

# PENSIONERS' FINANCIAL LITERACY AND THEIR SATISFACTION LEVEL ON NATIONAL PENSION SCHEMES (NPS)

*-With Special Reference to Pensioners in Tamil Nadu*

**Dr. A. Eronimus**

Assistant Professor  
Department of Commerce  
Kalasalingam Academy of Research and Education  
Krishnankoil-626126, Tamil Nadu State, India

## Abstract

The majority of working population in India expects to have better quality of life or at least to maintain the current living standards after retirement. This study was carried out to evaluate the financial literacy level of the respondents concerning National Pension Scheme and their satisfaction level. The study shows that the employees are aware of the fundamental aspects of NPS the financial literacy level of majority of the respondents is low; there for more awareness has to be created among the employees relating to NPS and it also reveals that there is a significant association between 'financial literacy level' of the respondents and their 'overall satisfaction level' with respect to national pension scheme.

Key words: Financial literacy, NPS, Retirement, Satisfaction,

## INTRODUCTION

Pension is a necessity to the senior citizens to ensure a decent and dignified life without depending on others. It gives them freedom and power to more decision where improve status in the family and greater self respect. The absence of a regular and steady source of income, necessities the up lamentation of pension plan. Supreme Court judgement has emphatically accesss that pension is not an ex-gratia but a deferred payment. A standard retirement plan ensures continuous without being dependent on others of standard of living of the retirees. The majority of working population in India expects to have a better quality of life or at least to maintain the existing living standards after retirement. This is the prime reason behind the accounting of present pension plans around 39 per cent of insurance industry's total business.<sup>1</sup>

## FINANCIAL LITERACY

While Worthington (2005) defines Financial literacy as the ability to make informed judgments and effective decisions regarding the use and management of money, Remund (2010) defines it as a measure of understanding key financial concepts. Financial knowledge enables individuals to improve their financial skills and gives impetus to them in taking financial decisions on their pension schemes. Knowledge on saving plans is critical for effective long-term financial decision (Landerretche & Martinez, 2011). Households with low financial knowledge do not plan well and so they have lower retirement savings, shorter planning horizons and are less likely to contribute to pension funds than those with the requisite knowledge (Mitchell & Mutkus, 2003; Lusardi, 2006). Financial knowledge is directly correlated with self-beneficial financial behaviour without which individuals are more likely to face problems such as a lack of saving leading to exorbitant mortgages which, in turn, would obstruct their plan for retirement.<sup>2</sup>

## REVIEW OF LITERATURE

John Murphy (2013)<sup>3</sup> finds financial satisfaction and religiosity are correlated with financial literacy. Liat Hadar et al. (2013)<sup>4</sup> assert that willingness to pursue a risky investment increases SK is high (vs. low) relative to a prior investment choice and willingness to enrol in a retirement saving program is enhanced by asking consumers an easy (vs. difficult) question about finance, thereby increasing SK. Christopher Tamborini et al. (2013)<sup>5</sup> explore how the job characteristics of individuals who participate in defined contribution (DC) plans are associated with longitudinal changes in their contribution levels namely the probability of experiencing a substantial reduction in contribution levels during the time of severe recession (2007–2009). Marzieh Kalantarie Taft et al. (2013)<sup>6</sup> examine and find the relation between financial literacy, financial wellbeing and financial concerns. Married people and men are more financially literate. Higher financial literacy leads to greater financial well being and less financial concerns. Gilles Le Garrec (2012)<sup>7</sup> points out that in most industrial countries, public pension systems redistribute from workers to retired people, not from high-income to low-income earners and an actuarially fair pay-as-you-go pension system can both reduce lifetime income inequality and enhance economic growth.

## STATEMENT OF THE PROBLEM

There has been a lot of talk in the media about retirement insecurity. Retirement Security provides a guaranteed, cost-of-living adjusted income for a perfect life in retirement. Best approach in achieving retirement security consists of a pension and individual savings. Pension helps a person maintain standard of living and retirement savings provides important supplemental income for unforeseen extra unavoidable expenses. This study has been made to analyse the financial literacy level and their satisfaction level concerning national pension scheme, based on information collected from pensioners (central, state and private concern employees) in Tamil Nadu.

