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Review

Attitudinal factors that affect employee retirement savings in cooking oil manufacturing companies in Zimbabwe

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Abstract

This research sought to find attitudinal factors which affect employee retirement savings in the cooking oil manufacturing companies. The research used a case study approach, where a sample of 120 employees out of a population of 1200 employees was used. The population was stratified into levels, the management and lower level employees. Simple random sampling was then employed to come up with a sample size of 120. Questionnaires and interviews were used to collect data. The research found that retirement savings are affected by uncertainty about one's health, status, life expectancy, salary range, education level, marital status and level of consumption among others. However, the research also found that employers have to do their part to positively influence retirement savings, by sponsoring uneducated employees to acquire the necessary knowledge to motivate them to save for retirement. Quarterly and semi-annually seminars and conferences must be organised and it must be a statutory mandate that every employee attends such educational functions and sign as confirmation of attendance. This improves quality of education and can positively impact on retirement savings. The sample was limited to two companies out of three, due to limited funds.

Keywords: Retirement, saving, attitude, employee, consumption, education, marital status and salary.

INTRODUCTION

Zimbabwe has been experiencing economic challenges since around 2002, when the country embarked on a land reform programme. The pressure came to turmoil in 2008, which led the country to dollarize in 2009. With the coming in of dollarization, most employees who had some savings lost their savings in monies which have been invested either in shares, equities, pension or in savings banks. Though the Zimbabwean Law compulsorily forces those in employment to contribute to a pension fund for future retirement savings, some employees are now sceptical about contributing towards retirements savings. The researchers, thus focused on attitudinal factors that affect employee retirement savings, so as to determine the reasons why some employees contribute to the retirement savings while others do not in a way to encourage those who do not save, for them to save for their retirement savings. Thus, it becomes imperative to understand why some employees do not make efforts to save for their retirement. The research was done with specific reference to the Zimbabwean cooking oil manufacturing companies.

The Financial Dictionary defines retirement as the state of withdrawing or being withdrawn from service, office or business. The free Encyclopaedia (Wikipedia) defines retirement as the point where a person stops employment completely, (or decides to leave the labour force if he/she is unemployed).

As defined by the Business Dictionary.com, savings are a portion of disposable income not spent on consumption of consumer goods but, accumulated or invested directly in capital equipment or in paying off a home mortgage, or indirectly through purchase of securities. Borsch-Supan (2001) defines savings as keeping a certain amount of assets separated from current consumption in order to smooth assets for future

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consumption. Following are some of the attitudinal factors that are said to affect retirement savings.

Economic pressures are considered to be one of the factors that influence employee attitudes towards savings for retirement. Reifner (2003 state that employee attitudes tend to be more positive due to fear of macro-economic shocks such as unemployment, recession and uncertainty. As a result, they are forced to save more in order to cater for future uncertainties. However, there is room to assume that some employees may have negative attitudes which are attributed to fear of losing what they would have accumulated as savings to macro-economic shocks.

The cost of living is another factor presumed to be influential on attitudes towards savings for retirement, Helman and Paladin (2004). They state that, if the cost of living is low, employees have some income to spare or rather save for retirement. On the other hand, if the cost of living is high, employees tend to have negative attitudes because they will be channelling their income towards consumption leaving them with nothing or very little to save. However, despite the high cost of living, there are high income earners who have positive attitudes and will continue to save. Against the same token, there are high income earners who will not save and low income earners who will save during the same period of high costs of living, Hurst (2006).

Lusardi and Mitchell (2007), argues that in born or inherent negative attitudes towards retirement savings is another factor which influence retirement saving. He states that this emanates from the belief that employees generally need not to save because they will be looked after by their children when they retire. Contrary, Dummann (2008) purports that some employees feel they have to spend their income reasonably in order to leave inheritance for future generations. This derivatively supports the existence of in born or inherent positive attitudes among employees.

Bernheim (1995) suggests that limited savings and assets, lack of financial knowledge on retirement and negative attitudes towards legacy are some of the attributes of negative attitudes towards retirement savings. Feldstein (1998) also states that the existence of such attributes is facilitated by inequitable distribution of resources. Keister and Moller (2000) concurs with the idea when they cite that resources are concentrated in the hands of the few minorities affects attitude towards retirement saving.

