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A Conceptual Analysis: Financial Literacy and Financial Retirement Planning

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Abstract: The role of financial literacy has become increasingly prominent as a key predictor of the economic welfare of individuals, especially in retirement planning. The shift of India from joint-family and defined benefit pensions to individualized market-linked retirement products such as National Pension System (NPS) makes the knowledge, attitude, and behavior of Indians regarding finances increasingly significant. The current paper attempts at conceptualization of the relationship between financial literacy and financial retirement planning by drawing on seminal research conducted internationally and in India on this subject. Secondary data obtained from nationally representative surveys (NCFE-FLIS, 2019) and government statistics (PFRDA) will be used in the study to explore the level of financial literacy in India and its relation to the indicators of the preparedness of Indians for retirement, including pension Enrollment and asset-building. It will be found out that although people's participation in formal pension instruments is rising rapidly, there remains a consistent gap in the financial literacy of Indians-only 27 percent of Indians are financially literate, and these rates significantly vary depending on geographical location and gender. The paper concludes that financial education interventions, simplified pension products, and behavioural nudges are essential to bridge the gap between retirement aspirations and retirement readiness in India.

Keywords: Financial Literacy, Retirement Planning, Financial Behaviour, National Pension System, Financial Education, India

1. Introduction

The act of retiring is one of the most important financial milestones in the lifecycle of an individual. In contrast to other financial objectives that may be realized in a couple of years, the process of planning for one's retirement necessitates decades-long savings, wise investments, and comprehension of inflation, interest rates, and risks – concepts that together constitute financial literacy. Financial literacy is generally described as the knowledge, skill, awareness, attitude and behavior associated with finance needed to make financial decisions and realize one's personal financial well-being. As far as the act of retiring goes, financially literate people are able to make accurate estimations of their income requirements after their retirement as well as select appropriate savings and investment instruments and refrain from behavioural mistakes like procrastination and over-saving. The case of India is especially relevant here.

The nation is witnessing a demographic and structural transformation wherein life expectancy is increasing. The old-age security system of the past was a joint-family structure which is collapsing. Also, after the defined benefit government pensions, there are defined contribution schemes such as the National Pension System (NPS). This has transferred investment risk and decision making from the state and employer onto the individual. The growth of financial products, investment platforms and market-linked instruments has broadened the choice set available to savers, but simultaneously also increased the cognitive burden of making appropriate decisions.

Under such circumstances, low or uneven financial literacy can directly translate into inadequate retirement preparedness, exposing a significant part of the population to the risk of old-age income insecurity. National studies confirm how big this will be. The results of the Financial Literacy and Inclusion Survey (NCFE-FLIS, 2019) conducted by the National Centre for Financial Education reveal that financial literacy was rendered to

about only 27 per cent adults in India that satisfied the minimum composite threshold. The analysis indicates significantly large gaps in terms of urban-rural and gender.

Enrolment in formal retirement-savings instruments such as the NPS and the Atal Pension Yojana (APY) has increased rapidly in percentage terms. But those enrolled in these instruments still form a small absolute base relative to the total Indian workforce, a sizeable part of which remains outside the formal pension net altogether. The paper will focus on an apparent paradox; rising participation along with consistently low literacy levels. In light of this, the paper conceptualizes the connection between financial literacy and financial retirement planning.

Instead of creating new primary data the study synthesizes as well as critically evaluates the available empirical literature international as well as Indian with additional references to secondary statistical material from government and regulatory sources for constructing an integrated understanding of how financial literacy impact retirement planning behaviour and outcomes.

1.1. Statement of the Problem

Even with increased emphasis on financial inclusion in India, financial literacy-especially in terms of retirement planning-becomes insufficient and sporadic. Many people who are working, particularly those who belong to the unorganized sector, self-employed categories, and rural settings, have limited access to financial literacy programs, which means that they do not save for retirement or save inappropriately if they do. It becomes important to comprehend the relationship between financial literacy and behavior of retirement planning behaviour is therefore essential for designing effective financial education and pension policy interventions.