## OBJECTIVES OF THE STUDY

1. To evaluate the financial literacy level of the respondents concerning National Pension Scheme.
2. To assert the level of satisfaction concerning National Pension Scheme.
3. To find the relationship between the financial literacy and level of satisfaction concerning National Pension Scheme

## HYPOTHESIS

1. There is no significant difference in the overall financial literacy level concerning NPS.
2. There is no correlation between satisfaction and overall financial literacy level concerning NPS.

## METHODOLOGY

The study was conducted in four districts of south India of Tamil Nadu namely Chennai, Madurai, Coimbatore and Tiruchirappalli. The population of the study constitutes pensioners in National Pension Scheme (NPS) from these districts. This study is based on both primary data and secondary data of which the former were collected through a well structured questionnaire and later from various sources such as journals, books, magazines, newspapers, websites and from previous studies. Sample survey method has been used to collect the primary data. The sampling technique used is quota sampling. The data were collected from the retirees of central, state and private concerns of the study area. 384 samples were chosen as sample size with the helping formula of Godden (2004). In this study, descriptive statistics and Chi-square tests are used to analyse the data.

## RESULTS

### Overall financial literacy level

The study makes it crystal clear that the significant literacy level about NPS is low among a vast majority (96.3%) of respondents medium among 26.8% and high among a negligible 4.9 % of respondents. The

average of correct answers numbering just of (min- 1 max 19 out of 29) further shown the immediate need to enlighten the pensioners on NPS.

**Table #1 Overall Financial Literacy Level**

Overall financial literacy level	N	Percentage	Descriptive statistics	
			Central tendency	Variability
<b>Low (up to 9 scores)</b>	<b>262</b>	<b>68.3</b>	Mean = 9.23	Standard deviation = 3.37
Medium (10-14 scores)	103	26.8	Median = 9	Range = 18
High (above 14 scores)	19	4.9	Mode = 7	Minimum = 1
<b>Total</b>	<b>384</b>	<b>100.0</b>	Skewness = .452	Maximum = 19

Source: Primary data

### Satisfaction level concerning NPS

On the satisfaction level of the respondents, the majority of the respondents (55 per cent) are found to be highly satisfied or satisfied with the Government contribution towards NPS. Majority of the respondents (65.1 per cent) are found to be highly dissatisfied or dissatisfied with investment of their pension contribution amount in stock market. Maximum of the respondents (46.4 per cent) are found to be highly dissatisfied or dissatisfied with the tax benefits. Majority of the respondents (38.5 per cent) are highly dissatisfied or dissatisfied with NPS management, While an almost equal percentages of respondents (40.6 per cent) were highly dissatisfied or dissatisfied with fund manager's charge amount in NPS. Three fourths of the respondents are (67.2 per cent) highly dissatisfied or dissatisfied with NAV performance. Three fourth of the respondents (75.3 per cent) are highly dissatisfied or dissatisfied with overall performance of NPS.

**Table # 2 Satisfaction Concerning NPS**

Satisfaction	Highly dissatisfied	Dissatisfied	Neutral	Satisfied	Highly Satisfied	Total
	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)
Government contribution	8(2.1)	54(14.1)	111(28.9)	<b>175(45.6)</b>	<b>36(9.4)</b>	384 (100)
Investment in stock market	<b>103(26.8)</b>	<b>147(38.3)</b>	75(19.5)	38(9.9)	21(5.5)	384 (100)
Tax benefit in NPS	<b>51(13.3)</b>	<b>127(33.1)</b>	127(33.1)	61(15.9)	18(4.7)	384 (100)
NPS Management	<b>37(9.6)</b>	<b>111(28.9)</b>	107(27.9)	97(25.3)	32(8.3)	384 (100)
Fund managers' charge amount	<b>38(9.9)</b>	<b>118(30.7)</b>	115(29.9)	84(21.9)	29(7.6)	384 (100)
NAV Performance	<b>96(25.0)</b>	<b>162(42.2)</b>	81(21.1)	41(10.7)	4(1.0)	384 (100)
Overall satisfaction	<b>159(41.4)</b>	<b>130(33.9)</b>	60(15.6)	33(8.6)	2(0.5)	384 (100)