Level of employee preparedness is one of the attributes of attitudes towards savings for retirement, Grable and Joo (1999). Michaelson (2005) states that employees who are not well prepared for retirement, feel that their lifestyles will get worse when they retire, as a result, they become negligent and involuntarily extend their working lives and this in most cases cultivate a culture of negative attitudes. However, Lusardi and Mitchell (2007) purports that those employees willing and prepared to retire when they reach the retirement age, have positive attitudes towards retirement savings. This is because their preparedness is backed by savings they would have accumulated and will therefore look forward to dissave.

Muller (2004) states that uncertainty about nature of one’s health status and life expectancy is another attribute of attitudes towards retirement savings. According to Reifner (2003), employees who feel that they need some form of long-term care as they grow older have positive attitudes towards retirement savings. As a result, such employees are more likely to save more than employees who feel that their health is good and will not need long-term care. In support of the notion, Dummann (2008) cites that bad health is correlated to negative attitudes towards retirement savings. These negative attitudes might be perpetrated by the perception that bad health is correlated to low life expectancy. Hence there are few years to leave after retirement.

Variations in elements that constitute the retirement savings portfolio are considered to be attributes influencing attitudes towards retirement savings accumulation across employees, McCauley and Sandbrook (2006). Dummann (2008) illustrates that, social security benefits are equal to a larger fraction of average earnings for lower-income employees. Consequently, such employees portray negative attitudes because they believe that they do not need to save as much relative to higher income employees to ensure adequate consumption during retirement. While lower income employees benefit from higher earnings replacement rates in social security benefits, higher income employees are more likely to receive private pensions. Thus, higher income earners tend to develop negative attitudes and save less relative to income in early years in a life-cycle model because of their more steeply sloped earnings path.

Level of education is also presumed to be influential on attitudes towards retirement savings and time preferences. Lawrence (1991) postulates that employees who are post university graduates have lower rates of time preference than lower income, non-university graduates. Lusardi and Mitchell (2007) goes on to say, differences in attitudes towards retirement could be the result of different preferences among employees. Most employees who are not university graduates resemble a negative attitude by opting to save little because of their rate of time preference. In study carried out by Bassett and Rodrigues (1998) in United States of America using data from the 1993 Current Population Survey (CPS), it was found that 65% of financially educated employees had a positive attitude towards retirement savings and had a retirement savings program in place.

Planning is another factor which influence attitude on retirement savings. Gollwitzer (1996) says that employees are more likely to achieve goals and translate their intentions into action when they develop concrete plans. In a research carried in United States of America as cited in the journal (EMPERICAL 4), the majority (60%) of employees who are non-planners do not have retirement accounts as compared to 40% non-planners who have retirement accounts. On the other hand, 82% of planners have retirement accounts as compared to 18% of planners who do not have retirement accounts. This therefore concurs with fact that those with retirement plans tend to accumulate more retirement savings than non-planners. Lusardi (1999) also stresses that the coefficient of lack of planning is always negative. This indicates that those who do not plan hold relatively lower amounts of retirement savings than those who plan.

According to Blackwell and Maniard (1990) environmental, individual and psychological attributes influence employee's attitudes towards savings for retirement. Woerheide (2000) further classify the environmental attribute into work environment and family environment. Under work environment, Miller (2005) puts across that the nature and type of organization an employee works for has contributory elements to his/her attitudes towards retirement savings. Roszkowski (1996) reinforces the idea by citing that, people employed in the public sector occupations have relatively positive attitudes towards savings retirement savings as compared to private sector employees. This might be because public sector occupations offer more compulsory retirement programs than private sector occupations. In the long run, this induces public sector employees to develop interest in these compulsory programs thereby cultivating positive attitudes in them.

The other attribute which is family environment constitute an individual's number of financial dependents and household size. Campbell (2006) argues that if the number of financial dependents is low and size of household is small, employees tend to portray positive attitudes. This can be supported by the fact that low number of financial dependents and small households can be reasonably catered for, living the employee with options to make savings. Bucks and Spencer (2007) goes on and say, those with a higher number of financial dependents and a big household tend to resemble negative attitudes.

