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# CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	FINANCIAL LITERACY AND RETIREMENT PLANNING OF INDONESIAN MIGRANT WORKERS IN HONG KONG <i>AHMAD JULIANA &amp; HAI CHIN YU</i>	1
2.	A CASE STUDY ON OPINION TOWARDS LOW COST PRODUCTS AND IMPACT ON THEIR BEHAVIOUR <i>R. SARANYA &amp; R. RAJENDRA KUMAR</i>	5
3.	STOCK VERIFICATION & AUDIT PROCESS OF WHOLESALE & RETAIL BUSINESS ENTERPRISES OF UDAIPUR DISTRICT <i>DR. DEVENDRA SHRIMALI &amp; MOHAMMED ABID</i>	7
4.	ROLE OF HR FOR SUSTAINABLE TOMORROW <i>ANJALI SHARMA, SWAGATIKA MOHARANA &amp; DR. SURUCHI PANDEY</i>	10
5.	CHANGING TRENDS IN ONLINE SHOPPING IN INDIA <i>DR. PUSHP DEEP DAGAR</i>	16
6.	A RESEARCH STUDY ON PREFERRED INVESTMENT PATTERN OF SALARIED EMPLOYEES WITH REFERENCE TO MANCHERIAL TOWN, MANCHERIAL DISTRICT, TELANGANA STATE, INDIA <i>SUDIREDDY NARENDAR REDDY</i>	18
7.	A STUDY ON VARIOUS OPTIONS AVAILABLE FOR INVESTMENT AMONG SALARIED CLASS INVESTORS <i>KINJAL PATEL</i>	23
8.	ISLAMIC BANKING: A INTRODUCTION <i>MOHD SAZID</i>	26
9.	THE INCIDENCE OF POVERTY AND INEQUALITY IN INDIA: AN EMPIRICAL ANALYSIS <i>DR. P. KANAKARANI</i>	28
10.	A STUDY ON IMPACT OF SERVICE QUALITY DIMENSIONS ON CUSTOMER SATISFACTION WITH RESPECT TO TELECOMMUNICATION SERVICE USERS IN AHMEDABAD AND NORTH GUJARAT <i>DR. MITESH JAYSWAL &amp; MIHIR H. PATHAK</i>	37
11.	CONSUMERS PERCEPTION TOWARD ONLINE SHOPPING IN DISTRICT KULLU <i>SAPNA THAKUR &amp; INDU THAKUR</i>	41
12.	PRODUCTION PERFORMANCE OF SELECTED POWER GENERATING COMPANIES OF INDIA: AN EMPIRICAL STUDY <i>NASIR RASHID &amp; DR. B. MANIVANNAN</i>	44
13.	LINKAGE BETWEEN FOREIGN DIRECT INVESTMENT AND EXPORT: ISSUES AND TRENDS <i>DR. UPENDRA SINGH &amp; HARSHUL GARG</i>	48
14.	SECTORAL ANALYSIS OF LONG RUN PERFORMANCE OF INITIAL PUBLIC OFFERINGS OF COMPANIES LISTED AT NSE <i>DR. SEEMA MOHINDRA</i>	52
15.	A STUDY ON THE ROLE OF INFORMATION TECHNOLOGY ON THE CONSUMER BUYING BEHAVIOR (WITH SPECIAL EMPHASIS ON THE CUSTOMERS OF DIBRUGARH TOWN) <i>UJJAL BHUYAN</i>	62
16.	PERFORMANCE & EVALUATION OF NON BANKING COMPANIES <i>VANDANA GELANI</i>	68
17.	mHEALTH POTENTIAL IN CHRONIC DISEASE MANAGEMENT WITH SPECIAL EMPHASIS ON DIABETES CARE <i>SURENDRA NATH SHUKLA</i>	71
18.	CRACKING THE GLASS CEILING: A STUDY AT INDIVIDUAL SOCIETAL AND ORGANIZATIONAL LEVEL <i>SWATI SINGH</i>	77
19.	TRADE STRATEGIES BRITAIN MUST EMBRACE FOR THE WELFARE OF DEVELOPING COUNTRIES <i>RITIKA DONGREY</i>	81
20.	IMPACT OF GOODS AND SERVICE TAX ON INDIAN ECONOMY <i>CHIRANJEEV RANGA &amp; NEERAJ</i>	83
	<b>REQUEST FOR FEEDBACK &amp; DISCLAIMER</b>	<b>86</b>

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#### **ABSTRACT**

*This study aims to investigate the levels of financial literacy and retirement planning among Indonesian Migrant Workers (IMWs) in Hong Kong. The sample of this study is IMWs whose study in Indonesian Open University during his limited contract. Tobit model was used for this study. We find the level of financial literacy of Indonesian Migrant Workers under limited contract they tend to save and able to stick plan for retirement. However, they level financial literacy considered to inflation and stock risk are lower.*

#### **KEYWORDS**

financial literacy, retirement planning, limited contract.

