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Financial Planning and Measures among Saudi Nationals – An Empirical Study

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Abstract

To find out contingency financial planning among Saudi nationals after retirement and also dependents in case of untimely death of earning member. It also aims to find out the preferred methods of planning in any. The study is quantitative based on primary data collected through structured closed ended questionnaires administered to the Saudi nationals in Jeddah city, of Saudi Arabia. The results were obtained through use of simple statistics such as mean, percentage, and frequency. The results show that financial planning among Saudi nationals is not very common practice. Majority of the respondents do not do financial planning either for themselves for retirement or for their dependent family members. It also showed that whoever do the planning they do not do it by purchasing insurance. However, in future insurance may gain popularity. The results will be helpful for the corporate managers and the government in developing strategies to develop culture of financial planning for retirement and for dependents. These institutions can also formulate strategies to enhance the role of insurance in these planning. The study was conducted mainly in Jeddah city of Saudi Arabia. Given the importance of the subject it is advisable to conduct more similar study to generalize the findings to the country as a whole.

Keywords: *Risk Perception, Saudi Arabia, Saudi Nationals, Financial Planning, Insurance.*

Introduction

Retirement, fall into a larger category system, called social security system. A number of authors have defined social security of which, Scott (2003) defined it as the comprehensive federal or social welfare program of benefits; providing workers and their dependents with retirement income, disability income and other payments by utilizing the social security tax. Lee (2002) also defined social security as programs established by statute that insure individuals against interruption or loss of earning power, and for certain special expenditures arising from injuries, birth, or death. While (Rejda, 2011), referred to as social insurance, income maintenance, services for social security and sometimes as basic security. Linking retirement with social security, Asher (2000) described the main function of a social security system as to provide a substantial proportion of retirees a socially adequate level of replacement rate after retirement. This replacement rate refers to the proportion of the last drawn salary or other benchmark. The middle income earner, can get a replacement rate of around 75 %, which considered adequate for financial security (Asher, 2000a). Scott (2003) defined retirement as the period of a person's life during which he/she is no longer working. Accordingly, there are three sources of retirement income; social security, employer-provided pensions, and personal/private savings. The social security is known as public fund, designed by government to provide minimum income standard during retirement (Devaney and Su, 1997). It is also noted that older workers, rely on pensions or social security provided by employer, while younger workers considered savings and investments to be the most important source of retirement income besides the working contributions (AARP,2005). On the other hand, Farlex (2006) defined a retirement plan as a plan for setting aside money to be spent at the commencement of retirement. While, the word pension defined as the corresponds to a benefit paid to an employee " beneficiary" who retires from work after reaching a prescribed age (Mitchell and Fields, 1996). The pension can be described as “annuity” when a benefit is paid regularly once the employee leaves his or her work until death, and called “lump-sum benefit”, when a single payment is made upon retirement. Furthermore, the pension plan is a long term financial contract or promises to secure income for workers in their old age (Campbell, 2009). Accordingly, there are two basic types of retirement/pension plans, which classified as defined benefit (DB) and defined contribution (DC) (Rejda, 2011; Baranoff, 2004; Bodie *et al.,* 1988; Cocco and Lopes, 2004; Davis, 1995; WorldBank, 1994). The DC plan has a fixed rate with available retirement benefit. The contribution rates are usually a predetermined fraction of an employee’s salary, for example 20% of the employee’s monthly salary. Employers and employees make periodic contributions into individual accounts for each employee. Some employers issue the "hybrid” plans, which is a combination of DB and DC, such as the "Cash Balance” plan (Bodie and Davis, 2000; Rejda, 2011; Baranoff, 2004). The cash balance plan, allows individual to accumulate interest, they are allowed to take that amount with them if they decide to leave the company (Rejda, 2011). The cash balance plan can also be a DB plan. If so, the benefits will be defined as a hypothetical account balance which will depend on the value of the participant’s retirement account. The main distinguishing point of the cash balance plan, it is so easy to understand by the employees, unlike the traditional DB plan structure (Treischman, *et. al.;* 2005). This plan has a feature of "floor plan", since it has a DC plan with guaranteed minimum retirement annuity determined by a DB formula (Bodie and Davis, 2000). Despite, the fact that its recommended to have a homogenous pension system, each country has its own retirement pension plan and prism. Some countries manage assets, while other offer generous pension provisions. Some countries have a historical identity of providing social insurance systems that provide DB based on PAYG (A pay as you go) financing methods, while other countries have a DC plans managed by the government, or regulated privately by the state (Ross, 2000). Saudi Arabia for example, manages huge assets through its two pension funds. The Retirement Pension Department, established in 1958, currently known as Public Pension Agency (PPA), and the General Organization for Social Insurance (GOSI) established in 2000, which covers workers in the private sector and includes a social insurance system. The PPA has one main objective which to secure the financial resources to civilian and military state workers and their beneficiaries. By the end of 2013, PPA scheme served around 617,080 pensioners, with a total of $12,083,000 (PPA, 2014). The GOSI plan has an objective to cover workers working in the private sector. It includes social insurance system, which consists of two branches: occupational hazards and annuities. By the end of 2013, the number of establishments covered under the social insurance scheme reached 419,485, with organization claims 20,892,137 contributors. Since started the fund has paid nearly $26 billion pension to cover 2 million beneficiaries. The invested portion of assets in the banking and industrial sectors reached 71% at the end of 2013.