Individual differences comprise demographic and socio-economic characteristics of an individual such as age, gender, marital status education and income. Agarwal I (2007) purports that young employees have negative attitudes towards retirement savings as compared to those of older employees. Contrary, a study carried out by Michaelson (2005) states that 65% of the employees under the age of 50 had positive attitudes towards retirement savings and were taking responsibility of funding their portfolios. Among those with employer sponsored retirement plans, the proportion of their overall retirement savings had doubled between 2001 and 2005. This contradicts with Lusardi's (2003) idea that there is a notable decrease in the proportion of those employees who are actually saving.

Plath and Stevenson (2000) states that employees who earn high income are more likely to resemble positive attitudes as compared to low income earners. This is because most high income earners are highly educated and understand the need to safeguard their lives when they retire.

Psychological factors that influence savings for retirement include financial attitudes and risk tolerance among others. According to Olson (1997), positive attitudes towards retirement are correlated to financial knowledge and employees who are risk tolerant have positive attitudes towards long-term savings.

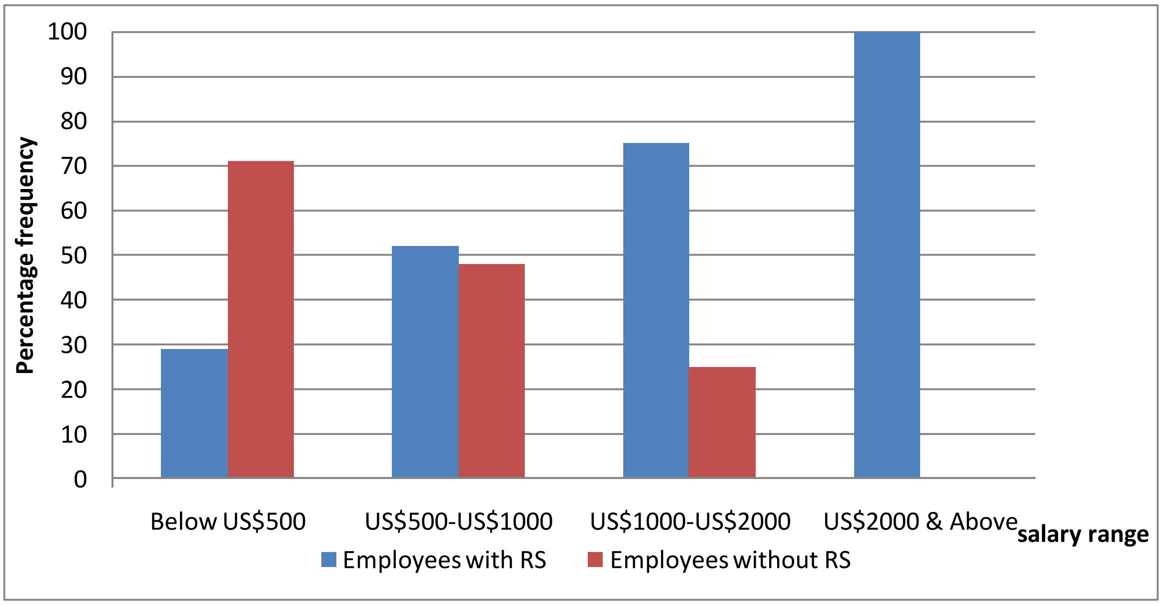
Availability of financial advice is considered to be influential in molding attitudes towards retirement savings. Deuflo and Suez (2004) noted that employees who resembled positive attitudes consulted financial advisors and were involved in informative discussions.

The level of consumption is among the attributes that influence attitudes towards retirement savings. Carroll and Summers (1991) suggests that aggregate consumption displays a hump during the working life. Attanasio (1999) adds on to say that the hump is generally between the ages of 35 and 45 with a discrete drop in aggregate consumption for ages 45 and above. Parkes (2002) argues that, if aggregate consumption is at peak point, savings are minimal or not available provided total consumption absorbs a greater proportion or total disposable income. If consumption continues to be equated to disposable income, employees who have positive attitudes will fail to buffer their desires and in the long run may end up succumbing to developing negative attitudes towards retirement savings.

