

# FINANCIAL SATISFACTION AMONG OLDER MALAYSIANS IN PENINSULAR MALAYSIA

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## Abstract

Population ageing is a triumph in the twentieth century. One of the key issues in discussing financial aspects of aging is about the financial satisfaction among the older persons. This study investigated the financial literacy, monetary attitude, financial practices and the predictors of financial satisfaction in a sample of 1,841 older Malaysians from 60 territorial divisions in Peninsular Malaysia. Multiple Linear Regression model explains 30% of the variance in financial satisfaction with an overall goodness of fit at 45.985 which is significant at  $\alpha = 0.01$ . Income adequacy was found to contribute most significantly towards one's financial satisfaction as the more an individual perceived about their income adequacy, the higher standards they set for their financial satisfaction. Hence, it is importance to educate the population about personal finance, inculcating a positive money attitude and good financial practices as these will eventually lead to a better financial satisfaction in old age.

**Key words:** older persons, financial satisfaction, Malaysia

## Introduction

The United Nations World Population Ageing Report (United Nation, 2002) defined population ageing as the process by which older individuals become a proportionally larger share of the total population, which was one of the most distinctive demographics events in the twentieth century. The report had summarized that about ten percent of today's senior's citizens have children who are also senior citizens. And, there will be 1.2 billion by 2025 and 2 billion by 2050 compared to 600 million people in 2000. Today, about two thirds of all older people are living in the developing world but the statistics will increase to 75% in 2025. In the developed countries, the cohort aged 80 or above is the fastest growing population group and women outlived men in virtually all societies.

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Various factors contributed to population ageing. First, advances in the medical field and improved access to health services and aggressive campaigns to control infectious diseases such as malaria, yellow fever, smallpox, cholera and tuberculosis after the Second World War successfully trimmed down the mortality rates in most of the countries. Secondly, lower fertility rates caused by changing family structures, higher cost of living, and different freedom values held by the younger generation group also contributed to ageing process. Thirdly, migration and emigration due to the urbanisation is playing an important role in determining the ageing process of a country.

Similarly in Malaysia, combinations of low fertility, low mortality and high life expectancy had resulted in a fast pace of aging. The average life expectancy at birth in year 2007 for Malaysian males and females was 71.7 and 76.5 years (DOSM, 2009). This is a significant increase since the country's independence in 1957 where the average male and female life expectancy at birth was at 55.8 and 58.2 years respectively. The median age of Malaysian population has increased from 17.6 years in 1957 to 24.9 years in 2008 (CIA World Factbook). According to the United Nation's medium projection, Malaysia will be an aged society in year 2019 when seven percent of her total population is 65 years and over. On the other hand, Chen and Jones (1989) in their study predicted that Malaysia is going to be an aged country by the year of 2035, when the proportion of older persons aged 60 years and over reached 15 percent.

As people expect to live longer than before, they also seek for continuing wealth throughout their extended old age (DeVaney, 1995). This is because living longer will increase the chances of experiencing poverty and outliving available income and assets. Changes in work, health status, independence to dependence, and all these changes cannot be carried out without money. Thus, finance is vital for this group of older persons.

Financial satisfaction in this study was referred as an individual's overall satisfaction with one's financial situation. Objectively, it is an outcome from an individual's cumulative resources, or subjectively it is a perception in comparing their current financial situation with their past and in future. In order to contribute to the body of the knowledge for gerontology field, this paper will study the financial aspects of Malaysia's aging society, and determine the predictors of financial satisfaction among the older Malaysians. The specific objectives of the paper are as below:

1. To measure the financial literacy, monetary attitude, financial practises, financial problems and financial satisfaction by older Malaysians.
2. To identify the determinants of financial satisfaction among older Malaysians.

## **Literature Review**

In this section, some relevant literatures related to this topic will be presented. The section will be divided into several subtopics, namely: financial literacy, monetary attitude, financial practices and financial satisfaction.

