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THE IMPACT OF FINANCIAL LITERACY ON RETIREMENT PLANNING AND INVESTMENT DECISIONS

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ABSTRACT

This paper discusses the risk of such a relationship, or retirement planning and investment decisions in India, particularly regarding the government-sponsored schemes such as the National Pension System (NPS) and the Atal Pension Yojana (APY). Being financially literate will enable an individual to make good savings regarding their investment in retirement, as well as staying safe in their later years. Pulls data based on government reports, the amount that people are depositing, the size of assets under management (AUM), and the number of subscribers that have increased between 2019 and 2022. The findings demonstrate that financial education enhances response towards formal retirement plans. The number of NPS signups surged dramatically, particularly in central government employees and in those states where the money consciousness remained relatively strong. Nonetheless, the report also mentions significant regional variations - some of the states have significantly less participation in retirement programmes. The analysis notes that to bridge the literacy gap and have people think long-term they must develop special financial education specifically in rural and underserved communities. Generally, the enhanced financial literacy levels, on all levels, will not only put more people into savings plans but also ensure the ageing population of India will have money at their disposal enabling the assimilation of a retirement planning culture.

Keywords: *- Financial Literacy, Retirement Planning, NPS, Investment Decisions.*

INTRODUCTION

Indians are increasingly becoming smart with their money, when it comes to consideration of what to do with their money when they grow old and need their savings to spend or consider how to invest this money. Financial literacy is simply being able to manage your bank account or money in a smart way, serving to further clarify: saving, budgeting, investing, and old age planning. Because India is rising economically and there exists sufficient alternative arrangements of earning money, it turns out to be highly important to be talented at making good decisions about investing along with retiring thus not to become impoverished in the future (Lusardi and Mitchell, 2014). It also is important in a nation where not everyone has a good pension plan and most do not have someone to assist them when they get old which means they have to do this yourself when they retire.

Although this has been increasing in prominence many Indians are not yet ready to retire since they lack knowledge of the need to save, and how to invest money (Chaudhury, 2018). A significant portion of the labour force operates in the informant sector and is not covered by organized retirement firm, such as the Employee Provident Fund (EPF) or the National Pension System (NPS) (Das & Mishra, 2019). Such individuals find it extremely difficult attempting to secure their future and typically rely on such items as gold rather, which will not really pay enough to go well into their old age (Sharma and Pandey, 2020). This is why they must have a huge amount of financial literacy courses which can inform people about how to save in the long run, how to invest correctly, and how to know more about retirement.

Another challenge that is big is the fading population of India. Therefore, dogs will live longer and unless they prepare well then chances are that they may outlive your money (Sundarararajan, 2021). Their own savings and investments are the only way for the majority of the population to provide themselves with pension. The understanding of finance can assist an individual to take smart decisions related to old age, demonstrate to him that early saving is good, diversifying is essential, and how to identify risk and returns on various tools (Lusardi and Mitchell, 2011).

It is essential to properly make decisions about where to invest or place money in order to accumulate wealth in old age. Already lots of Indians purchase the traditional products like houses or gold thinking they are safe, and these opportunities do not give more money annually compared to stocks and other equity investments (Sundarararajan, 2021). Financial illiteracy means the inability to access such up-to-date products as mutual funds, shares, and bonds that form the true basis of becoming wealthy over the long term. It is critical to instruct individuals on asset allocation techniques and risks and returns balance so they can make intelligent moves with investments (Chaudhury, 2018).

Further development has been realized in urban areas yet stagnant in the rural areas. Many of their residents do not attend formal instruction on the specific tasks or how to plan (Sharma & Pandey, 2020). It has been found out that individuals, who learn more about money, save more to use in a retirement and are more prone to make excellent calls regarding investments (Lusardi, 2019). It is therefore important to streamline good financial education programs that resonate with social economic mish hodge pox of India. These initiatives may eliminate the knowledge gap, particularly related to pensions, investment opportunities, and why one needs to exit the workforce early (Das and Mishra, 2019).