Lusardi (2006) propounds that consumers facing higher planning costs may optimally choose not to plan for retirement, thus resembling negative attitudes towards savings for retirement. This emanates from the perception that costs incurred in planning and managing retirement issues may be larger than the welfare gains of making these decisions. Such perceptions are often associated with pessimistic and risk intolerant retirees. He further states that attitudes are moulded by capacity or ability to implement plans. This entails that those employees who are capable to provide collateral will access loans and other forms of credit facilities. As a result, such employees develop positive attitudes backed by ability to fulfil their resolutions.

In an Asset Building Project research carried out in Ugandan Masindi District in 2006, it was found that 50% of those employees aged between 20 and 29 had retirement savings as compared to 48% of those employees aged between 40 and 49. This contradicts with the idea that employees do not focus on retirement savings at a younger age due to other short term commitments.

Figure1. Salary range vs Employees with retirement savings



Source: Raw Data

RESEARCH OBJECTIVES

To determine factors that influence retirement savings.
To determine why other employees establish and contribute to retirement savings programs while others do not.

RESEARCH METHODOLOGY

A case study research design was adopted in which both questionnaires and interviews were used. Questionnaires were used as an appropriate research tool to reveal sensitive issues which respondents might have felt uncomfortable to talk about in an interview. To improve the quality and efficiency of the questionnaires, the researchers carried out a pilot study to check the applicability of the questionnaire in addressing the research topic at hand. The researcher also used formal interviews to compliment the questionnaire. Saunders (2003) asserts that interviews involve direct personal contact between the researcher and the participants. The study was carried out in Harare the capital city of Zimbabwe targeting registered cooking oil manufacturing companies. The researchers made use of data obtained from Surface Investments and Olivine companies, which had 1200 employees as the population size. A sample of 120 employees was selected using stratified and then simple random techniques. Best and Khan (2006) states that a sample equal or above 10% is valid to generalise results for the whole population.

DATA PRESENTATION AND DISCUSSION

The analysis carried was largely descriptive and comparisons were made between the results.

Uncertainty about one's health status and life expectancy affects retirement saving

Seventy five percent support the statement whilst 25% were against the statement. This shows that most employees take into consideration their health status and life expectancy when considering saving for retirement.

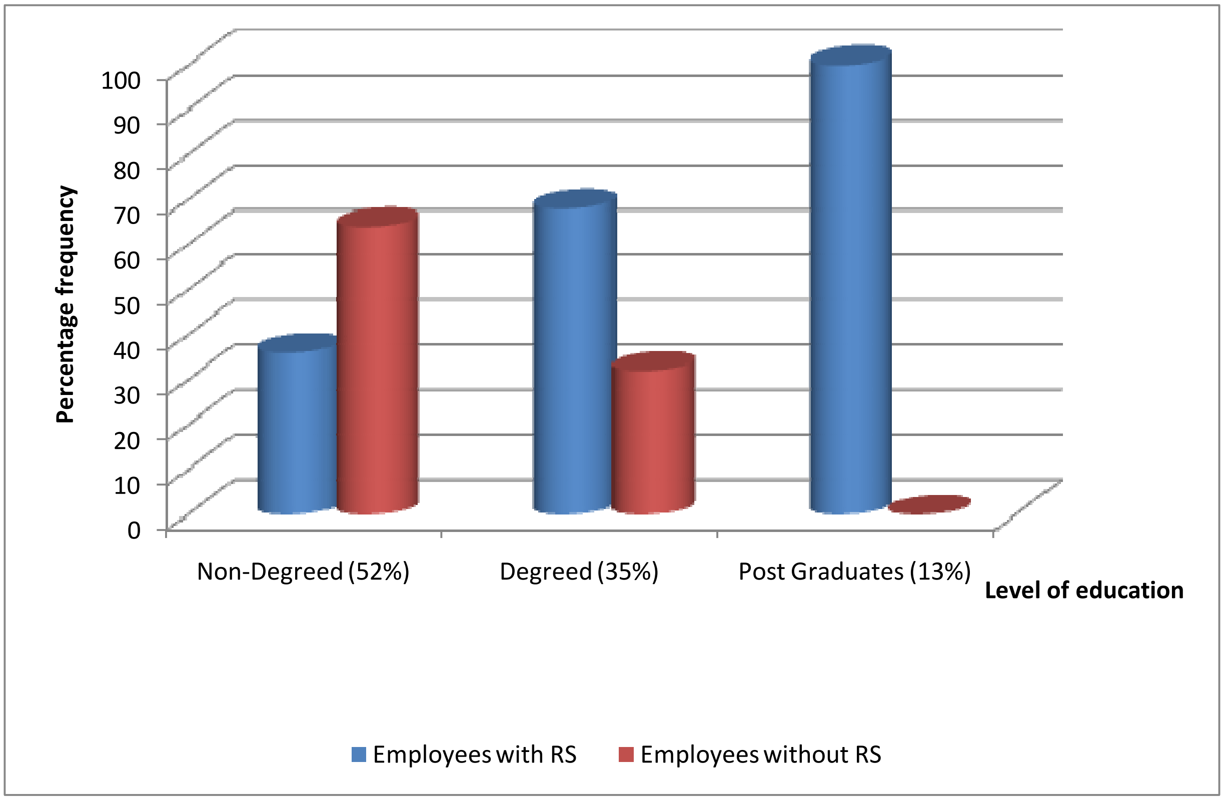
Salary range determines retirement savings