Literature Review

Public pension systems have been heavily reformed during the last two decades across developed and developing countries (Bonasia & Napolitano, 2006). The pressure of an ageing population is a vital cause of such risk. It means that the government needs to rebalance the retirement income provision in ensuring the adequacy and the sustainability of the system. Since its involve a long term policy under the situation of uncertainties, it also places additional financial strains on systems providing retirement incomes. Another important fact that leads retirement income to become important is the declining traditional family support system specially in Asia and gulf region, leading to growing dependency on formal systems (Asher, 1998; Asher, 2002; Subrahmanya, 2002). A review of civil service pension programs in 53 different countries found that many retirement systems for civil servants headed towards, or already were in a state of financial collapse (World Bank, 2000). In the USA for example, it is argued that the country’s largest age group, those born between 1946 and 1964 known as the baby boomers, will approach their retirement age, resulting in depletion of and large deficits in the USA’s Social Security Trust Fund (Ryan, 2003). Similar to the west, Malaysian population as an Asian country is also ageing (Masud *et al.*, 2008; Population Ageing in the Developing World Conference, 2004; United Nations, 2001; Ramachandran and Wells, 2004). In Saudi Arabia, the 2010-2015 projections for life expectancy were 73.8 and 77.5 years respectively for men and women and should reach 80.9 and 83 years respectively in the horizon 2045-2050 (United Nations, 2012). A projection of age group in Saudi Arabia by year 2015, will be from 15 to 64, around 68.7%, and 3 % of elderly citizens 65 and above of the total population. These rates will be respectively 65.7% and 18.4% by year 2045-2050. The United Nations report also mentioned that the youth percentage between 15 to 24 is expected to decline from 22% in 2015 to 14.6% in 2050 for the working-age population. From the above figures about Saudi Arabia, the Saudi society is still relatively young and have the opportunity to benefit from the demographic dividend, which will support Saudi government to prepare for retirement before these adult populations moved into retirement. Unlike the Saudi society, especially in Europe, Japan, and other western countries, the increase in life expectancy associated with low birth and fertility rates exerts pressure on pension funds expenditures. Therefore, number of Authors had recommended several remedies to reduce such risk. Of which, reducing benefits, delaying the retirement age, or increasing the contributions level. In link with these remedies, some empirical findings on the US social security system revealed it as not sustainable (Kitao, 2014). Kitao, suggested four solutions that dealt with Increased payroll tax, reduced benefit, replacement rate, increased normal retirement age. In this scenario the government were trying to push workers getting full advantage of financialization and let employers support a full retirement transition. Relatively, the Spanish government had forced a reform of rising the pensionable age and the contributions years by 2 years. The result was reduced spending on pensions up to 1.4 % points of GDP (De la Fuente *et al.*, 2013).