### ***Financial literacy***

Financial literacy refers to adequate knowledge of personal finance facts and vocabulary for successful personal financial practices (Garmen and Fogue, 1997). According to the Willis (2008), financial literacy begins with understanding and when concepts are understood, basic habits will be changed. Older Malaysians in this context might need basic knowledge about money in making good financial decisions, or in stark contrast, facing financial problems without basic knowledge about money (Chen and Volpe, 1998; Joo, 1998). For instance, most of the employee (before turning into older persons group) would invest their savings passively, entrusting some government body or the financial experts to do it for them while waiting for the gains from dividends or returns. However, recent surveys revealed that majority of retirees spend almost all of their EPF savings within a few years after retirement (Mazanah and Mazalan, 2002). As such, financial literacy is very critical to maintain a high quality of life during their old age. A person who is financial literacy and choose to have good financial condition will have great life financially. Lack of personal financial knowledge limits personal financial practices and may cause financial problems, resulting in lower financial satisfaction (Chan et al., 2010).

### ***Money attitude***

Money attitude refers to the general attitude toward finance and older persons value their own money differently (Furham, 1998). Meanwhile, some other researcher might define money is psychological as well as financial (Curtler and Devlin, 1996). A positive money attitude is the key to financial practices. Previous research showed that older person tends to showed a positive attitude toward money than the youth (Tang, 1992), but they will be more worried about their future finances than younger people, possibly because they had greater financial responsibility with families, children and mortgages (Furham, 1998). According to Ajzen and Fishbein (1980), a positive money attitude will directly influence to good financial practices of an older person and Lown and Ju (1992) found a positive relationship between attitudes and practices.

### ***Financial practices***

Financial practices refers to the process people use in managing their financial resources to achieve financial success in the areas of retirement plans, financial planning, credit and money management (Garmen et al., 1997) and the study indicated that financial practices had been found to be positively associated with financial wellbeing. Simply increasing knowledge of finance principles does not ensure that a person will be more effective in financial practices. Knowledge must be applied as those who have a higher financial literacy are more likely to follow recommended financial practices (Marianne and Jeanne, 2003; laily et al., 2007).

### ***Financial Satisfaction***

Financial satisfaction can be examined in two approaches: an individual's material resources and his/her life philosophy and disposition. In the first approach, the determination or so-called *objective* set of social-normative criteria that specify the prerequisite physical, material, and personal life conditions which can contribute to successful aging and a "good life" in old age in of interest. The second approach defines wellbeing in terms of individuals' cognitive evaluations of their lives and their feelings of enjoyment or dissatisfaction with their life circumstances. In terms of measurement, income, consumption and wealth (net worth) has been used in previous studies in measuring financial situation of an individual (Fitzsimmons and Leach, 1994; Smith, 1997; Jariah and Sharifah, 2008; Chan et al., 2010). Fitzsimmons and Leach (1994) found that most aspects of the quality of satisfaction with financial status are related to the individual's perception of their control over net worth. Besides net worth, various financial ratios such as consumption-to-income ratio, liquidity ratio, housing expense ratio, solvency ratio, savings ratio, and investment assets-to-net worth ratio were used in examining financial satisfaction (DeVaney, 1994; Mason and Griffith, 1988; Porter and Garman, 1993). Scannell (1990) used the debt-to-asset ratio as an indicator of financial satisfaction. DeVaney (1994) suggested solvency ratio, investment asset/net worth ratio, liquidity ratio, and the annual consumer debt payments-disposable income ratio for financial satisfaction research. Besides, satisfaction with financial status is commonly used to measure financial satisfaction/financial well being (Beutler and Mason, 1987; Godwin and Carroll, 1985).