This study aims to explore the influence of education on money affairs on retirement plans and how individuals invest in India. It examines how financial literacy works to alter how well awaiting persons believe about growing older and how aptly they will choose beneficial investments. Through investigation to identify the place of financial literacy in ensuring long-term security and its potential to eliminate a few hitches during retirement planning, the research will attempt to identify areas where planning falls short in enhancing the process of money education. Ultimately, it hopes to contribute to the list of studies published so far on money literacy and retirement in India, as all India needs to make better financial decisions.

REVIEW OF LITERATURE

Handling of money is something financial literacy is making a colossal big issue, particularly concerning areas such as retirement planning and investment decision making. The vast majority of individuals in India continue to invest their savings in gold or real estate, and it is, thus, possible that by outlaying how finances operate they can find superior and more enduring methods of planning their future.

This is because a large portion of India's labor force, particularly the informal sector, lack access to the official retirement schemes and therefore, get their old-age benefits based on their family. That support is gradually not supporting the society as now the society is evolving and individuals are living longer. More knowledgeable people seem to commence saving earlier to achieve retirement and choose prudent investments and have a greater security to retire with.

Lusardi and Mitchell, (2011), It is told that in both wealthy and impoverished nations money expertise determines levels of readiness to retire. Their experiment concluded that informed individuals are more capable of making judgments about the amount to save to invest, strategize on their future, and choose the appropriate investments. There was also an exemplification of how much people save towards retirement could increase due to the appreciation of compounding and the benefits of early investment. They say that the information about the current expenditure versus future saving trade-off is exceptionally essential, particularly in India where majority of the population lack documented pensions. They propose in their research that education of population on money can increase their consumption of the National Pension System (NPS) and Employees Provident Fund (EPF) which people do not use adequately because they are not fully aware of how these two investment schemes operate.

Chaudhury (2018), in India examined the intersection between money knowledge and pension plan development, particularly on the informal side. She discovered that knowledge about finance is a massive determinant of individual choice to view the extents of the importance of saving towards retirement and the prospects at disposal. Although there are schemes such as NPS and PPF offered by the government, it was revealed by Chaudhury that in the rural region, lots of people opt to save independently and with the assistance of their families rather than by being part of proper pension schemes. Her paper made it very clear that money knowledge might drive various individuals to perceive retirement saving as crucial and dire component of their financial plan and it assists them to comprehend specifics involving retirement plans and select the optimal methods to accumulate their retirement wealth.

Sharma and Pandey (2020), in India examined little matter on money skills in investment choice, concerned the issue of retiring money. They discovered that savvier individuals with finances make better investment decision and understand why it is so important to diversify their pension funds. The paper has observed that even though gold and real estate remain incredibly popular, individuals who realize that equity-based investments (mutual funds and stocks) have the potential are beginning to appear in them to get better long-term returns. They claim that a sound foundation in money literacy helps individuals leave behind unsophisticated saving procedures and explore more diverse and probably even profitable actions, the key to amassing sufficient funds to retire on. In their work, they demonstrate the connections between their lessons in finance and investing in various places; an important aspect of a quality retirement project.

Das and Mishra (2019), highlighted the benefits of optimizing decision-making regarding investments and risk management with the aid of money literacy. They reached the conclusion that more financially knowledgeable individuals made more capable of considering the risks of various products and investing their money in a manner allowing maximum returns with little risk. In India, when the stock market with its products and mutual funds, may appear frightening, knowledge about money encourages people to take these products in their hands and observe the long-term profit which they will have upon reaching old age. They also demonstrate how the depth of information on inflation and market volatility enables individuals to reformulate their retirement savings schedules in order to maintain buying strength and stability.

All the literature is unanimous that money literacy represents a game changer towards improved retirement performance. Theorists also reveal that smarter people will always save more, invest, and have more money during retirement. Lusardi further wrote that financial literacy has a significant influence on individuals to make astute decisions regarding their pensions, the significance thereof in early savings, and how they utilize government and company benefits (2019). India has undermined social security, so in India enhanced money literacy allows individuals to choose clever saving patterns and to choose sensible approaches in regard to investment, which will allow them to remain financially stable in later years.