The majority (75% and 100% respectively) of employees in salary groups above US$500 have accumulated savings for retirement. It is important to note that even some employees earning less than US$500 (29%) have retirement savings as shown above. This might mean that despite the lower salary ranges, some employees still want to save for retirement, however the low salary rates negatively affects retirement savings as shown by many employees who have no retirement savings in the low salary ranges (figure 1)

Education level is positively related to retirement saving

Most employees in the cooking oil manufacturing

Figure 2. Level of education Vs Retirement savings



companies (52%) were non-degreed with insignificant education levels on the extreme, degreed (35%) and post-graduates (13%). However, the majority of employees who are non-degreed are holders of National Certificates and Diplomas. As shown from the figure 2 below, most of those with degrees have retirement savings, while more than half of those without degrees do not have retirement savings. This might imply that education has a positive impact on the attitude of employees on retirement savings.

Family size and number of financial dependents has a negative impact on retirement savings

Ninety-two percent of the respondents felt that family size and number of financial dependants affects negatively on retirement savings and only 8% said no.

Inborn and inherent attitudes correlate with retirement savings

Eighty percent of the respondents states that inborn and inherent attitudes positively affects retirement savings. However, 20 % are against the statement.

Consumption affects savings for retirement

The majority of employees (65%) mentioned that their consumption after retirement will be consistent, followed by (29%) citing that their level of consumption will not be consistent and will remain changing after retirement. Another interesting group (6%) cited that they are not sure about their consumption status after retirement.

Retirement savings enables employee to continue to work after retirement

The majority (87%) of employees have cited that they do not intend to continue working after retirement and the minority (13%) citing otherwise.

One of the main reasons why the majority do not intend to continue working they are prepared to retire, that is, they have accumulated retirement savings adequate enough to sustain them and are presumed to be among the group which stated that their consumption after retirement will be either consistent or will increase.

The minority stated that they will continue to work after retirement in order to supplement their income. This derivatively entails that, their savings are not sufficient enough, if they are any, and the majority of them are low income earners probably because of low level of education attained.

Aspects which bare employees from making retirement savings

Poor remuneration
Lack of sufficient knowledge on retirement savings
Economic instability rendering them susceptible to high risk
High income tax rates absorbing a significant portion of their income
Unattractive interest rates offered by banks and other financial institutions
Greater number of financial dependents
Lack of incentives from the employer
Suppression from current commitments

DISCUSSION

The findings on the statement uncertainty about one's health status and life expectancy affects retirement savings concurs with findings of Muller (2004) who states that uncertainty about nature of one's health status and life expectancy are some of the attributes of attitudes towards retirement savings. According to Reifner (2003), employees who feel that they need some form of long-term care as they grow older have positive attitudes towards retirement savings. As a result, such employees are more likely to save more than employees who feel that their health is good and will not need long-term care. In support of the notion, Dummann (2008) cites that bad health is correlated to negative attitudes towards retirement savings. These negative attitudes might be perpetrated by the perception that bad health is correlated to low life expectancy. Hence there are few years to leave after retirement.