## **Methodology**

### ***Data Description***

It was obtained from a study entitled "**Economic and Financial Aspects of Aging**", collected by the Institute of Gerontology, Universiti Putra Malaysia in 2004. In fact, the data was only part of the whole dataset with the main concern in

exploring the economic wellbeing and quality of life among the older Malaysians. The whole dataset covered East and West Malaysia but this paper only covered the older respondents from peninsular Malaysia. The sampling frame of the study was the older Malaysians aged 55 to 75 in Malaysia. For sampling methodology, the absolute number of older persons by age group (55-75) was calculated from the list of 1,173 subdivisions obtained from Malaysia Department of Statistics. The list was then sorted in descending order, regardless to their state in obtaining the total population aged 55 to 75 for each subdivision in Malaysia. Of the 1,173 subdivision in Malaysia, only 75 subdivisions which represent six percent of total subdivisions were chosen due to cost constrains. Systematically, the total population for these older population group ( $N = 2,020, 344$ ) were divided by 75 to obtain the sampling interval number,  $i = 26,000$  and  $K^{\text{th}} = 26,938$  and the first subdivision was selected from the range of interval number and then every  $K^{\text{th}}$  sub-divisions of the list were selected for the sample. There were approximately 150 enumeration blocks in one sub-district and each enumeration block might consist of about 100 to 150 houses. Thus to increase the changes of obtaining elderly respondents, only four enumeration blocks which are the top four highest number of older persons age 55-75 were selected from each subdivisions. Response rate was recorded as 77% with 1,841 complete questionnaire were collected out of 2,400.

#### **Measurement of variables:**

**Financial literacy** among the respondent was assessed using seven statements covering the aspects of investment, saving, insurance, spending, borrowing, and money management on the scale of "True" or "False". The scores for each question were then been summed to obtain the Financial Literacy Score.

**Money Attitude** refers to the general attitude toward money and was measured by ten statements with five dimensions (power, evil, respect, freedom, achievement) adopted from Money Ethnic Scale (Furham, 1998). Respondents were required to express their opinion whether they agree or disagree of the ten statements.

**Financial Practices** was measured by using a list of financial practices statements (14 items) with three points ordinal scale (never, sometimes, always) adopt from Joo (1999) and Garman (1997). A total financial practices index was obtained by summing the coded numbers.

In order to identify the financial problems faced by the older persons, this study has outlines seven financial problems namely (1) borrow money from "along", (2) been cheated from scheme pyramid, (3) bad debt, (4) asset repossession. (5) no emergency fund, (6) borrowed money from others for living cost and (7) cannot afford to pay bill punctually. Each respondent were asked whether they have the above problems or not during the study period. The greater value for this score indicates the greater financial problems being faced by the respondent.

Four items were developed to measure **financial satisfaction** based on previous published literature for this study (Joo, 1998; Porter and Garman, 1993). The scales included satisfaction with present financial situation, income adequacy, debt, and saving and retirement. The responses were coded on a four points ordinal scale (4 = agree to 1 = disagree). Higher score indicates higher financial satisfaction.

### ***Data analysis***

Multiple regression analysis was utilized in order to determine which of the selected independent variables (age, education attainment, gender, income, income adequacy, net worth, financial literacy, money attitude, financial practices, financial problems, family members and ethnicity would explain the variance of financial satisfaction among older Malaysians. Preliminary assumption testing was conducted to check for assumption of normality, multicollinearity, equality of variance and linearity with no serious violation noted. Pearson Product Moment Correlations were computed on selected pairs of variables to test for direction and strength of the correlation between variables.

## **Results And Discussions**

### ***Profile of Respondents***

A total of the 1,841 respondents participated in this study, 915 male and 926 are female (Table 1). Over two-thirds of the respondents were Malay and the remaining respondents were Chinese and Indian. Sixty four percent (64%) of the respondents were married and thirty percent (30%) were widowed, six percent (6%) were either never married or separated. About twenty eight percent (28%) of the respondents were in cohort group of 55-59, twenty seven percent (27%) in the range of "60-64" age group; the remaining forty five percent (45%) was in "65-75" age group.