#### **INTRODUCTION**

The main reason why Indonesians workers decided to work abroad is caused by unavailability of jobs in Indonesia. Either, the high salaries offered to make them interested in working, despite having to leave the family to be Indonesian Migrant Workers (IMWs). The presence of IMWs reached USD 10.4 billion in 2014. However, mostly Indonesian Migrant Works is less educated, 70.27 % under the senior high school and most of the female (BNP2TKI), in which, low levels of education lead to financial problems.

Many of IMWs did remittance to their family in home country (Dustmann and Mestres, 2010), and (Yang D, 2011). However, there is no guarantee the flow of money for saving and consumption from the host country to home country lead to better life in future. Whereas, the changed of lifestyle during becomes IMWs if not controlled can make their lives worse of lead to poverty. Yang D (2011) found many of migrant workers have not a good financial planning. The lack of financial planning may make a problem. IMWs and government should look for a solution to dismiss the problem.

Prior financial literacy studies suggest the well enough knowledge of financial literacy would bring to a better financial decision in the future. Otherwise, the low level of financial literacy caused a financial problem. Boisclair et al. (2014) argue financial literacy related to financial planning. Further, Agnew, Bateman, & Thorp, 2013 found less educated would face risk in the future.

Meanwhile, generally migrant workers doing the job under limited contract such as two or three years each contract and able to renew until 4 times contracts. Whereas, the contract will renew depend on the situation of the employer. In this view, Indonesian Migrant Workers placing as the weaker party (Dustmann and Kirchkamp, (2002). Accordingly, to reduce the risk in the future, especially financial risk, the government and the IMWs should motivate to reach financial literacy. The study is a focus to investigate the levels of financial literacy and financial planning of Indonesian Migrant Workers in Hong Kong. We expected our study may contribute to enhance the hope of migrant workers for better life and help Indonesian government to map a good solution or regulation among Indonesian Migrant Workers over the world.

#### **LITERATURE REVIEW**

The National Financial Educator Council (NFEC) defines financial Literacy as “possessing the skill and knowledge on financial matters to confidently take effective action that best fulfills an individual’s personal, family and global community goals”. A short definition of financial literacy is the ability to understand basic principles of business and finance. Many countries put more attention the level of financial literacy as stated by (Atkinson, A., & Messy, F.A., (2011) the potential magnitude of the consequences of a lack of financial literacy has been further demonstrated by the financial crisis.

An extent studies suggest that financial literacy is related to the individual demographics and the level of knowledge correlated to their financial behavior. (Hilgert, Hogarth, Vitt, and Anderson, 2002) explores the connection between knowledge and behavior, they found positive and significant results. Further, Mitchell et al (2011) examine financial literacy in the United States using the new National Financial Capability Study they demonstrate that financial literacy is particularly low among the young, women, and the less-educated. (Almenberg, 2011) examines the relationship between financial literacy and retirement planning in a representative sample of Swedish adults. They find significant differences in financial literacy between planners and non-planners. Financial literacy levels are also lower among older people, women and those with low education or earnings. Further, (Agnew et al., 2013) examines the relationship between financial literacy and retirement planning using a measure that includes questions requiring numeracy. They find aggregate levels of financial literacy similar to comparable countries with the young, least educated, those not employed, and those not in the labor force most at risk.

Some extent studies examine the relationship between financial literacy and retirement planning, the results of this studies show positive and significant. (Lusardi and Mitchell, 2008) address reverse causality and find strong evidence that literacy causes planning, not the reverse. (Koenen and Lusardi, 2011) examine financial literacy in Germany using data from the SAVE survey. They find that knowledge of basic financial concepts is lacking among women, the less educated, and those living in East Germany. Also, they investigate the nexus of causality between financial literacy and retirement planning using an IV strategy by making use of regional variation in the financial knowledge of peers. They find a positive impact of financial knowledge on retirement planning. (Sekita, 2011) analyze the determinants of financial literacy and link financial literacy to retirement planning. Overall, the level of financial literacy is low in Japan also found that financial literacy increases the probability of having a savings plan for retirement. (Andrade, Bazelais, and Das, 2010) examine the relationship between financial literacy and effective retirement planning using the National Financial Capability Study. They show the difference between females and males as well as Caucasians, African-Americans, and Hispanics. Their results show that there are differences amongst genders and races.