Source: Primary data

The results further bring to fore that almost an equal percentage of respondents of all the categories of level of satisfaction that is 75.9% of low level, 72.8 % of medium level and 78.9 % of high level. Strongly register their high dissatisfaction or concerning NPS

### Financial literacy and Satisfaction level concerning NPS

Since chi square test shows that the significance value is 0.027 being lesser than 0.05 ( $P < 0.05$ ), the alternative hypothesis is accepted. Hence it is enmeshed that there is a significant association between 'financial literacy level' of the respondents and their 'overall satisfaction level' with respect to national pension scheme.

**Table # 3 Chi-square test for Association between Financial Literacy Level and Overall Satisfaction Level Concerning NPS**

Satisfaction level	Highly dissatisfied		Dissatisfied		Neutral		Satisfied		Highly Satisfied		Chi-square test	
	N	%	N	%	N	%	N	%	N	%	Value (sig.)	Result
Low	119	45.4	80	30.5	45	17.2	16	6.1	2	0.8	17.30 (.027)	Accept H1
Medium	35	34.0	40	38.8	12	11.7	16	15.5	0	0.0		
High	5	26.3	10	52.6	3	15.8	1	5.3	0	0.0		

Source: Primary data

### CONCLUSION

After a long tenure of service, the employees get retired. The employees have to live peacefully after their retirement which depends on several factors. . Even though the study shows that the employees are aware of the fundamental aspects of NPS the financial literacy level of majority of the respondents is low; therefore more awareness has to be created among the employees relating to NPS. As most of the respondents are not satisfied with regards to National Pension Scheme (NPS). The policy makers have to find out the best way of communication to impart knowledge on national pension scheme for improving the financial literacy level of all stakeholders.

### SCOPE FOR FURTHER RESEARCH

1. A study on National Pension Scheme may be conducted in all the districts of Tamil Nadu which may be extended to the whole country.
2. A study on the performance of Pension Fund Manager with special reference to net asset value may be undertaken.
3. The impact of stock market on the net asset value of National Pension Scheme may be analysed.

## References

- <sup>1</sup> Mahler India Growth Fund, Pension System And Management in India, Global asset management, Netherlands, 2011.p. 6.
- <sup>2</sup> Amos GitauNjuguna(2011), “Predictors of Pension Finance Literacy: A Survey of Members of Occupational Pension Schemes in Kenya”, International Journal of Business and Management , Canadian Center of Science and Education, Vol. 6, No. 9, p.103.
- <sup>3</sup> John L. Murphy (2013), “Psychosocial Factors and Financial Literacy”, Social Security Bulletin, Vol. 73, No. 1
- <sup>4</sup>Liathadar, Sanjay sood, and Craig R. Fox (2013), “Subjective Knowledge in Consumer Financial Decisions”, Journal of Marketing Research Vol. L (June 2013), pp 303–316.
- <sup>5</sup> Christopher R. Tamborini, Patrick Purcell, and Howard M. Iams (2013), “The relationship between job characteristics and retirement savings in defined contribution plans during the 2007–2009 recession”, Monthly Labor Review , India, May 2013.
- <sup>6</sup>MarziehKalantarie Taft, ZareZardeiniHosein, Seyyed Mohammad TabatabaeiMehrizi&Abdoreza Roshan (2013), “The Relation between Financial Literacy, Financial Wellbeing and Financial Concerns”, International Journal of Business and Management; Vol. 8, No. 11.
- <sup>7</sup> Gilles Le Garrec (2012), “Social security, income inequality and growth”, Journal of Pension Economics and Finance, Volume 11, Issue 01, January 2012, pp. 53 - 70.