The findings from the statement salary range affects retirement savings was supported by Plath and Stevenson (2000) who states that employees who earn high income are more likely to resemble positive attitudes as compared to low income earners. This is because most high income earners are highly educated and understand the need to safeguard their lives when they retire. However, an insignificant portion of high income earners (25%) have no retirement savings citing unexpected obligations, extended family commitments, intrinsic negative attitudes and unstable economic environment as other detrimental factors.

The findings on educational level as a factor which affects retirement savings concurs with the savings and education life cycle model of 1999 by the World Bank Policy, applied to panel of 74 countries around the world, it was found that for each 0.1% increase in education stock, the retirement savings rate increased by 0.37%. However, it took about five years for the positive effect, through income, to compensate for the initial negative impact on savings. This implies that, in the long run, educated employees will reinforce or develop positive attitudes towards retirement savings significantly attributable to changes in income levels. The theory by Lursadi (2008) contradict to the general findings from the life 1999 education life cycle model when he argues that there is a group among the highly educated, degreed and non degreed who have negative intrinsic attitudes towards retirement savings and they do not save for retirement. Most of these employees cited macro-economic pressures and current needs among other factors to be holding them from pursuing their retirement plans. This is in line with the findings of Reifnerl (2003) who postulates that some employees do not save for retirement due to fear of losing their savings to economic uncertainties.

A further review on the statement of the marital status data in relation to retirement savings revealed that the majority of married employees in the cooking oil manufacturing companies have savings for retirement although they are not sufficient enough to provide adequate retirement security. This observation is in line with what was found by Lusardi and Mitchell (2007). In a research on Asset Building Project in Uganda in 2006, a similar case of married couples having greater amounts of retirement savings was noted.

There is also a portion of single employees who have little retirement savings and are planning to increase them with time. This group lies outside Lursadi and Mitchell (2007) theory the asset Building Project in Uganda mentioned above. Conclusively, marital status influences attitudes towards retirement savings.

A deeper analysis of statement which reads family size and number of financial dependence affects retirement savings revealed that the majority of employees with family sizes of between one and four have retirement savings. This goes hand in hand with the findings of Bucks and Spencer (2007) who purports that a lesser number of financial dependents are relatively easy to cater for and will allow the employee to make some retirement savings. However, there are employees with small families but are struggling to make little savings for retirement. They cite poor remuneration, responsibilities for extended families, uncertain economic events and high costs of living among other factors to be hindering them from making or accumulating retirement savings.

There are households with more than 5 members but are making retirement savings. They state that planning, consultancy and involvement in other income generating projects outside employment are helping them in funding their retirement savings. This concurs with the findings by Dummann (2008) in his observations from the SAVE data analysis.

Dummann (2008) states that some employees feel they have to spend their income reasonably in order to leave inheritance for future generations. This derivatively supports the existence of in born or inherent positive attitudes among employees. Contrary Lusardi and Mitchell (2007) states that employees generally need not to save because they will be looked after by their children when they retire.

The findings on the statement consumption affects retirement saving revealed that increase or rather decrease in consumption have almost equal and opposite characteristics. Those citing an increase are among the educated with at least a degree and are holders of managerial positions, and have an average number of dependents and have a sound savings plan in place, giving them an upper hand to accumulate more retirement savings. However, those citing a decrease in their consumption rate after retirement have equally opposite factors to what has been mentioned in the class of those citing an increase in their consumption levels after retirement.

CONCLUSION

The research findings show that there are lot of factors which influence retirement savings in the cooking oil manufacturing companies. The following features were found to influence employees' attitudes towards retirement savings.

Uncertainty about one's health status and life expectancy
Salary range
Level of education
Marital status
Number of financial dependents and family size
Inborn and inherent attitudes
Level of consumption

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