Similarly, Fehr *et al.*, (2012), found that increasing retirement age in Germany will delay the retirement effective by 1 year, he also found that an increase in the benefits of actuarial adjustment would lead to better results. Another research effort focused on the employees' retirement readiness and proposed reliable suggestions and indexes. Such as the Transamerica Global Retirement Survey or Employee Benefit Research Institute who studied different aspects of retirement readiness and proposed reliable indexes. While, the Wang and Schultz (2010) found several psychological facts of people in the retirement transitions. He asserted that future retirees will encountered a limitation commitment to work before retiring effectively, retiree's acceptance to change occurs at the transition phase through a process of adjustment, retirement is a later stage of career development, different aspects of retirement management by organizations. Milne (2012), Topa *et al.*, (2012), Wang and Shi (2014), Asebedo and Seay (2014), also asserted that there is a link between psychology and retirement. On the other hand, Caliendo and Findley (2013) found that people who plan in advance for their retirement accumulate wealth than non-planners people, hence will have a positive relationship between retirement planning and welfare gains. Similarly, Binswanger and Carman (2012), found that small improvements in planning will gain optimal social security program and better comparisons in retirement decisions. Furthermore, a number of authors have address the behavior towards an early retirement decision. Hernoes et al., (2000) reflected an empirical finding from Norwegian that showed an early retirement decision depended on personal characteristics and financial incentives. They also suggested that women with high level of education or working in private sector are more willing to retire early. Another suggestion is that taxes might be a possible cause of the early retirement decision. Farhi and Panageas, (2007) proposed a model which captures the interaction between savings, portfolio choice and retirement. They assess that a person might enter early retirement when reached a certain level of wealth. They also asserted that early retirement reinforces saving incentives. The marginal propensity to consume out of wealth declines as wealth increases and early retirement becomes more likely. Other vital points when considering proper preparation for retirement, is the social living practices and family support systems. The stability of traditional family structures and a continuously young population have formed the basic social parameters for the welfare systems in Asia (Croissant, 2004). Thus, it is common practice in Saudi Arabia for children to take care of their elderly parents. This traditional structure of income support is reinforced by common living arrangements, where older people live with their families and working incomes are pooled into household income. Sim and Hamid (2010) reported that the percentage of older Malaysians still living in extended family households has dropped from 57.8 % in 1991 to 49.2 % in 2000. Meanwhile, Ramesh (2003) reported that in Malaysia, the percentage of the elderly living alone is only 6 %, confirming that the traditional care system remains largely intact. Similarly, the Organisation for Economic Co-operation and Development (OECD) countries, also reported that only 23 % of the elderly (65 years old and above) live with their children or family and 29 % live alone. They also reported that the number of the elderly living alone or with a spouse is increasing steadily (OECD, 2002). In addition, the World Bank (1994) has issued a report titled "Averting the Old Age Crisis", to reflect the trend strains on the family support systems as an indirect outcome of high growth and urbanization rates as exemplified in East Asian economies such as Malaysia and Singapore. The informal family support systems are under pressure due to urbanization which creates the tendency for families to become both smaller and more widely dispersed (Beattie, 1998). Additionally, Croissant (2004) address the problems of an ageing society, increasing the need for care of older people, declining fertility rates and population growth, and the slow growth of the labour force. Caraher (2003b) and Martin (1989) also discussed the consequence of rapid urbanization and industrialization on the ability of a family to offer support to their susceptible family members. Financial awareness and literacy can also be a valid factor in enhancing retirement planning. The State of Washington for example have sponsored a survey to assess financial literacy among its residents, they concluded that people are particularly uniformed about financial instruments. Most of the respondents had an inverse relationship between bond prices and interest rates. They were also uninformed about mutual funds in all aspects, they have no idea of no-load mutual fund neither mutual funds pay none guaranteed rate of return. More than one third have no idea that stocks had higher returns than bonds for the last couple of decades and many did not know about risk of diversification. In addition, a number of respondents had no idea of interest rates, despite the fact that some of the respondents had applied for loans (Moore, 2003). Agnew and Szykman (2005), reported similar findings, they devised a financial literacy survey as part of retirements readiness. Van Rooij *et al.*, (2011) find that knowledge and awareness about financial concepts is a significant factor in retirement planning in Netherlands. Van Erp *et al.* (2014) examined the retirement decision in terms of non-financial determinants. They asserted the importance of social norms, default reference-dependent utility and default options. Whitaker and Bokemeier (2014) mentioned that retirement planning is a lifelong process that involves several factors including financial literacy. Finally, a study conducted by Diaw (2017), studied the behavior towards retirement of workers in Saudi Arabia, and to identify the socioeconomic factors put forward in preparing for retirement. He asserted that the respondents reported lack of financial planning despite the possible deterioration of their economic situation worried by most respondents. He also found that retirees are attracted to investment in financial products despite their lack of knowledge of the related risks.