1.2. Objectives of the Study

The Objectives of the study are:

- To conceptually examine the relationship between financial literacy and financial retirement planning behaviour.
- To review and synthesise the most relevant empirical literature on financial literacy and retirement planning, both globally and in the Indian context.
- To analyse available secondary data on financial literacy levels and retirement-savings participation in India.
- To identify gaps and propose policy-relevant recommendations for improving retirement preparedness through financial education.

1.3. Significance of the Study

The study is important to financial policymakers, financial educators, pension regulators, and academic researchers. The findings point to the continuing requirement of education campaigns targeted at these sections of the population by policymakers and regulators like PFRDA and NCFE. The paper brings together important work from the USA and Europe as well as recent empirical Indian work to develop a single conceptual framework linking financial literacy to retirement outcomes. This consolidates a fragmented body of literature and is an important first step towards empirical research in the Indian context.

2. Literature Review

Lusardi and Mitchell (2023) reviewed their own two-decade body of work on financial literacy in the form of a retrospective in the Journal of Economic Perspectives. They reconsidered financial literacy as an example of human capital, based on recent U.S. data to pinpoint demographic segments that were the least financially literate, and saw that the same was consistent for other countries too. They concluded that financial illiteracy had

repercussions for savings, debt and retirement and ended the review by offering insights into programs, policies and further research.

Baker, Tomar, Kumar, and Verma (2021) conducted a study on financial literacy and retirement preparedness of professional women in India through factor analysis and Rasch modeling techniques and validated their financial literacy scale. It was discovered that although these women were in professional jobs and also relatively educated, many of them had only moderate levels of financial literacy and that this financial literacy level was an important determinant of their behavior in planning for retirement even after accounting for income and education. Their results showed that professional jobs and education were not sufficient conditions for retirement preparedness.

Agarwalla, Barua, Jacob, and Varma (2015) investigated the relationship between financial literacy and the working youth population in urban areas of India, where financial literacy is broken down into its dimensions of financial knowledge, attitude, and behaviour, and the influence of socio-demographic factors on these dimensions is observed. Their research showed that this segment of the population has relatively poor financial knowledge and attitude, but relatively better financial behaviour compared to other groups of the same age in other countries. Joint family status has a negative effect on the level of financial literacy, whereas consultation in household decision making has a positive effect.

Mahapatra, Raveendran, and De (2019) developed and validated a model that analyzed the impact of behavioural and cognitive elements, like financial self-efficacy, money attitudes, and psychological biases, on individual financial planning among households in India. It was discovered that the behavioural and cognitive aspects had a strong influence on individual planning behavior that was not fully accounted for in terms of financial knowledge alone. This research helped to expand the theoretical perspective on the subject of retirement and financial planning in India in the sense that psychological and attitudinal factors determined the application of financial literacy individuals actually acted on their knowledge.

Mitchell and Lusardi (2022), in their work for the Handbook on the Economics of Aging, have analyzed the link between financial literacy and financial behavior among elderly people. The authors found out that financial knowledge decreases with age even while more and more challenges are appearing in terms of financial decision making, like decumulation and payment of long-term care costs, which means that elderly people face a risk of bad financial decisions at the moment when they are most vulnerable to the effects. Thus, this work proves that financial literacy programs should be targeted toward elderly people and not assume that financial knowledge remains the same during their life cycle.

2.1. Research Gap

Together, these five papers provide us with an undisputable and universally reproducible empirical regularity: there is a positive and often causal relationship between financial literacy and retirement planning behavior/outcome, with the degree and mechanisms of such relationship being determined by certain socio-demographic, cultural and behavioral aspects that vary from case to case. In particular, the Indian papers demonstrate that family structure, gender, and psychological factors have a unique effect on this relationship, which cannot be sufficiently explained just using the literacy level variable. Nevertheless, many Indian papers are based on small and/or occupational samples (urban youth, professional women), thus lacking an overall nationally-representative theoretical framework for explaining this phenomenon – this paper aims at providing an initial solution to this problem in Section 4.

3. Research Methodology

3.1. Research Design

The current study uses the methodology of a descriptive cum analytical conceptual research design. Instead of collecting primary data by means of a survey, the paper is framed as conceptual research where the existing literature is analysed and secondary statistical data is integrated to develop an insight into the financial literacy - retirement planning connection in India.