THE ROLE OF FINANCIAL LITERACY IN RETIREMENT PLANNING IN INDIA

In India, the financial awareness about money matters hugely when it comes to both personal and business finances and it is a colossus deciding on how to spend your retirement. Since there is no assurance that the economy will not vary, individuals understand that they must manage their finance plans on their own, particularly in the years when they may not be in the workforce. Living in your later years with the financial support of the family is becoming criminologically frightening since the social tounge surrounding your neck is not as strong as it once was. they all live longer and the cost of living is rising thus they need to prepare earlier in life so that when they reach the future they have a secure future. they are not able to do that before they learn the proper way money works, here, this is what they learn money about.

Stumbling blocks in Retirement Planning in India

Majority of the Indian population lacks sound pension schemes or does not administer them appropriately. There is the Employees Provident Fund (EPF) and national pension mechanism known as the National pension system (NPS) that are primarily applicable to individuals in formal employment. Many employees, particularly in unskilled jobs, end up disadvantaged to these kinds of benefits and the situation only forces the person to fit the bill by saving and investing independently. Some do not even have the idea of the benefits of early starting and going routine. It has been stated that in India, even the level of money literacy remains rather low, particularly in rural areas and among less affluent populations, so they will not be able to make wise decisions regarding saving and investing (Chaudhury, 2018).

Knowledge and Its Value of Retirement Planning and Its Significance

Retirement planning is the process of saving sufficient cash during your working days to help support they upon your retirement age. they need to be informed on the other types of investment avenues such as mutual funds, stocks, bonds and pension plans that will make they rich in future. Individuals who understand money will enable more individuals to choose the appropriate tools, balance risk and returns, and create a mixed portfolio. As an illustration, once they understand how your compound interest is calculated, they could begin saving to retire earlier, as they can see it build up over time (Lusardi and Mitchell, 2011).

Planning involves a significant portion of determining pension schemes. NPS and EPF assist workers salaried in India, but many individuals either ignore them (or lack sufficient funds) to invest in them, yet understanding how these plans work, eligibility, and how to make maximum contributions is crucial, which only happens when a person is money literate. Know more, and they understand why they should just get on board in time, diversify and take advantage of government-plans that return tax breaks (Das & Mishra, 2019).

The More they Save the More they Get

Failing to save early is not one of the biggest hindrances to good retirement planning in India. Money literate individuals know how much savings can be made by starting your 20s or 30s and by the time they retire they save a fortune. Research supports the fact that the early birds have the best in life as compared to the late birds (Lusardi, 2019). That is why money literacy will get they used to saving early and making contributions.

In India, most people continue to save using gold or property as well as other outdated options. They are fairly safe but not always as liquid or good line as a modern product such as a mutual fund or a stock. Money literacy also has the potential of allowing individuals to identify prosperity opportunities in various investments, providing them with superior long-term wealth opportunities (Sharma and Pandey, 2020).

Government efforts to advance financial literacy

To address the issue of money literacy gap, government agencies introduced courses on how people should plan on how to retire. The attempts to make the unorganized sector save towards old age are steps in the correct direction such as the Atal Pension Yojana (APY). SEBI also organizes campaigns on reasons that require financial planning, and RBI drives literacy campaigns using various sources (Chaudhury, 2018). Nevertheless, there is still more it should be done by banks, teachers, and bosses, to continue to make everyone learn about money during their times of work.

Preparing your retirement by being money literate in retirement planning really is a must-have or they will be caught short in your old age. Self-reliance or independence of both the illness and the retirement act requires that the person be able to navigate a harsh money world, and financial literacy will equip they with the capability to do so. Understanding the many retirement plans, saving strategies, and other benefits in long-term investing will enable they to make sound decisions that can guarantee your future. The enhanced money literacy, particularly at the governmental and school levels but more so at the individual level, will not only help India retire millions of people better, but will enable them to lead good and independent lives post-retirement.

OBJECTIVES OF THE STUDY

- To assess the impact of financial literacy on participation in retirement planning schemes like NPS and APY in India.
- To analyze the role of regional financial literacy in shaping retirement savings behaviours across different states in India.
- To evaluate the effectiveness of government initiatives in promoting retirement planning and improving financial literacy.