#### **RESEARCH METHODOLOGY**

We use the basic financial literacy questionnaire from (Lusardi and Mitchell, 2011) and the questionnaire from Health and Retirement Study (HSR) for retirement planning. The basic question of financial literacy had been examined in Germany, Netherlands, Sweden, Japan, Italy, the United States, Russia, New Zealand and

Australia. The basic questions of financial literacy developed by (Lusardi and Mitchell, 2011) are a compound of interest, inflation, and stock risk. The compound of interest is related to saving for retirement, the concept of inflation related to purchasing power and stock risk is related to investment. The study was based on paper based survey given to 400 respondents in Hong Kong. The populations of this study are the Indonesian Migrant Worker in Hong Kong. The paper base study covered in a two-month time frame: July and Augustus 2016. Finally, we got only 123 of completed questionnaire as our sample. The Respondent of this study is women, because in Hong Kong only women allowed to work as a migrant worker, otherwise not allowed. Our study aimed to investigate the level of financial literacy and retirement planning of Indonesian Migrant Workers in Hong Kong. We analyzed education level, status, tenure, abroad experience. To analyze the level of financial literacy among Indonesian Migrant Workers we following the model from (Lusardi and Mitchell, 2011) we use Tobit Analysis for investigating of Simple, Serious and Successful Planners.

**RESULTS & DISCUSSION**

**FINANCIAL LITERACY**

Table 1 Panel A reports the distribution of responses to financial literacy questions for our sample of 123 Indonesian Migrant Workers. The table shows that 78.86 % of women correctly answered the interest rate question. In contrast, the table shows the correct answer for inflation and stock risk is low, it results is 34.15 % and 19.15 % respectively. It means the percentage of low results indicated women are less knowledge about inflation and stock considered to inflation and investment than a compound of interest. Whereas, the high level of the correct answer in compound interest it caused they more knowledgeable considered to saving and exchange rates.

**TABLE 1: FINANCIAL LITERACY PATTERN**

**PANEL A: DISTRIBUTION OF RESPONSES TO FINANCIAL LITERACY QUESTIONS**

Questions	Responses			
	Correct	Incorrect	DK	Refuse
Compound Interest	78.86%	8.95%	2.44%	9.76%
Inflation	34.15%	38.22%	13.01%	14.63%
Stock Risk	19.51%	43.90%	26.02%	10.57%

Note: DK= Respondent indicated don't know.

Further, the differentiate responses on incorrect answer DK and refuse to answer indicate the low level of women on financial literacy. The proportions of incorrect answer DK and refuse to answer differently each other. Firstly, for a compound of interest, only 8.95 % responses incorrect, 2.44% responses don't know and 9.76 % refuse to answer. Secondly, for inflation, 38.2 % responses incorrect, 13.01% don't know responses and 14, 63% refuse to answer. Thirdly, for stock risk, 43.90% responses incorrect, 26.02 don't responses and 10.57 % refuse to answer. (Lusardi & Mitchell, 2008) suggest DK responses are highly correlated within individual respondents: that is, women are consistently financially illiterate or literate.

However, Panel B shows the low results for being correct to financial literacy question. The table Shows only 5.69 % of Indonesian Migrant workers could answer the basic questionnaire, 33.33 % of them only 2 responses correct, and 44.72 % of them only 1 response correct. This result, show the low level of Indonesian Migrant Worker on financial literacy.

**PANEL B: JOINT PROBABILITIES OF BEING CORRECT TO FINANCIAL LITERACY QUESTIONS**

Questions	Responses			
	All 3 Responses Correct	2 Responses Correct	1 Responses Correct	No Responses Correct
Proportions	5.69%	33.33%	44.72%	13.82%

**RETIREMENT PLANNING**

Table 2 shows the result of the proportion of types of the planner on retirement. The table shows 67.48 % respondent responses they had attention to save for their retirement. Following another researcher, we call this group of respondent as Simple Planner. By contract, this results different with (Lusardi & Mitchell, 2008), and Alan L. Gustman and Thomas L. Steinmeier (2004) which found a small number of the planner results. The reason for a high number of the planner on Indonesian Migrant Workers may they work under limited contract in Hong Kong, one's contract at least 2 year period and the maximum they allowed to work as Migrant workers until four contracts. Thus, a migrant worker should make more attention for saving during the contract.