3.2. Sources of Data

The research is totally based on secondary sources of information and is categorized into the following two types:

- **Academic literature:** Peer-reviewed journal articles cited by Google Scholar as well as by major publishing houses' databases such as Elsevier, Cambridge University Press, Wiley, and SAGE, including international studies as well as the latest Indian empirical studies on financial literacy and retirement planning.
- **Statistical and regulatory data:** Nationally representative survey data of NCFE-FLIS, conducted by the National Centre for Financial Education in 2019; and administrative data of NPS and APY subscribers/assets published by the Pension Fund Regulatory and Development Authority (PFRDA) on National Pension System (NPS) and Atal Pension Yojana (APY) subscriber and asset growth.

3.3. Method of Analysis

The research takes two steps. First, an exploration of narrative and thematic literature review (Section 2) is performed to discover the most important theoretical connections between financial literacy and retirement planning behavior, including both general trends and some context-specific nuances, applicable to the case of India. Second, descriptive statistical analysis of secondary data (Section 4) is performed to analyze the current state of financial literacy and participation in retirement savings in India, presented in the form of tables and graphs that reveal specific patterns (urban-rural gap, gender gap, enrollment trends in pension schemes).

3.4. Conceptual Framework

Based on the discussion in the literature review presented in Section 2, the current research study considers a theoretical framework where financial literacy is considered as a compound variable, including financial knowledge, financial attitude, and financial behavior. The proposed compound variable is assumed to have an effect on retirement planning behavior (e.g., the enrollment in a pension program, making regular contributions, and diversifying one's portfolio), which will determine the readiness for retirement (i.e., the level of accumulated retirement wealth in relation to the post-retirement income requirements). Such a process is affected by socio-demographic variables (age, gender, income, education, and urban or rural residence) and behavioural-psychological factors (self-efficacy, money attitude, and present bias), as stated by Agarwalla et al. (2015), Mahapatra et al. (2019), and Baker et al. (2021).

3.5. Scope and Limitations

This research is conceptual and descriptive in character, and it neither involves empirical data collection nor any kind of statistical hypothesis testing or regression modeling; hence, the associations that have been mentioned need to be viewed in light of the literature review, and not on the basis of independent conclusions made in this paper. The secondary data considered here include only those data that are available till date and are from the latest available nation-wide surveys (NCFE-FLIS 2019 and PFRDA statistics up to 2025); newer primary data, wherever available, might present a somewhat different scenario. Despite these limitations, the secondary-data

approach allows for a broad, policy-relevant synthesis that would be difficult to achieve through a single primary survey within the scope of this paper.

4. Data Analysis

This section provides a descriptive analysis of the secondary data available on (a) the current state of financial literacy in India, (b) the various elements of the same, and (c) the trend towards using formal retirement savings mechanisms to analyze the real world application of the above-mentioned relationship between financial literacy and retirement planning relationship discussed in Section 2.

4.1. Financial Literacy Levels in India

The NCFE Financial Literacy and Inclusion Survey (NCFE-FLIS, 2019), the most recent national-level survey on financial literacy, shows that just 27 percent of adults in India are financially literate as per the composite score needed for financial literacy, as per the OECD/INFE methodology of measuring financial literacy, attitude, and behaviour.

Table 1: Financial Literacy Levels in India, 2019 (Source: NCFE-FLIS, 2019)