Indian family tends to have a bigger family size compared to Chinese and Malay. The education level attained by these respondents was relatively low. About 30% of the respondents reported never attended to school. One out of every three never attended school for female and one out of every nine for male and when looking into their employment status, one out of every five of the respondents was reported as never work. Those who were reported "never work" were female and most of them are lack of formal education, committed in family responsibility, lack of skills, illiteracy, disability and other factors. This trend could possibly caused by girls in many countries are expected to help with the household cores likes preparing food, childcare, cleaning and these responsibilities increase as they grow older, which explains the constant decline in girls' and women's participation in education and formal employment with increasing age. In term of economic reasons, girls might leave their families upon

marriage and become part of the labor force of another family but boys were expected to provide support to their families of origin when they become adults.

When asked about the sources of income of the respondents, higher proportions of respondents received money from children. More men reported earning salaries and pensions compared to women. Men received on the average higher income from job related sources compared to women. In contrast, women received higher mean income from children. A closer inspection for the health status among the respondents might find that about 877 (48%) of the respondents perceived their health negatively and rated their own health as poor. Of the 877 cases, 470 (53.6%) cases were comprised of male respondent and 407 (46.4%) female. A reverse pattern was observed when looking for those who are reported with good health status. Female 157 (17%) have a bigger percentage compared to male 127 (13.9%) in perceiving in good health status.

Previous study found that house ownership was highly correlated with financial satisfaction. In this study, 76 % of male respondents owned house while 53.3% for female. This might provide explanations that female are disadvantage in financial satisfaction than male. In short, female respondents have better health status but with lower education, widowed, live longer than male, no formal working experience and majority of them did not own house. In contrast, male respondents, with lower life expectancy but they have a higher proportion in reporting to have formal education and formal working experience as well as owning home.

### ***Financial Literacy***

There were 37% of the respondents scored above the mean score of the instrument and this implies that most of the older Malaysians in this study are poor in financial literacy. Looking into mean score, female respondents have a higher mean than male respondents. It is worth to note that even though older females generally have a lower education attainment than the older male but they were managed to obtain a higher mean score than male respondents. It shows that the knowledge about finance can be learned through other medium of leanings rather than formal education. This study also proved that people might know more about their finance when they grow older-the old-oldest group scored higher than mean score than the other age groups.

### ***Monetary Attitude***

Previous research on age differences in attitudes towards money such as Furnham (1999) found that younger people tend to use money more as a means of power than older persons. However, older Malaysians did not turn up to any significant differences (age group) or even relationship (age) by the five dimensions

of money attitude. Results found that those who have a working experience tend to perceive money as “freedom” and “respect” than those in the group of “never work”. For the purpose of analyses in Multiple Regression, the scores for each question were then totalled to obtain the Money Attitude Score (10-20). The mean score of the respondents in this scale is 12; indicating most of the respondents were not having a positive monetary attitude.

### ***Financial Practices***

In this study, the financial practices scores obtained are ranged from 14 to 42 with the means score of 23.57 point. Findings showed that male respondents tend to set money aside for investment and savings than female. They also have a higher proportion of commitment in calculating lowest loan, make budgeting, and set a financial plan than female. However, older female respondents tend to compare prices at two or more stores for a product, spend more than they earned and pay bill bills with extra charges compared with male respondents. In comparing proportion of the sample by ethnic group, Indian always set money aside for investment and compare prices at two or more stores for a product. Chinese always set money aside for savings, make their own budget and make calculation to decide on the lowest loan package. However, Chinese respondents reported always spend more than they earned and pay their bills late with extra charges. Malay respondents in this study committed the biggest proportion in reaching the maximum limit on their credit loan.

