



Psychosocial determinants of financial planning for retirement among immigrants in Europe

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ABSTRACT

The aim of this paper is twofold. First, to extend Hodges' model of relationships between financial planning for retirement with psychosocial variables to predict both objective and subjective measures of financial planning. Second, to apply that model to a representative sample of immigrants in Europe provided by the first wave of SHARE study. Data from 1272 immigrants in Europe were obtained through structured interviews and questionnaires. The Structural Equation Modeling (SEM) analyses reveal that the total expected amount of pension was predicted by poor health, migration seniority, and job demands, among other variables. Total years of pension contribution were predicted by salary, job tenure, and migration seniority. These results validate and expand the previous research on bridge employment activities and partial retirement.

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1. Introduction and background

During the last decades, the European Union countries have undergone a notable increase in immigration, from the Continent and from more distant countries (Österle, 2007). In general, immigrants have a lower socioeconomic level and poorer health than the populations from the host countries and these characteristics place them among the groups with the worst economic preparation for retirement (Ringbäck, Gullberg, Hjern, & Rosén, 1999). *Financial Planning for Retirement* (hereafter, FPR) is at the core of the current concerns of governments and citizens due to its great impact on well-being during retirement (Ettner & Grzywacz, 2003) and its economical implications. However research on FPR among immigrants is still sparse and its determinants deserve further attention. An important contribution of this study is the extension of previous models of FPR to include psychosocial predictors. These results are based on a representative sample of immigrants in Europe proceeding from the first phase of the SHARE study.¹

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1.1. The importance of FPR

Europe is aging faster in this century than the rest of the world, with 15% of the population currently over 65 years of age. At the same time, many Europeans retire relatively early from the labor market and expect more generous benefits and social services than the inhabitants of other developed countries. Despite the positive trend that European economies showed during the past decades, a large segment of retirees still have incomes that fall below the poverty threshold. [Lusardi and Mitchell \(2007\)](#) revealed that in 2004, those baby boomers that were in the lowest income quartile were worse off than their predecessors ([Hershey, Jacobs-Lawson, McArdle, & Hamagami, 2007](#)).

Several studies stated that retirement can be seen as a decision-making process and, in this sense, the person should plan a course of action to cope with retirement ([Beehr, 1986](#)). Moreover, a recent meta-analysis stated that consequences of retirement are more directly affected by retirement planning than for other facets of the process. Specifically, retirement planning showed a strong impact on illness and life satisfaction after retirement ([Topa, Moriano, Depolo, Alcover, & Morales, 2009](#)). Hence, due to the economical implications of retirement, financial planning has been considered one of the most relevant parts of general retirement preparation ([Hershey, Jacobs-Lawson, & Neuman, 2002](#); [Taylor & Geldhauser, 2007](#)). This influence of financial facets on retirement is easy to understand if we acknowledge that retirement involves planning and making decisions about the assignment of limited resources to different ends that compete with each other ([Hatcher, 2003](#)). Specifically, retirement planning requires a person to decide when and how much to save, when to stop working and when to begin to spend the resources those have been saved up for that moment. To sum up, one's financial planning can strongly affect the quality of one's retirement savings decisions ([Hershey & Mowen, 2000](#)).

Related to measures, FPR has been conceptualized in diverse ways, using objective (amount of dollars accumulated) or subjective indicators such as perceptions of financial engagement ([Stoller & Stoller, 2003](#)) or estimations of the percentage of salary saved ([Hershey et al., 2002](#); [Hershey et al., 2007](#)). Whereas the objective measures characterize studies using an economic approach, the latter measures are more frequent in studies of a psychological or sociological orientation. Nevertheless, there seem to be essential differences in the predictive validity of the various financial measures, which leads to recommending complementarity of measures ([Taylor & Geldhauser, 2007](#)). Specifically, objective measures may be the best predictors of more objective results, whereas subjective measures are used to predict variables with more emotional impact. In the present study, we used two measures of FPR, number of years of contribution to the pension system (objective measure) and total expected amount of pension (subjective measure), relating them to different types of predictors: sociodemographic, economic, and psychosocial.

Furthermore, antecedents of FPR have been studied by researchers from an economic perspective ([Helman, Salisbury, Paladino, & Copeland, 2005](#); [Lusardi & Mitchell, 2007](#)). The economic literature states that people plan for and decide about retirement like decision-makers who try to maximize their benefits, although they are subject to situational constraints. In this sense, sociodemographic characteristics (e.g., age, gender and income) have frequently been used as antecedents ([Beedon & Wu, 2004](#); [Wu, 2001](#)). Another perspective has been proposed by [Hershey \(2004\)](#), based on a general model of planning advanced by [Friedman and Scholnick \(1997\)](#), including psychological predispositions that influences financial planning behavior (e.g., personality factors, perceptions of task relevance and motivational factors).

Recently, some theoretical revisions emphasized the unique contribution of psychosocial variables to retirement research. [Shultz and Wang \(2011\)](#) stated that the psychological perspective allows psychologists to explore both inter-individual and intra-individual differences on retirement processes, while other social scientists are not able to provide insights at the micro-individual level. Moreover, these authors recognized that the psychological conceptualization of retirement offers the possibility to take into account the interaction between retirees and their environment. According with this point of view, the Theory of Planned Behavior has been applied to these topic. [Croy, Gerrans, and Speelman \(2010\)](#) have founded that self reported attitudes, subjective norm and perceived behavioral control accounted for a high proportion of the variance in saving intentions. Moreover, other psychosocial antecedents of FPR have been explored by empirical studies. [van Rooij, Lusardi, and Alessie \(2011\)](#) proved that sophisticated financial literacy may be an important driver of FPR above and beyond the effects of demographic characteristics as age, income and education. In a similar vein, some authors have considered the influences of other psychological antecedents, as self-esteem, on FPR ([Neymotin, 2010](#)). However, several authors note that in order to further our comprehension of FPR, we need broader explanatory models of decisions and behaviors of saving for retirement ([Taylor & Doverspike, 2003](#); [Taylor & Geldhauser, 2007](#)).

1.2. Financial planning for retirement and immigration

The increase in the total population of EU Member States in recent years was mainly due to high net migration. From 2004 to 2008 the population of EU Member States increased, on average, by 1.7 million per year, solely because inflows outweighed outflows ([Oblak Flander, 2011](#)). Such [Lelkes \(2007\)](#) stated, the situation of migrants is disadvantageous both in absolute and relative terms, characterized by both high poverty rates and relatively higher poverty rates than the "indigenous" population, with the group of non-EU immigrants exposed to the higher poverty risk. Related to this point, researchers have shown that those individuals most in need of financial and social planning for retirement may actually avoid this process ([Kim & Moen, 2001](#); [Long, 1987](#); [Turner, Bailey, & Scott, 1994](#)). Summing up, the prevalence of poverty and low income among immigrants, the impact of discontinuous and shorter working careers and the fact that immigrants struggle with adaptation problems would affect retirement planning among this group in a long term.

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