Further, we investigate the respondent responses on HRS module. Firstly, 67.48% of respondent responses ever tried to figure out how much to save for retirement and only 32.52 % responses are never tried to figure out. Secondly, respondent responses if they did to develop a plan for retirement saving. 73.98 % of respondent did it, 14.63 % did it more or less, and 11.38 % never did it. As a prior researcher, we call those did as Serious Planner. Thirdly, we investigate how often were the respondent response able to stick to the plan. 71.54% respondent responses are mostly, 23.57% of them responses rarely and 4.88 % respondent responses are never able. We call who mostly able as Success Planner.

**TABLE 2: PREVALENCE OF RETIREMENT CALCULATIONS**

**PANEL A: PROPORTION OF PLANNER IN RESPECTIVE SUB-GROUPS**

Questions	Answers		
	Yes	No	
Have you ever tried to figure out how much to save for retirement?	67.48%	32.52%	
Did You develop a plan for retirement saving?	73.98%	14.63%	11.38%
How often were you able to stick to the plan?	71.54%	23.58%	4.88%

Table 2 Panel B Shows the Proportion of Planner in. Considered to our retirement baseline results, we got only 67.48 % as Simple Planner, 64.23 % as Serious Planner and 64.23% as Success Planner. It means planning for retirement is not difficult for Indonesian Migrant worker in Hong Kong.

**PANEL B: PROPORTION OF PLANNERS IN FULL SAMPLE**

Questions	Proportion of sample
Simple Planners Yes to "tried to figure out how much to save for retirement"	67.48%
Serious Planners Replied Yes/more or less to "developed a plan"	64.23%
Successful Planner Replied Mostly to "able to stick to the plan"	64.23%

**DOES FINANCIAL LITERACY AFFECT RETIREMENT PLANNING UNDER LIMITED CONTRACT?**

Table 3 reports the results of Tobit analysis on the link between financial literacy and retirement planning. Following (Lusardi & Mitchell, 2008) we use three dependent variables for Tobit Analysis are Simple Planner, Serious planner, and Successful Planner. The dependent variable in Column (1) is dummy variable equal to 1 if the respondent was correct on financial literacy question, 0 otherwise. Column (2) adds an indicator equal to 1 if respondent if the respondent indicated she did not know the answer to the question 1, 0 otherwise. Column (3) has the same as dependent variable but we add a set of demographics controls such as age, education, tenure, has experience abroad.

Table 3 shows the financial literacy is positively associated with planning after controlling demographic variables. It means, if the respondent gives the correct answer to financial literacy she will be a planner (column 1). DK in column (2) is referred to respondent which less likely to plan for retirement. The result on this column negatively and significantly for the stock risk, it may relate to their knowledge considered to the concept and practice. Column (3) indicated that financial literacy is related to demographics of the respondent. The results in column (3) also provide positive results for a compound of interest and inflation. It may rise from the education, tenure, and experience abroad.

**TABLE 3: TOBIT ANALYSIS OF SIMPLE, SERIOUS AND SUCCESSFUL PLANNERS: MARGINAL EFFECT REPORTED**

	Simple Planner n=123			Serious Planner n=123			Successful Planner n=123		
	I	II	III	I	II	III	I	II	III
Correct on Compound Interest	-0.0460 (-0.45)	0.00147 (0.01)	0.000964 (0.01)	-0.00107 (-0.01)	0.0107 (0.10)	0.0154 (0.14)	-0.00107 (-0.01)	0.0107 (0.10)	0.0154 (0.14)
Correct on Inflation	0.0729 (0.82)	0.0770 (0.82)	0.0766 (0.81)	0.118 (1.32)	0.135 (1.41)	0.138 (1.45)	0.118 (1.32)	0.135 (1.41)	0.138 (1.45)
Correct on Stock Risk	-0.222* (-2.13)	-0.240* (-2.20)	-0.241* (-2.18)	-0.285** (-2.70)	-0.286* (-2.58)	-0.279* (-2.48)	-0.285** (-2.70)	-0.286* (-2.58)	-0.279* (-2.48)
DK Compound interest		0.382 (1.33)	0.380 (1.32)		0.0632 (0.22)	0.0768 (0.26)		0.0632 (0.22)	0.0768 (0.26)
DK Inflation		0.0200 (0.15)	0.0197 (0.15)		0.0838 (0.62)	0.0866 (0.64)		0.0838 (0.62)	0.0866 (0.64)
DK Stock Risk		-0.0402 (-0.38)	-0.0403 (-0.38)		-0.0129 (-0.12)	-0.0119 (-0.11)		-0.0129 (-0.12)	-0.0119 (-0.11)
Demographics	No	No	Yes	No	No	Yes	No	No	Yes
Pesudo R2	0.0308	0.0419	0.0420	0.0509	0.0536	0.0546	0.0509	0.0536	0.0546