Objective of the Study

The main objectives of the current study were first to find out whether Saudi nationals do financial planning *'for their retirement'* and *'for their family in case of premature death'*. Second the study also aimed to find out the method used for financial planning in both the above cases where ever applicable.

Methodology

Type of Study

The current study is quantitative and descriptive in nature based on empirical data collected through questionnaire.

Sample

In line with the objective of the study data was randomly collected from Saudi nationals living in Jeddah city of Saudi Arabia. The respondents were randomly contacted at work places, homes, and even colleges. Questionnaires were administered with the prior permission of the respondents.

Instrument

The study is empirical in nature and collected data through a questionnaire. The questionnaire was developed with the variables taken from literature. Though the questionnaire was developed in English, it was translated into arabic language to encourage high response rate on the one hand and reliability of the data on the other. The questionnaire was kept very simple with direct questions understandable to all. The questions included were demographic information of the respondents such as gender, education, marital information, and size of their families. The second part asked the questions such as; 1. do you have financial plans after retirement, 2. nature of financial planning after retirement, 3. Do you have financial plans for family in case of premature death, 4. Nature of financial planning for family in case of premature death, and the last question was, 5. Do you have plans to purchase protection and savings insurance in future.

Statistics

To achieve the objective the study used simple statistics such as mean, frequency, and percentages.

Empirical Results

Descriptive Analysis

Table 1 presents the demographic details of the respondents in terms of their Gender, Education, and Marital Status. The respondents were predominantly males (90%), female respondents were 10% only. This is important because due to cultural reasons the financial responsibility mainly remains with the male members of the family. Thus they are responsible for the financial planning as well. The respondents were all literate 99.3%, except for 0.7%, as per the CIA factbook, (2018), 94.7% of the total population in Saudi Arabia are literate and can read and write. It is worth noting that majority of the respondents (48.3%) completed bachelors' degree, others were as follows; secondary (33.7%), Masters (7.3%), PhD (1.7%). Another important demographic variable was the marital status of the respondents, 43 % were married and 57% were unmarried. These demographic variables are important and representative of Saudi Arabia, according CIA factbook majority (more than 60%) of the population of Saudi Arabia is between 15years to 54 years of age. Also the government is continuously on the reforms and modernization of the country.

Table – 1: Demographic profile

	No. of respondents	Percentage
Male	270	90
Female	30	10
Educational Qualification		
Intermediate	14	4.7
Secondary	101	33.7
Bachelors	145	48.3
Masters	22	7.3
Ph.D.	5	1.7
No Formal education	2	.7
Others	11	3.7
Marital Status		
Married	129	43
Unmarried	171	57

Family Size

Table 2 presents the size of the family of the respondents in Saudi Arabia. The respondents were asked to indicate number of people apart from their parents. It is important to note that the majority of the respondents indicated that they are living in a large family were the number of family members were from three to eight (80%).Thus the respondents were educated (table1), living in large families, all are Muslims and the country's legal system is sharia law (CIA World Factbook, 2018) all these dynamic features make the current study and its findings very important.

Table – 2: Family Size (No of Children)

No. of Children	**No**	**Percentage**
One	12	4.0
Two	46	15.3
Three	64	21.3
Four	50	16.7
More than Four	128	42.7
Total	300	100.0

Financial Planning Behaviour in Saudi Arabia

In the following sections the results in table 3 through table 7 presents the empirical results about different aspect of financial planning among Saudi people.

Do the People in Saudi Arabia do Financial Planning for Retirement?