RESEARCH METHODOLOGY

The methodology of the proposed research is quantitative, which will involve extracting from government reports, surveys, and government data on financial literacy, retirement plans, and such aspects as NPS and APY. Researcher analysing changes in 2019-2022 contributions and Assets Under Management (AUM) using descriptive statistics as the means of identifying patterns and mutual correlations. Besides, they are going to compare separate regions and determine how financial literacy influences the retirement planning behaviours. The figures are based on governmental sources such as PFRDA, RBI, and Ministries of Finances as ensure the things are credible and comprehensive when it comes to discussing the influence of financial education on retirement in India.

DATA ANALYSIS

Table 1: National Pension System (NPS) Contributions and Assets Under Management (AUM) as of 2022

Year	Total Contributions (₹ Crore)	Assets Under Management (AUM) (₹ Crore)	Growth in Contributions (%)	Growth in AUM (%)
2019-20	20,000	20,500	-	-
2020-21	25,000	30,000	25.00%	46.34%
2021-22	30,000	40,000	20.00%	33.33%

Source: *PFRDA Pension Bulletin*

Table 1 presents the contributions and assets under management (AUM) of the National pension system (NPS) and 2019-2022. It's also apparent that contribution is increasing every year, as is AUM, that is, more people are entering NPS. In 2019- 20 the total contribution stood at 20,000 crore and the AUM at 20,500,000 and this indicates that the system was only beginning to mushroom. In the year 2020-21, the contributions increased by 25 percent and the AUM surged by 46.34 percent respectively as more people were investing and the fund was increasing at a very high rate. The gains were greater in 2021-22: contributions reached 30,000 crore (another 20% increase) and AUM reached 40,000 crore (a 33.33 increase). This demonstrates that people are remaining optimistic about the system and investing increasing amounts of money into it. Generally, it can be seen that the evidence indicates that NPS is gaining and working in this field since more and more Indians are becoming conscious and are involved in their retirement planning.

Table 2: Atal Pension Yojana (APY) Subscribers – State-wise Data

State/UT	Number of Subscribers (2022)
Uttar Pradesh	19,98,832
West Bengal	8,28,351
Madhya Pradesh	6,41,989
Maharashtra	8,91,414
Bihar	9,71,908
Rajasthan	6,56,630
Tamil Nadu	6,75,049
Gujarat	3,30,197
Chhattisgarh	2,63,239
Jharkhand	3,71,630

***Source:** Lok Sabha*

Table 2 displaying the number of subscribers in the Atal Pension Yojana (APY) in 2022, by state and UT of India. The highest number of people joining is recorded in Uttar Pradesh where it is 19,98,832, West Bengal with 8,28,351, and Madhya Pradesh with 6,41,989 the crowd respectively. Other performing states include Maharashtra (8,91,414) and Bihar (9,71,908) and Rajasthan (6,56,630). Tamil Nadu boasts of 6,75,047, Gujarat approximately 3,30,197 and Chhattisgarh nearly 2,63, 239. Jharkhand pulls in 3,71,630 too. It is obvious in the figures that the states killing it with the scheme are primarily northern and eastern states, specifically, Uttar Pradesh and Bihar. This state-by-state divide demonstrates the programme working differently in India and reflects the significance of APY in helping to keep older adults financially secure, particularly where one encounters a large and unorganised labour pool.

Table: 3 State-wise NPS Data (Number of Subscribers, Contributions, and AUM)

State/Union Territory	No. of Subscribers	Contribution (₹ Crores)	AUM (₹ Crores)
Tripura	6,116	15.13	26.95
Tamil Nadu	264	39.00	50.34
West Bengal	419	54.16	76.94
Ladakh	5,861	314.44	411.07
Mizoram	9,004	464.92	581.62
Meghalaya	19,700	739.65	934.00
Sikkim	23,343	1,005.47	1,317.89
Nagaland	31,008	1,098.89	1,292.73
Chandigarh	11,101	1,111.53	1,538.71
Arunachal Pradesh	25,117	1,128.96	1,354.99

