control. In the context of retirement savings, TPB helps clarify how households’ attitudes toward future planning, peer or societal expectations, and the level of control they feel over their financial situation influence their savings actions. Meanwhile, the TRA focuses on the link between beliefs, attitudes, and intentions to behave in certain ways, suggesting that positive attitudes and social approval are essential motivators in financial decision-making processes.

Economic theories have also contributed critical insights, particularly through the life cycle theory of consumption, which suggests that people plan their consumption and savings behaviour over their lifetime to ensure stable living standards. Empirical studies like those by Brounen et al. (2016), Brown and Jones (2015), and Koehler et al. (2015) have applied this theory to explain retirement savings behaviour. However, disparities in retirement wealth across households have raised questions about the validity of the life cycle model. Factors such as differences in income, unexpected financial shocks, and varying levels of financial discipline challenge the model's assumptions, suggesting it may not fully capture the diversity in retirement savings behaviour (Binswanger and Carman, 2012).

In addition, Hauff et al. (2016) expanded on these foundational theories by incorporating financial literacy, emotions, and intuition to understand the heterogeneity in household savings behaviour. Their work highlights that beyond rational planning, emotional factors, and intuitive judgments play significant roles in financial decision-making. The study further suggests that differences in financial knowledge, emotional responses to financial situations, and reliance on intuition contribute to variations in how households save, providing a more comprehensive framework that combines behavioural and psychological factors with traditional economic models.

Another relevant theoretical framework is Mowen’s 3M Theory of Motivation (2000), which provides a comprehensive understanding of individual behaviour by establishing a systematic relationship between personality traits, motivation, and behaviour. This theory includes a hierarchical structure consisting of elemental traits (basic personality characteristics), compound traits (such as future time perspective), situational traits (like financial risk tolerance), and surface traits (including retirement goal clarity). Collectively, these traits contribute to effective retirement financial behaviour, emphasising how individual differences can influence financial behaviour.

### 2.1.2 Conceptualization of Retirement Financial Behaviour

The literature has approached the concept of retirement financial behaviour from multiple perspectives, reflecting its complex and multidimensional nature. Each perspective provides unique insights into how individuals prepare financially for retirement and what motivates their financial decisions. To understand retirement financial behaviour comprehensively, scholars have examined it through different stages and lenses, underscoring its multidimensionality.

At the core of retirement financial behaviour is the three-stage retirement process—pre-retirement planning, the retirement decision, and post-retirement adjustments—which involves a series of interdependent phases where each stage informs the next. Research by Beehr (1986) shows that planning in the pre-retirement phase, including the setting of savings and lifestyle goals, is essential for a smooth transition into retirement and for adjusting post-retirement. This approach aligns with findings by Adams and Rau (2011), who describe these phases as essential to understanding the progression of retirement-related financial behaviour.

The goal-oriented view of retirement financial behaviour focuses on specific aspirations, such as financial security, health, and leisure pursuits, which are critical to retirement planning. Gupta and Hershey (2016) categorize these retirement goals, emphasizing the need for tailored financial strategies that align with individual goals across domains like health and travel. This perspective shows that individuals are more likely to engage in proactive savings and investments when their goals are clear and actionable, a notion reinforced by studies on goal clarity (Stawski and Hershey, 2007).

A proactive aspect of retirement financial behaviour, retirement preparation highlights the importance of preventive measures like self-insurance and self-protection, which Muratore and Earl (2010) classify as “reflexive planning domains.” This viewpoint underscores how individuals engage in planning behaviour that safeguard them from risks in retirement, contributing to a stable financial foundation. Additionally, retirement savings behaviour examines contributions to funds like the Employees' Provident Fund (Nga and Yeoh, 2018), illustrating how systematic savings behaviour are pivotal to financial readiness.

The behavioural and psychological aspects of retirement financial behaviour, as explored by scholars such as Noone et al. (2010), address how psychological preparedness—including clarity of goals, confidence, and emotional readiness—enhances financial behaviour and ultimately shapes retirement satisfaction. Research shows that individuals who exhibit high retirement goal clarity are more likely to save consistently and engage in diversified investments, demonstrating how psychological factors influence financial preparedness (Stawski and Hershey, 2007).