Table 3, presents the results of responses to the enquiry made *"do you have financial plan for retirement?"*. The results show that though a large number 43.3% had financial planning for their retirement, the majority 56.7% still have no financial plans for retirement. The reasons for not doing financial plan for retirement could be many such as lack of financial literacy.

Table – 3: Financial planning for retirement

	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Yes	130	43.3	43.3	43.3
No	170	56.7	56.7	100.0
Total	300	100.0	100.0	

Nature of Financial Planning

Results in table 4 show the nature of financial planning they do for retirement. Insurance in general is not very much preferred option for investment and financial planning. Only 16% said that they plan by purchasing insurance and 27.3% invest in other than insurance. As indicated in table 1 also majority still do not do financial planning for retirement.

Table 4; Nature of Financial Planning after retirement

	Frequency	Percent	Valid Percent	Cumulative Percent
By Purchasing Insurance	48	16.0	16.0	16.0
Others	82	27.3	27.3	43.3
None	170	56.7	56.7	100.0
Total	300	100.0	100.0	

Financial Planning for Family in case of Premature Death

Another enquiry made was about the nature of financial planning for family in case of premature death. The results in table 5, show that only 29% (87) respondents do financial planning for their family in case of their premature death, leaving 71% respondents without any financial plan for their dependent family.

Table 5; Financial planning for family in case of premature death

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	87	29.0	29.0	29.0
No	213	71.0	71.0	100.0
Total	300	100.0	100.0	

Nature of Financial Planning for Family in case of Premature Death

Results in table 6 show that from the small percentage of planners who plan for their family in case of their premature death (29%) do the same by purchasing insurance (14.3%), and 14.4% do it by other means. Thus over all insurance is not very popular method of financial planning.

Table 6; Nature of financial planning for family in case of premature death

	Frequency	Percent	Valid Percent	Cumulative Percent
By Purchasing insurance	43	14.3	14.3	14.3
Others	44	14.7	14.7	29.0
Not Applicable	213	71.0	71.0	100.0
Total	300	100.0	100.0	

May Purchase Insurance as Retirement Plan in Future

Table 7, show the results of the enquiry "do you have any plan to purchase Protection and Savings insurance" in future for financial planning of retirement. Interestingly more than half (50.3%) of the respondents said yes.

Table 7; Have plan to purchase P&S insurance in future

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	151	50.3	50.3	50.3
No	149	49.7	49.7	100.0
Total	300	100.0	100.0	

Discussions

The study was undertaken with the objective of finding Saudi nationals' financial planning behaviour *'for their retirement'* and *'for their family in case of premature death'* and secondly to find out the method used for financial planning in both the above cases where ever applicable. Though it sounds logical to have financial plan for retirement but still many do not have. Lusardi (2007) found that those who plan, accumulate more wealth before retirement and are more likely to invest in stocks. Moreover, planners are more likely to experience a satisfying retirement, perhaps because they have higher financial resources to rely on after they stop working. The results in table 1, showed that majority of Saudi nationals still do not plan for their retirement only 43% do it. From those who plan for their retirement only 16% do it by purchasing insurance. According to the findings of Ansari (2012), Saudi people give due importance to various kind of risks and also adopt preventive measures. However, their most preferred destination of investment was real estate not insurance.

Consideration of a retirement income has become an important issue, since the traditional family support system is declining (Asher, 1998; Asher, 2002; Subrahmanya, 2002) leading to growing dependency on formal systems. Another study by Caraher (2003) touched on this issue by comparing the approaches to income provision for the elderly in Singapore and Malaysia and derived three main findings: inadequate current arrangements and own savings, and increasing poverty. Thus, it can be concluded that the traditional family support which has been an important source in the retirement system is weakening, thus urging employees to decide on their own retirement plans. One essential question families should ask themselves. Are we prepared? If a sudden death occurs or struck down by disability. The family might not be equipped to take over. Another sad scenario that might happen, the heirs might be unable to pay out loans backed and they might force to sell quickly with discounted rate. These sad scenarios might be a result of lack of financial literacy. It's vital to link between financial literacy and retirement planning. Financial literacy should be acknowledging at early stages even before entering the labor market and certainly before starting to plan for retirement. Financial literacy is also lacking among the young; less than half of young adults (ages 23-27) understand interest compounding, inflation, and risk diversification (Lusardi and Mitchell, 2007). Most importantly, there is evidence that the least financially literate are the least likely to save for retirement (Lusardi and Mitchell, 2007). A number of research has shown that consumers have difficulty doing basic financial calculations, and they also lack knowledge of fundamental financial market concepts such as risk diversification, how the stock market works, and asset pricing. We also find that people who report a higher level of knowledge of economics tend to score relatively well on the objective measures we gather.

