Behavioral Challenges for Retirement Planning:
A Study of Employees of the Information Technology Industry in Pune, Maharashtra

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ABSTRACT

Standard economic theory based on the rationality assumption predicts optimal provisions for retirement by individuals. However, empirical data shows substantial under-saving for retired life by citizens of both developed and developing countries. This article attempts to test the role of selected heuristics as well as the influence of framing of choices in financial decision-making for retirement through a structured questionnaire. Responses were obtained from a sample of 87 employees from the Information Technology industry in Pune, Maharashtra, showed that a relatively high proportion of the sample reported failure to meet their own savings targets. The authors also observed a relatively small percent of the sample was seeking advice from financial experts Results of chi-square tests further confirmed the existence of the selected heuristics and framing effects in the context of the sample. The suggested ubiquitousness of selected behavioral tendencies widens the scope of policy formulation and intervention by regulatory authorities for optimal retirement planning.

KEYWORDS

Behavioral Economics, Framing, Heuristics, Mental Accounting, Retirement Planning

INTRODUCTION

Individual saving for retirement has become an area of concern for Governments around the world. The Natixis Global Retirement Index (Natixis Global Asset Management, 2017) reported that the funding gap for retirement could reach USD 400 trillion by 2050. The Employee Benefits Research Institute, USA (EBRI) 2017 survey reported that 39 percent of households in the U.S.A. have saved nothing for retirement. The National Institute on Retirement Security’s Retirement Security report of 2017 indicates that 76 percent of Americans are concerned about their ability to achieve a secure retirement and 88 percent believe that the country is likely to face a retirement saving crisis in the future. In the United Kingdom, Learn to Trade, a Forex education provider recently commissioned a survey which predicts that the country will be facing a pension crisis by 2028. The Department for

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Work and Pensions, United Kingdom, found that four in ten employees eligible for auto-enrolment in its flagship saving scheme, are “under-saving” for retirement.

The World Economic Forum’s (WEF) white paper on the global retirement savings crisis (2017) also predicts that by 2050 the world will face a USD 400 trillion shortfall in retirement savings. The WEF has defined a shortfall as anything less than what’s required to provide 70 percent of a person’s pre-retirement income via public pensions and private savings. Their study found that the United States is likely to fall short by USD 137 trillion. It is followed by China’s USD 119 trillion shortfall. India is in the third position facing a likely shortfall of USD 85 trillion.

Recent empirical studies by other agencies on the situation in India indicate inadequate savings for retirement by individuals. The Global Benefits Attitudes Survey 2015/16 published by Willis Tower Watson based on more than 2,000 employees in India found that almost 54 percent worry about their future financial condition. One in three revealed that they lacked confidence in having sufficient financial resources 25 years into their retirement and a growing proportion of employees expect to work through their sixties to meet their financial obligations. The Aegon Retirement Readiness Survey 2015 (Aegon Life Insurance Company Ltd., India) reports that Indian employees are on course to save only 71 percent of the income they will need post retirement. There are nearly 100 million people aged above 60 in India and this number is expected to triple by 2050 (United Nations World Population Aging Report 2015). The Natixis Global Retirement Index (Natixis Global Asset Management, 2017) has ranked India last out of 43 countries on all of the factors it considers for driving retirement security. Of the current working population, only 8 percent of the employees who retire from private companies have pensions and the government provides pension only to retired government employees and 30 percent of the old who are needy (CRISIL Report, January 2015). The CRISIL report predicts that if the private coverage stays chronically low the government will have to formulate a pension scheme to support the entire population of the old and the fiscal burden of pension would amount to 4.1 percent of the GDP by 2030. Currently, the Indian Government does not have a policy of social security for all, as is available in other developed countries. There are currently three retirement savings schemes available to individuals. Two of them the National Pension Scheme (NPS) and the Public Provident Fund (PPF) are voluntary contribution schemes. The third, Employee Provident Fund (EPF) involves a mandatory monthly deduction from salary with a matching contribution from the employer. This scheme is available only to those eligible employees working in organizations which are required by law to offer it. In this backdrop, it becomes crucial for individuals in India, who are in the earning phase of their life cycle to save enough for retirement on their own. The WEF report identified five factors that will put a strain on global retirement systems which include inadequate savings rate and a high degree of individual responsibility to manage pension. An understanding of the factors influencing financial decision-making, savings behavior and attitude towards investing for retirement can help to guide efforts of financial market regulatory authorities and financial institutions to assist individuals in achieving the financial goal of saving enough for retirement. Behavioral studies on savings and investment behavior have provided some insights into possible policy changes that can assist individuals to save more for retirement (Benartzi and Thaler, 2013).

There is currently very limited behavioral research on savings and investment behavior in the Indian context. The aim of this study was to examine the validity of selected heuristics and the influence of framing on decision making for retirement planning on Indian income earners. The study seeks to explore savings behavior and attitude towards investing of employees who are required to manage their own retirement savings in the backdrop of the lack of any financial safety net being provided by the Government.

A survey questionnaire was designed to investigate behavioral factors influencing respondents’ financial decisions. Eighty-seven employees from the Information Technology industry in Pune city of Maharashtra, India took part in the survey. Results suggest that respondents tend to behave in accordance with established Behavioral economic concepts pertaining to heuristics, mental accounting and framing. These findings can provide a basis on which financial regulatory authorities, particularly
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