Category	Financially Literate Adults (%)
All-India	27
Urban	33
Rural	24

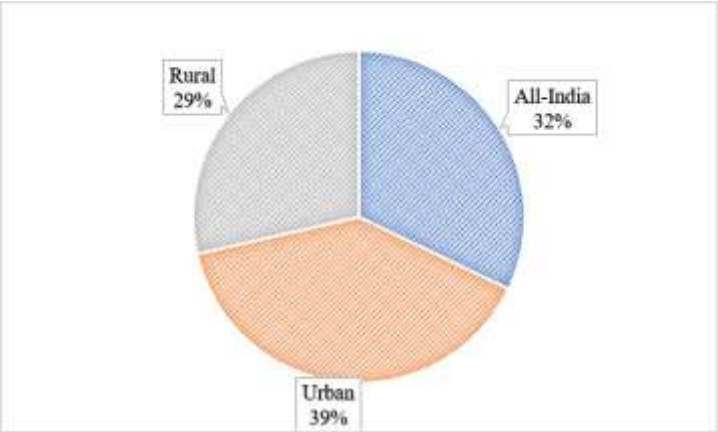


Figure 1: Financial Literacy Levels in India, 2019

The results indicated in Table 1 suggest that despite being one of the largest economies in the world, financial literacy among India's adult population is still quite poor, and only 27 per cent of Indian adults meet the threshold to be considered financially literate on the basis of the findings from the NCFE-FLIS (2019) study. There seems to be a significant difference in the case of urban versus rural areas in the national figures regarding the levels of financial literacy in India. While 33 per cent of urban adults met the threshold for financial literacy, rural adults lagged behind in the ratio of 24 per cent, which indicates that there is a nine per cent difference between urban and rural adults regarding their financial literacy levels in India. Considering that a majority of India's population as well as workforce lives in the rural areas, it becomes evident that a large proportion of India's adult population is below this threshold level of financial literacy.

4.2. Components of Financial Literacy

Breaking down the composite score into its three parts shows an important trend concerning retirement planning.

Table 2: Components of Financial Literacy - All India (Source: NCFE-FLIS, 2019)

Component	Respondents Meeting Minimum Score (%)
Financial Attitude	88
Financial Behaviour	53
Financial Knowledge	~50

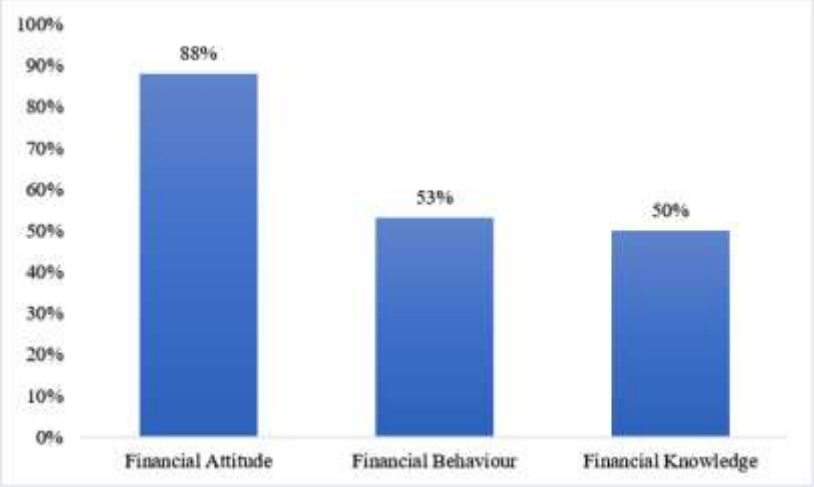


Figure 2: Components of Financial Literacy - All India

As is seen from Table 2 and Figure 2, financial attitude, i.e. the degree to which people prioritise saving money in the long run instead of spending it in the short term, is relatively high in India as a whole (88 per cent reaching the minimum requirement threshold), while financial behavior (53 per cent) and financial knowledge (about 50 per cent) remain significantly lower. This indicates that although Indians generally have a positive attitude towards saving and planning for the future, many of them lack the necessary knowledge or behavioural skills to implement their attitude, which aligns with the findings of Mahapatra et al. (2019).

4.3. Trends in Retirement Savings Participation

Despite poor overall financial literacy levels, involvement in formal retirement savings instruments in India has increased tremendously relative to a few years ago.