Pearson Product Moment showed a very weak significant relationship between sum score of financial practices with sum score of money attitude ( $p = 0.00$ ;  $r = 0.089$ ) and age ( $p = 0.00$ ;  $r = -0.118$ ). Education seems to be a better determinant to financial practices ( $p = 0.00$ ;  $r = 0.318$ ). The results indicate that the higher education level and money attitude scores are correlated with better financial practices. Both this study as well as Joo (1999) study found that financial literacy didn't bind any significant relationship with financial practices. Besides the sum score of financial practices, financial practices could also be measured in four dimensions, which were planning, credit management, cash management, and investment. Of the four dimensions, respondents tend to have a lower score in investment and credit management. In contrast, they scored higher in planning and cash management. It matched to the findings from Godwin (1994), stated that cash management is associated with planning.

### ***Financial Problems***

Overall, less than two percent of respondents reported borrowed money from “*along*” ( $n=17$ ), cheated from scheme pyramid ( $n=19$ ), bad debt ( $n=29$ ) and asset repossess ( $n=6$ ). However, the study found that two out of every ten respondents



was unable to have an emergency fund. Furthermore, one out of every ten respondents used to borrow money from others for their living cost and cannot afford to pay bill punctually. Male respondents have a higher proportion in borrowing money from “along”, cheated by scheme pyramid as well as assets been repossess. This study found that there is no significant relationship between the financial problems and education attainment. This implies that people with higher education not necessary free of financial problems. Findings also found that a significant negative relationship between the financial problems and financial literacy ( $p=0.045$ ;  $r=-0.99$ ). It means that respondents, both male and female, who were financially literate, have less financial problems eventually.

### ***Financial Satisfaction***

About seventy percent of the respondents were grouped in high financial satisfaction category, and among the high financial satisfaction group, more male than female were satisfied with their income adequacy as well as the amount of retirement money in saving and investing. In stark contrast, more female than male were worried about their debt in old age. Prior to multiple linear regressions, a quick inspection of correlation for selected pair of variables was examined. Financial satisfaction was significantly related to education attainment ( $r = 0.220$ ), financial literacy ( $r = -0.077$ ), money attitude ( $r = 0.125$ ), financial practices ( $r = 0.265$ ), financial problems ( $r = -0.223$ ), Income ( $r = 0.173$ ), and net worth ( $r = 0.201$ ). In term of correlation coefficient square, about five per cent variance of financial satisfaction was explained by higher education attainment, and similar results apply to positive monetary attitude (2%), good financial management (7%), income (3%) and net worth (4%). Plus, about five percent variance of poor financial satisfaction was explained by financial problems and financial literacy. It can be explained by the more they know in finance, the higher expectation they have in their financial satisfaction and it is reasonable that those will financial satisfaction have less financial problems.

**Table 2** summarized the multiple regression analyses in financial satisfaction. Nine variables significantly contribute in financial satisfaction, namely: health, income, financial literacy, money attitude, financial practices, financial problems, net worth, home ownership, and ethnic. This results indicated that those who have high financial satisfaction tends to have positive net worth, own a house, have adequate income, with positive monetary attitude, practicing good financial practices and have less financial problems. However, of the nine variables, financial problems and financial literacy showed a negative relationship with financial satisfaction. Income which showed significant relationship with financial satisfaction in Pearson Product Moment Correlation but it was not significantly contributed in financial satisfaction. If compared to other similar studies, Radner (1993) found that those older persons who often have low incomes were still satisfied with their financial condition as their wealth will

continue to accumulate upon retirement. Brimmer (1988) stated that racial differences in asset accumulation account for some of the weak correlation between net worth and financial satisfaction. It matched with these findings which implied that income was not a good indicator in explaining financial satisfaction in this study. Hence, those who have high financial satisfaction in this study might not necessary with high income but tends to have positive net worth, own a house, have adequate income, with positive monetary attitude, practicing good financial practices and with less financial problems.

### **Conclusion And Recommendations**

This paper found that majority of the older Malaysians are not equipped with financial knowledge, which implies that they may not be able to make correct financial decisions in old age. Looking at their monetary attitude, this study found that there was a positive correlation between positive money attitude and good financial practices. However, most of the respondents do not have a positive attitude towards money in this study. The study also showed that those respondents who are not managing their financial resources effectively and with negative monetary attitudes tend to have more financial related problems.