Puducherry	13,561	1,277.48	1,744.91
Manipur	47,437	1,763.52	2,378.28
Goa	34,584	2,599.34	3,489.17
Kerala	1,69,831	5,897.72	7,078.75
Himachal Pradesh	1,17,323	7,119.90	8,668.75
Uttaranchal	85,541	7,318.62	10,732.64
Jammu and Kashmir	1,24,397	7,508.61	9,744.49
Jharkhand	1,20,994	8,107.04	11,448.34
Telangana	1,67,375	9,585.04	13,421.01
Odisha	2,77,615	10,841.96	13,713.20
Haryana	1,62,744	11,059.80	14,774.37
Assam	2,19,852	11,146.72	14,428.56
Bihar	2,02,149	12,032.07	15,370.12
Chhattisgarh	2,98,849	12,147.58	17,643.71
Andhra Pradesh	2,83,907	12,666.77	16,898.04
Punjab	1,83,031	13,256.30	17,296.13
Gujarat	3,25,227	13,333.86	18,174.50
Karnataka	2,59,885	16,164.68	22,513.70
Madhya Pradesh	4,82,674	18,098.60	34,383.65
Maharashtra	3,14,946	23,005.25	29,993.00
Uttar Pradesh	5,42,338	27,106.91	34,732.40
Rajasthan	5,25,229	28,336.99	39,472.59

Source: - Government of India, Ministry of Finance

The table indicates the number of persons of each state who are members of the National Pension System, the amount of their contribution (in 3 Crores) and profit the system has accrued in its name (AUM, in 3 Crores). Andhra Pradesh is an industry leader with 2,83,907 subscribers, notary donations of 12,666.77 Crore and AUM of16,898.04 Crore. Big states such as Maharashtra and Madhya Pradesh come next contributing to 23,052.25 Crore and 18,098.60 Crore respectively. Gujarat, Karnataka and Tamil Nadu state also contribute a sizeable amount, indicating that they are all in support of the NPS. At the other end, such destinations as Sikkim, Puducherry and Tripura attract far less of them and they are not as interested in India. Our total number of subscribers is 50,11,478 and the contributed amount and belonging to AUM are 2,66,391.90 Crores and 3,65,165.46 Crores respectively, so more people are saving towards formal retirement. These figures reveal some gaps about the number of individuals who utilise the NPS in various areas, and the reasons behind the necessity to disseminate the message and or educate the population regarding planning to retire, particularly in localities where the rates are low.

FINDINGS

This article reveals that the awareness of money is also of great importance when it comes to retirement plans and investing in India. Having more individuals investing themselves in the system as well as an overall rise in the funds under the system under management is apparent when they consider the government schemes such as the National Pension System (NPS) and the Aatal Pension Yojana (APY) and this means that people are becoming increasingly conscious of these retirement saving schemes and are opting to invest in them. In particular, the states with a better knowledge of money, such as Uttar Pradesh or Maharashtra, have invested more in APY. And federal employees are making transfers into NPS, with more individuals registering and contributing funds. Regional variations are also noticeable in the figures; there are more APY signing-up in some areas of the north and east, so money-education will have to be tailored to each section. In addition, the fact that the total funds continued to increase every year is a sign that people have trust on these government retirement plans. Overall, the research indicates that increasing money education throughout, and particularly in villages and working in informal sectors, will enable more individuals to use and take advantage of retirement plans, which will provide them with long-term security.

CONCLUSION

The current paper demonstrates the value of learning about money to know how to save and retire with good investment decisions in India. It examines such government-created retirement schemes as the National Pension System (NPS) and the Atal Pension Yojana (APY). they have observed an increase in the number of people investing money and the money is increasing implying that people now recognise that savings towards retirement are important. Particularly they find more workers of the central government and students in such parts of this country as Uttar Pradesh and Maharashtra coming in, a fact which will testify that these plans are effective in promoting saving. There are still huge disparities between states though so they will require money-education, region-specific courses in order to assist those who are deprived of them, particularly in the rural regions.

The consistent increase in NPS and APY contributions demonstrates that given that individuals are aware of the benefits and the plans functionality, more people will tend to make long-term savings. By that, increasing money literacy among all will directly encourage more individuals to utilise their retirement schemes, providing them with greater security upon their sixtieth birthday.

Moreover, the findings indicate that despite the significant achievements in this area, there remains a need to continue educating people about money fundamentals, particularly those among informal labourers and residents in rural areas. When they become more financially literate in these overlooked regions, then India can move more of its population into formal retirement plans, and create a more secure financial future. Therefore, they ought to consider in earnest educating on the issue of planning and deferral of retirement so that students and households can make prudent investments and finance the economy.

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