Furthermore, resource-based models of retirement financial behaviour, such as the retirement resource inventory developed by Yeung and Zhou (2017), view financial behaviour as influenced by a combination of tangible, mental, and social resources. This model broadens retirement financial behaviour beyond financial resources, encompassing cognitive, social, and emotional assets that individuals need for a fulfilling retirement. Such a perspective highlights that retirement planning and savings requires a holistic approach, addressing not only financial stability but also emotional and social support structures. Thus, retirement financial behaviour emerges as a dynamic and multi-stage process with each stage—planning, goal-setting, saving, and resource management—being interlinked (Ingale and Paluri ,2023).

### 2.1.3 Demographic Influences on Retirement Financial Behaviour

A comprehensive body of literature examines the demographic influences on retirement financial behaviour, highlighting factors such as age, education, income, and gender. These factors have been widely studied as significant determinants of retirement planning, savings behaviour, and financial security. Numerous studies have explored the impact of age on retirement planning. Moorthy et. al., 2012 et al. (2012) identified that individuals between the ages of 26-35 are at the ideal age to begin retirement planning, emphasizing the importance of early financial preparation. Stawski et. al., (2007) also found that age significantly influences retirement planning behaviour, with older individuals generally engaging more in retirement planning. Afthanorhan et al. (2020) noted that younger individuals, despite being earlier in their career stages, often demonstrate higher financial literacy and a more proactive attitude toward saving for retirement. Devaney et al. (1997) similarly concluded that age plays a critical role in determining engagement in retirement planning activities. These studies collectively underscore age as a major factor in shaping retirement savings behaviour. Education levels are another vital determinant of retirement financial behaviour. Higher education is positively correlated with increased engagement in retirement planning. Moorthy et. al., 2012 et al. (2012), Joo and Pawels (2002), and Tuan-Hock et al. (2011) concluded that education is a key driver of retirement planning behaviour, with individuals who have higher educational attainment being more likely to plan for retirement. Afthanorhan et al. (2020) also found that individuals with higher education levels tend to have greater goal clarity, leading to more thorough retirement planning. The relationship between education and retirement savings has also been emphasized by Joo and Grable (2005), who noted that higher education levels contribute to improved financial decision-making and a more positive attitude towards saving for retirement. Income level plays a significant role in shaping retirement confidence and saving behaviour. Joo and Pawels (2002) observed that income is a crucial factor in determining individuals' confidence about their retirement savings. Similarly, Moorthy et. al., (2012) and Hassan et al., (2016) highlighted that income level strongly influences individuals' participation in retirement planning activities, with higher-income earners generally more confident about their retirement security. Interestingly, Afthanorhan et al. (2020) discovered that individuals with lower incomes tend to be better retirement planners, possibly due to a greater awareness of their financial limitations and a desire to compensate through savings. Household income is a major determinant of social class, influencing an individual's capacity and motivation to save for retirement, with lower-income individuals needing more robust saving strategies. Gender differences in retirement savings behaviour have also been widely documented. Hogart (1991) found that men tend to have higher savings for the future compared to women, a finding corroborated by Huberman et al. (2007), who observed that men are more likely to engage in retirement savings activities. Joo and Pauwels (2002) identified significant gender differences in retirement confidence, with men displaying higher levels of confidence compared to women. Women, particularly those in lower-income or traditionally female-dominated occupations, tend to save less for retirement due to lower earnings, as observed by Clark et al. (2012). Moreover, Catrambone (1998) and Alcon (1999) emphasized that women often face knowledge gaps that act as barriers to retirement planning, with younger women lacking information about retirement saving and older women being at a greater disadvantage. Gender disparities in retirement savings behaviour are thus not only tied to income but also to financial literacy and access to resources.

To sum up, demographic factors serve as critical determinants of retirement financial behaviour. These factors not only influence individuals' retirement planning and savings behaviour but also interact with broader socio-economic and psychological influences, shaping long-term financial security. Recent evidence suggests that while older individuals tend to save more for retirement, younger individuals are increasingly demonstrating financial literacy and a proactive attitude toward retirement planning. Education remains a strong predictor of retirement savings, while income and gender disparities highlight the ongoing challenges that many individuals face in securing financial stability for retirement.

### 2.1.4 Cognitive and Non-Cognitive Influences on Retirement Financial Behaviour

Cognitive science serves as an interdisciplinary domain that elucidates the intricacies of individual decision-making, emphasizing the interplay between intelligence and behaviour (Frydman and Camerer, 2016). The individual decision-making process is shaped by the interaction of cognitive and non-cognitive responses. Researchers have sought to understand the heterogeneity in individual stimuli and responses, highlighting that individual lacking systematic planning tend to accumulate less savings compared to those engaged in formal planning (Gerhard et al., 2018; Poterba, 2015; Segel-Karpas and Werner, 2014).