t statistics in parentheses \* p<0.05, \*\* p<0.01, \*\*\* p<0.001

**THE LINKS BETWEEN PLANNING TOOLS, PLANNING SUCCESS AND FINANCIAL LITERACY**

We also track the link between planning tools using for set up the retirement planning. Table 4 Panel A presents a tool planner report using. We divide this part into two columns as simple planner and successful planner. Most of respondent using calculator or worksheet as the first tools is count to 47.54% for simple planner and 45.08% for successful planner. The low level is attends to retirement seminar both results only 14.75 % for simple planner and 13.11% for successful planner.

**TABLE 4: LINKS BETWEEN PLANNING TOOLS, PLANNING SUCCESS AND FINANCIAL LITERACY**

**PANEL A: TOOLS PLANNER REPORT USING**

Tools	Simple Planner n=83	Successful Planner n=79
Talk to family/friends	44.26%	42.62%
Talk to coworkers/friend	28.69%	28.69%
Attend retirement seminar	14.75%	13.11%
Use calculator/worksheet	47.54%	45.08%
Consult financial planner/accountant	15.57%	14.75%

Panel B present the correlation between planning tool, tool used and financial literacy. We use a simple planner as baseline result. For compound interest correct answer the high results is use calculator or worksheet count to 63.93% and the lower results is attend retirement seminar only 13.11%. For inflation correct answer the high results is use calculator or worksheet count to 25.41% and the lower results is consults financial planner count to 6.54%. For stock risk concept the high results use calculator or worksheet count to 13.11% and the lower results is consult financial planner count to 1.64%.

**PANEL B: CORRELATION BETWEEN PLANNING, TOOLS USED, AND FINANCIAL LITERACY**

	Simple Planner n=83	Talk to fam- ily/friends n=88	Talk to cowork- ers/friend n=62	Attend retirement seminar n=20	Use calculator/work- sheet n=87	Consult financial plan- ner/accountant n=24
Compound Interest	52.46%	58.2%	42.62%	13.11%	63.93%	15.57%
Inflation	24.59%	23.77%	17.21%	7.38%	25.41%	6.56%
Stock Risk	9.84%	12.3%	6.56%	3.28%	13.11%	1.64%

Panel C present the result of respondent track and set their spending budget. The table shows the respondent answer 70.73% always and mostly track their own spending. Interestingly 86.89% of respondent always and mostly set their spending budget.

**PANEL C: BUDGETING QUESTIONS ALL RESPONDENT**

	Always	Mostly	Rarely	Never
Track Spending	39.84%	30.89%	26.83%	2.44%
Set Spending Budget	50.82%	36.07%	10.66%	2.64%

**CONCLUSION**

Our findings raise concern about the level of financial literacy of Indonesian Migrant Worker in Hong Kong. Under the limited contract, they tend to save and able to stick plan for retirement. However, they level financial literacy considered to inflation and stock risk are lower. It means on the short term year they still control their economics, however, after several years or after they have not worked as a Migrant worker, they have a financial problem.

Therefore, Government and related organization should make more attention to encourage financial literacy among Indonesian migrant workers over the world to the high level at three basics of a question. The policy makers may able to motivate migrant works to take a workshop in financial literacy before they joints the job or during the contract.

**LIMITATION**

This research has some a limitation such as: the sample of the study only focus in Hong Kong with a few respondents. Many people from Indonesian country work in developed and developing country such as Taiwan, Korea, Japan and Malaysia. Further, regarding the sample we have not many time and cost to collect more sample.

**FURTHER RESEARCH**

Research in this field is very important for people and government to fix the solution as early warning of financial problem. Further to find more finding the next research should use more sample and different country. Because, as long as my knowledge, research on financial literacy and retirement planning among Indonesian migrant workers in abroad it is the first research in this field. Thus, to reach more finding is very open in this field.

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