Table 3: Growth of NPS and Atal Pension Yojana Subscriber Base, 2020-2023 (Source: PFRDA / Business Standard, PTI reports)

Period	Combined NPS + APY Subscribers (crore)	Year-on-Year Growth (%)
April 2020	3.46	-
April 2021	4.27	23.3

March 2022	5.08	~19
March 2023	6.24	22.9

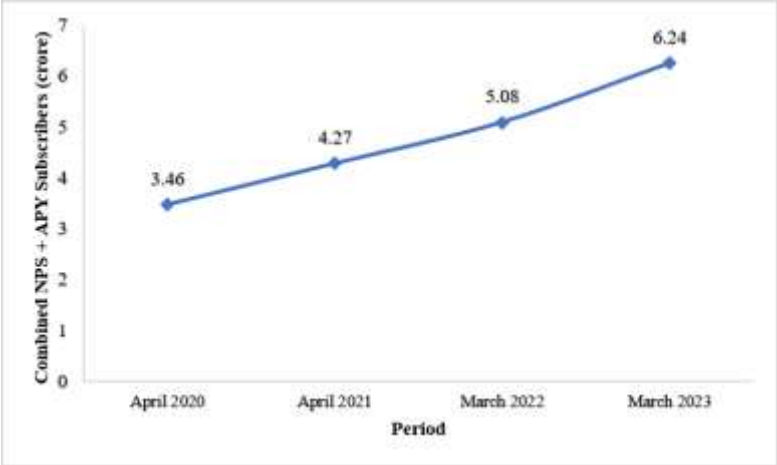


Figure 3: Growth of NPS and Atal Pension Yojana Subscriber Base, 2020-2023

According to PFRDA statistics, the total number of subscribers in the NPS scheme and the Atal Pension Yojana (APY) has increased from 3.46 crore in April 2020 to 6.24 crore in March 2023-which is an approximate annual growth of 22-23 per cent per year. Recent revelations made by PFRDA suggest that the assets under management (AUM) of both NPS and APY has increased by 23 per cent to approximately Rs. 14.43 lakh crore in March 2025, where women constituted about 55 per cent of the total enrollment in APY in FY 2024-25, and the gross APY enrollment crossed 76 million in that period. Table 3 and Figure 3 present the subscriber growth trend.

4.4. Discussion

The data discussed above lead to an interesting and somewhat paradoxical conclusion. On the one hand, high rates of growth in terms of percentage increase in the number of subscribers and assets managed in NPS and APY imply increasing awareness among people about the formal mechanism of savings during old age. At the same time, the constant low base level of financial literacy, particularly concerning financial knowledge and skills, but not attitudes towards finance, implies some doubts about the appropriateness of this process. Subscription to a pension program is a necessary but not a sufficient condition for being financially ready for retirement since the lack of knowledge may result in underfinancing and inappropriate asset allocation, leading to the formation of insufficient retirement corpus. The latter is justified by the international literature review presented in Section 2 (Lusardi & Mitchell, 2011; van Rooij et al., 2012), which found that financial literacy influences not just whether individuals plan for retirement, but how effectively they do so.

Given the evident urban-rural and gender differences shown in Table 1 and Table 2, as well as the research by Baker et al. (2021) concerning Indian professional women, it seems evident that supply-side increase in the number of pensions available will not suffice for solving the issue of retirement readiness; there should also be demand-side measures taken, namely financial education for rural population, women, and informal sector workers.

5. Conclusion

The theoretical framework of the study, using five important articles along with Indian secondary data, reveals that financial literacy including knowledge, attitude, and behavior is an important determinant of retirement

planning and savings, which are influenced by sociodemographic characteristics like gender, household type, and income. It has been observed that only around 27 percent of Indian adult population is financially literate, while good saving attitudes are prevalent among 88 percent of Indian adults, as compared to their knowledge and behavior (50-53 percent), even when there has been rapid growth in NPS and APY participants from 3.46 crore to more than 6.24 crore between 2020 to 2023, with total asset reaching Rs. 14.43 lakh crore by 2025. This implies that Indian pension problem does not lie in availability of pension products but in making better financial decisions, which can be achieved by means of financial education that includes not just attitude development but also knowledge and behavior, and financial literacy campaigns targeting rural population, women and informal sector workers, behavioral measures like default enrollment and auto-escalation, and starting financial education at workplace and schools. As a secondary data based conceptual study, it does not find any new causal relationship and further research must include primary survey studies and longitudinal studies among understudied segments like gig workers, rural women, and micro-entrepreneurs.

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