To enrich the understanding of how non-cognitive or personality traits influence retirement planning, several studies have employed the Big Five Personality Traits framework. This model posits that personality traits, which are often established in early childhood, significantly impact behaviour such as maintaining a healthy lifestyle and engaging in responsible financial management (Brown and Taylor, 2014; Parise and Peijnenburg, 2017; Strömbäck et al., 2017 and Gerhard et al., 2018). This understanding underscores the importance of psychological variables in retirement planning. In financial behaviour research, various predictors have been identified that influence outcomes such as retirement planning, financial preparedness, and investment behaviour. Self-efficacy, defined as the belief in one's ability to succeed and cope with challenges (Bandura, 1994), mediates the relationship between financial information and retirement planning intentions, with studies by Sherer et al. (1982), Hoffmann and Plotkina (2020), Wang et al. (2011), and Tang and Baker (2016) providing supporting evidence. Emotional stability negatively correlates with financial distress, representing the ability to remain calm under stress (Goldberg, 1992), while conscientiousness, characterized by organized and self-disciplined behaviour, shows a positive association with retirement planning (Parise and Peijnenburg, 2017). Values such as security and benevolence positively influence retirement planning through deep-rooted emotions that shape behaviour (Nepomuceno and Porto, 2010). Materialism has a negative association with subjective well-being but is positively related to compulsive buying (Richins and Dawson, 1992; Karabati and Cemalcilar, 2010). Additionally, financial management practices moderate the relationship between materialism and compulsive buying, as shown in Brown and Jones (2015). Financial attitudes serve as mediators between financial knowledge and management behaviour (Bapat, 2020), while money attitudes influenced by entitlement and conscientiousness significantly impact financial behaviour (Aydin and Akben Selcuk, 2019). Investment behaviour is predicted by attitudes toward investment, perceived risks, and financial risk tolerance, which has positive associations with traits like extraversion and emotional stability (Rabbani et. al., 2019). Social support and perceived trust are also important predictors of financial preparedness for retirement (Segel-Karpas and Werner, 2014). Furthermore, perceived financial security moderate's retirement planning intentions (Topa et al., 2011), and financial involvement predicts preparedness (Segel-Karpas and Werner, 2014). Trust in financial institutions and advisors is crucial for investment intentions (Hauff et al., 2016). Time preference influences retirement savings, while rules of thumb and self-control can enhance planning efforts (Tangney et al., 2004). Finally, self-esteem affects financial behaviour via subjective financial knowledge and optimism can lead to higher risk-taking tendencies (Scheier et al., 1994). Social influences, such as parental and peer effects, significantly shape money management and savings strategies, impacting financial socialization and future savings decisions (Brounen et al., 2016; Gerrans et al., 2018). Overall, these predictors interact in complex ways, influencing financial behaviors and planning outcomes across various contexts.

Financial literacy has consistently emerged as a crucial determinant in shaping retirement financial behaviour. Several studies have explored its influence on retirement planning, investment decisions, and overall financial preparedness for retirement. This review synthesizes key findings from prominent studies on the subject. Lusardi and Mitchell (2007, 2008, 2011) established that individuals with a strong understanding of financial concepts like interest rates, inflation, and risk diversification are more likely to engage in retirement planning. These financial concepts form the foundation of sound retirement planning decisions, helping individuals to prepare adequately for the future. In their studies using the Health and Retirement Survey (HRS) data, they showed that higher financial literacy correlates with increased retirement wealth.

Similarly, Clark et. al., (2005) expanded on this by linking financial literacy to retirement wealth accumulation. Their research demonstrated that individuals who are knowledgeable about key financial principles accumulate more wealth over their lifetime and are better prepared for retirement. This suggests that financial literacy plays a direct role in influencing retirement outcomes.

Van Rooij et al. (2011) also underscored the importance of financial literacy in retirement savings behaviour. Their findings indicated that individuals who possess higher levels of financial literacy tend to engage more in planning and saving for retirement, which leads to greater financial security in later years.

Fernandes et al. (2014) adopted a 13-item financial literacy measure from Lusardi and Mitchell’s work, along with other scholars like van Rooij et al. (2011). They found that financial literacy positively influences a broad range of financial behaviour, including saving for retirement. People with greater financial literacy tend to manage their finances better, engage in diversified investment portfolios, and are more conscious of long-term financial planning.