Defined contribution plans have become the dominant form of private employer sponsored retirement plans in the United States in which a certain amount or percentage of money is set aside each year by a company for the benefit of each of its enrolled employees. It deals with the responsibility of ensuring adequate financial preparedness for retirement by depending on themselves. They are the ones who knows when to start saving, how much to save, and how much to invest. A defined-benefit plan is another retirement plan that an employer sponsors, where participants also decide whether their basic retirement plan will provide sufficient income in retirement or whether they need to contribute to a supplemental plan. Individual might also decide to go for insurance products as a way of retirement plan. The demand of insurance products is influenced by several of factors. Where a number of studies highlighted that the demand for life insurance, as long-term consumption decision, should be positively related to individual income, permanent rather than current income (Rejda, 2011; Baranoff, 2004; Bodie *et al.,* 1988).

The most common reason put forth for purchasing a life insurance policy is to ensure a continual stream of income to family in the event of death/accident (Rejda, 2011). The most common reason put forth for purchasing a life insurance policy is to ensure a continual stream of income to family in the event of death/accident. Another obvious and potential determinant of insurance demand is its price. Measuring the impact of price on the demand for insurance is, however, difficult due to the problem of actually determining the price. A study by Alnemer (2015), found that the most important factor in motivating consumers to buy Islamic insurance in Saudi Arabia was profit return rather than religion. Rejda (2011) proposed that insurance is viewed more as an investment rather than as a protective mechanism as suggested by the expected utility theory. Ansari (2012) also found that the primary motivating factor for purchasing insurance in Saudi Arabia was the legal factor due to which the buyers purchase only the compulsory insurance namely motor insurance and health insurance. According to Saaty and Ansari (2011), the demand for insurance in Saudi Arabia was driven by law as most of the users were buying only compulsory insurance just to comply with the law as motor insurance was made compulsory. Ansari (2011) also found that main reason for not purchasing insurance in Saudi Arabia was the Islamic principle, people of Saudi Arabia wanted Sharia'h compliant insurance. A number of researches have shown that the level of insurance demand within an economy can be influenced by a number of variables, including but not limited to economic, legal, political, and social factors. Other authors indicated that financial illiteracy is particularly pronounced among those with low income, low education, and those with low wealth holdings. Further, financial literacy is positively correlated with wealth at the bottom of the wealth distribution, which suggests that those who have basic financial knowledge are better able to save. Those having a command of basic numeracy and who understand risk diversification also have higher wealth holdings, something of a remarkable result given that we control for several of the demographic characteristics that elsewhere have been linked to low financial literacy (race, gender and low income); we also account for educational attainment. A lack of financial literacy and incorrect assumptions about the generosity and eligibility conditions of retirement programs can lead workers to plan to retire at ages that are either too young or too old, depending on the type of knowledge error.

Conclusion

From the results and the previous studies, it is safe to say that majority of people in Saudi Arabia do not do financial planning for their retirement. Also those who plan for the retirement their preferred mode of financial retirement plan is by investing in real estate not insurance. The findings are similar to the findings of previous studies which showed that insurance was purchased mainly to comply with the law. Not only the personal retirement plan majority of the people in Saudi Arabia do not plan even for the financial security of their families. The contingencies such as untimely death or permanent disability of the bread earner may act like a two sided sword on the one hand the loss of the family member and on the other hand hardships of life due to discontinuance of income. And finally the insurance is not preferred investment and method for financial planning either for retirement or in case of unfortunate incidents. However, in future insurance seems to gain ground and people may use it for financial planning for themselves and for their families.

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