In terms of finance, the great challenge for the future is to ensure that older persons will be able to age with high financial satisfaction. It is suggested that financial education programs should be addressed to younger generation and also for the older population so that they are able to make correct decisions related in financial matter. Financial education programs is important as these programs might instill not only knowledge to people but the positive monetary attitude and good financial management can be also be built up through the programs. It is suggested that the financial education likes estate planning, will management, financial planning, investment courses can be incumbent together with the lifelong learning programs or been offered in university of third age (U3A), community colleges, voluntary institutions, religious institutions and others institutions with segregated aging population. To note, financial education might be a long journey to go and we can only harvest the triumph in a long terms perspective. Cooperation between the private sectors and government are indeed important to make it successful. Besides, it is also suggested that people should start to accumulate the financial resources since young as people accumulate wealth over their working lives to finance consumption after retirement. Thus, the earlier they start to save the larger accumulation of financial resources and lead to better quality of life in old age.

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**Table 1: Profile of the Respondents**

	Frequency	Percentage	Mean
<b>Sex</b>			
Male	915	49.7	
Female	926	50.3	
<b>Ethnicity</b>			
Malay	1216	66.1	
Chinese	454	24.7	
Indian	160	8.7	
Aboriginal	11	0.6	
<b>Age group</b>			
55-59	522	28.4	
60-64	504	27.4	
65-75	815	44.3	
<b>Employment Status</b>			
Never work	369	20.0	
Ever work	999	54.3	
Working	473	25.7	
<b>Self Rated health</b>			
Good	877	47.6	
Moderate	680	36.9	
Poor	284	15.4	
<b>Education Attainment</b>			
Never to school	542	29.4	
Primary School Level	937	51.0	

**Table 1 (continued)**

	Frequency	Percentage	Mean
Secondary School Level	313	17.0	
Tertiary Level	49	2.6	
<b>Age</b>			63.6
<b>Respondent Income (Year)</b>			6,786.86
<b>Net Worth</b>			78,492.22
<b>No of Family Members</b>			4.3
<b>No of Financial Problems</b>			1.59
<b>Financial Literacy (0-7)</b>			4.09
<b>Monetary Attitude (10-20)</b>			12.42
<b>Financial Practices (14-42)</b>			23.57

**Table 2: Summary of Multiple Regression Analyses for Financial satisfaction**

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	6.074	0.934		6.504	0.000
Health	0.291	0.082	0.073	3.563	0.000
Income Adequacy	1.096	0.061	0.389	18.017	0.000
Financial Literacy	-0.003	0.001	-0.050	-2.419	0.016
Money Attitude	0.070	0.024	0.058	2.891	0.004
Financial Practices	0.093	0.020	0.102	4.725	0.000
No of Financial Problems	-0.404	0.070	-0.118	-5.760	0.000

**Table 2 (continued)**

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Net Worth	0.001	0.000	0.065	3.028	0.002
Home Ownership	0.312	0.132	0.052	2.368	0.018
Ethnic 1 ( Malays = 1)	0.574	0.211	0.094	2.723	0.007
Ethnic 2 ( Chinese = 1)	0.329	0.225	0.049	1.460	0.145
Employment	0.172	0.137	0.029	1.254	0.210
Sex	0.154	0.151	0.027	1.022	0.307
Age	0.009	0.011	0.018	0.821	0.412
Education Attainment	0.091	0.048	0.048	1.922	0.055
No of Family Members	0.021	0.027	0.016	0.794	0.428
Income	0.010	0.000	0.025	1.137	0.256
Marital Status	0.148	0.164	0.021	0.906	0.365
$R^2 = 0.304$ ,df = 17 ; F = 45.985 ; p = 0.000					