In the context of retirement planning, financial literacy is also shown to affect individuals' propensity to seek financial advice. Allgood and Walstad (2016) and Kramer (2016) documented a relationship between financial literacy and advice-seeking behaviour, noting that financially literate individuals are more likely to seek professional financial advice. This demonstrates that financial literacy not only enhances retirement planning directly but also indirectly by fostering proactive advice-seeking behaviour, which can further improve financial preparedness.

Several studies have focused on how financial literacy influences pension-related decisions. For instance, Mitchell and Mukherjee (2017) observed that individuals with higher financial literacy are more inclined to participate in micro-pension schemes, which provide retirement security for those in informal sectors or with lower income. The three-item scale developed by Lusardi and Mitchell (2008, 2011) was instrumental in assessing financial literacy levels and how they influence pension behaviour.

Gavurova et al. (2017) used a structured 54-item questionnaire to study the relationship between financial literacy and active pension savings. Their findings indicated that individuals with higher levels of financial literacy are more likely to contribute actively to pension savings, further supporting the role of financial literacy in retirement preparedness.

Financial literacy often acts as a mediator between demographic factors and retirement savings behaviour. Hershey et al. (2007) explored how financial literacy mediates the relationship between psychological influences, such as future time perspective and financial involvement, and retirement savings. Individuals with clearer retirement goals, who are financially literate, tend to save more effectively for retirement. This is consistent with the findings of Hershey and Mowen (2000), who argued that individuals with higher financial literacy engage more in effective planning activities.

Additionally, Stawski et. al., (2007) examined the role of financial literacy in moderating the impact of demographic factors like age and income on retirement savings. They found that individuals with high financial literacy levels are better at navigating the challenges posed by demographic constraints, leading to improved retirement savings.

Research has shown that financial literacy is a key predictor of perceived financial preparedness for retirement. Ramalho et. al., (2019) and Segel-Karpas and Werner (2014) highlighted that individual who are financially literate have a better sense of their financial preparedness for retirement. These individuals are more likely to engage in activities like gathering financial information, meeting with financial advisors, and organizing financial records, which all contribute to better retirement preparedness.

The review of literature demonstrates that financial literacy plays a pivotal role in retirement financial behaviour. It influences individuals' ability to plan for retirement, seek financial advice, engage in pension savings, and feel financially prepared for retirement. The multidimensional nature of financial literacy, encompassing knowledge of financial concepts, behaviour, and attitudes, suggests that enhancing financial literacy could significantly improve retirement outcomes for individuals. As studies like Lusardi and Mitchell (2007, 2008, 2011) and Hershey et al. (2007) have shown, policymakers and financial educators should prioritize financial literacy to ensure better retirement planning and financial security for future retirees.

## 2.2 Research Gaps and Significance of Our Research

Despite significant research on retirement financial behaviour globally, several key gaps exist. Most research on retirement financial behaviour has been conducted in developed economies with established retirement systems, financial literacy resources, and institutional support. However, developing economies like India in general, and the unique socio-economic and cultural contexts of underdeveloped or less-researched areas, such as the BTR in India, are underexplored. In developing economies, informal financial systems, lower financial literacy, and limited access to retirement planning resources may shape financial behaviour differently, creating a need for context-specific studies. While demographic variables such as age, gender, income, and education are often analyzed in extant literature, their specific impact in regions with distinct cultural and economic characteristics, like the BTR, remains unclear. Research has not sufficiently addressed how these factors interact to influence retirement financial behaviour in these regions, where access to financial literacy resources may be limited and socio-economic conditions may vary significantly from those in developed countries. Studies on psychological factors have mostly focused on individualistic societies in developed nations. There is limited research on how these psychological factors play out in collectivist and resource-constrained societies typical of developing economies, including the BTR, where traditional financial planning practices may be prevalent, and family or community influence might be stronger. Few studies explore how financial literacy interacts with psychological variables in these areas, creating a knowledge gap that this research aims to address.

This research seeks to address these critical gaps by focusing on the BTR in India, an unexplored area in the extant literature. The research will provide new insights into how retirement financial behaviour is shaped in a unique socio-economic and cultural setting like the BTR. By focusing on this region, the study contributes to a more global understanding of retirement financial behaviour, which is often skewed towards developed economies.

The study’s emphasis on financial literacy is essential, especially in a region like the BTR where formal financial systems may not be as developed. By analysing how financial literacy interacts with psychological variables, the research can inform policymakers and financial educators about effective strategies for improving retirement preparedness in underdeveloped regions.