

Financial Literacy and Retirement Planning Among Young Professionals

Nivedita Thakurta¹, Chhakuli Narayan Wakodikar², Sakshi Devanand Bhowate³, Prof. Nitin Prakash⁴

¹MBA Student, Tulsiramji Gaikwad-Patil College of Engineering and Technology, Nagpur, India

Email ID: niveditathakurta09@gmail.com

²MBA Student, Tulsiramji Gaikwad-Patil College of Engineering and Technology, Nagpur, India

Email ID: chhakuliwakodikar681@gmail.com

³MBA Student, Tulsiramji Gaikwad-Patil College of Engineering and Technology, Nagpur, India

Email ID: sakshibhowate9@gmail.com

⁴Department of MBA, Tulsiramji Gaikwad-Patil College of Engineering and Technology, Nagpur, India

Email ID: nitin.mba@tgpcet.com

ABSTRACT

This study explores how financial knowledge influences retirement saving behaviors among individuals aged 22 to 35 who are in the early stages of their professional careers. Data were collected through a structured quantitative survey involving 150 participants from various urban centers in India. The findings reveal that although basic financial awareness exists at a moderate level, deeper understanding of concepts such as compound interest, inflationary effects, and portfolio risk distribution remains poor. A statistically significant positive relationship was observed between financial literacy scores and the early initiation of retirement savings. However, only 32% of the sampled individuals had begun any formal retirement planning. The paper concludes by recommending the incorporation of applied financial education modules into workplace well-being initiatives and university curricula. These results underscore an urgent need for focused interventions aimed at enhancing the long-term financial stability of young earning populations.

Keywords: *Financial knowledge, retirement preparedness, young earners, saving patterns, investment literacy, India*

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I. INTRODUCTION

The shift from student life to full-time employment introduces individuals to numerous financial responsibilities, many of which carry long-lasting implications. Among these, preparing for retirement often seems least pressing for young employees, who tend to focus on more immediate concerns such as repaying education loans, purchasing a home, or funding lifestyle preferences. Nevertheless, due to the power of compounding, the period between the ages of 20 and 35 offers the greatest opportunity to accumulate a substantial retirement corpus. Unfortunately, insufficient financial literacy prevents many young workers from making well-informed choices regarding pension plans, mutual fund investments, and other long-term financial instruments.

Financial literacy can be defined as the integration of awareness, factual knowledge, practical skills, financial attitudes, and actual behaviors that together enable sound financial decision-making and ultimately lead to personal economic well-being. For early-career professionals, this includes grasping concepts like interest rate mechanics, inflation, tax optimization, asset distribution strategies, and retirement-specific vehicles such as the Employees' Provident Fund (EPF), Public Provident Fund (PPF), National Pension System (NPS), and equity-oriented savings schemes. Without mastery

of these topics, even individuals with high salaries may fail to direct sufficient resources toward their retirement needs.

The present study addresses two primary gaps in existing literature. First, most prior research has concentrated on middle-aged or pre-retirement populations, leaving a relative void concerning young professionals who have only recently entered the labor market. Second, India's financial ecosystem has undergone rapid transformation due to the emergence of digital investment applications, systematic investment plans (SIPs), and mobile-based financial products. While young professionals frequently use such platforms, usage does not automatically translate into genuine understanding. Accordingly, this research poses the following question: What is the current state of financial literacy among young Indian professionals, and in what ways does it shape their retirement planning behaviors?

The specific objectives of this work are: (a) to measure financial literacy across elementary, advanced, and behavioral dimensions; (b) to evaluate the degree of retirement planning activity among respondents; (c) to examine the correlation between literacy levels and retirement readiness; and (d) to identify demographic characteristics that predict superior financial habits.

The scope of this investigation is confined to salaried young professionals between 22 and 35 years of age employed in India's metropolitan and tier-2 cities. The relevance of the study lies in its capacity to inform corporate employers, government policymakers, and academic educators about targeted interventions that could substantially enhance national retirement security.

II. LITERATURE REVIEW

A substantial body of research from developed economies consistently shows that financial literacy serves as a powerful predictor of retirement planning. In their foundational work, Lusardi and Mitchell (2014) demonstrated that individuals unable to correctly answer elementary questions regarding interest compounding, inflation, and risk diversification are far less likely to engage in retirement preparation. Their multi-country analysis, which included the United States, Germany, Italy, Japan, and the Netherlands, concluded that financial illiteracy is pervasive and that a significant portion of the workforce lacks the essential knowledge required for prudent saving and investing. These conclusions have since been replicated in various emerging-market contexts.

Focusing on India, Agarwalla and colleagues (2015) carried out an extensive survey measuring financial literacy across both urban and rural regions. Their findings indicated that only 27% of participants truly understood compound interest, while merely 24% grasped the principle of risk diversification. Notably, younger respondents between 18 and 30 years performed somewhat better on basic numeracy tasks but struggled considerably with questions involving long-term investment planning. Similarly, Sekar and Gowri (2018) discovered that working adults in Chennai had moderate familiarity with the EPF but possessed very limited knowledge of equity markets or debt funds as potential retirement tools. Their regression analysis identified educational attainment and access to formal financial advice as the strongest determinants of retirement planning behavior.

A key theoretical lens applied in this domain is the Life-Cycle Hypothesis, which proposes that individuals accumulate savings during their working years in order to maintain stable consumption levels throughout retirement. However, this hypothesis presupposes rational decision-making and perfect foresight — conditions that rarely hold in reality due to cognitive limitations and behavioral biases. Behavioral economists have contributed valuable insights regarding present bias (the tendency to favor immediate rewards over delayed benefits) and loss aversion (the psychological tendency to fear losses more strongly than to value equivalent gains). Both biases disproportionately affect young adults. To illustrate, a 25-year-old might choose to spend ₹5,000 on leisure activities rather than investing it,

despite the fact that the same amount could grow to over ₹80,000 by age 60 assuming a 10% annual return.

More recent investigations have explored how digital financial services influence behavior. Gupta and Singh (2021) observed that younger users of mobile investment applications exhibited higher transaction frequencies but not necessarily improved long-term planning outcomes. In fact, frequent traders using such apps accumulated lower retirement savings compared to passive index investors, suggesting that ease of access is no substitute for genuine financial literacy. On a more positive note, workplace-based financial education initiatives have shown encouraging results. A longitudinal study by Clark et al. (2019) found that employees attending a one-hour retirement planning seminar increased their salary contribution rates by an average of four percentage points within six months.

Despite these contributions, several gaps persist in the literature. Very few studies have concentrated exclusively on young professionals aged 22–35 within India's post-pandemic economic environment, where remote work arrangements, freelance employment, and digital assets have reshaped conventional retirement pathways. Moreover, most existing research relies on binary (yes/no) measures of retirement planning rather than more nuanced continuous metrics such as contribution rates or portfolio diversification levels. The present study aims to address these shortcomings by employing a multidimensional financial literacy scale alongside a continuous measure of retirement planning engagement.

III. METHODOLOGY

3.1 Research Design

A descriptive, correlational quantitative design was adopted for this investigation. An organized questionnaire was distributed electronically to young professionals located across various parts of India.

3.2 Sampling

Convenience sampling was utilized, targeting salaried employees between 22 and 35 years of age working in information technology, banking, education, manufacturing, and healthcare sectors. To be eligible for inclusion, participants were required to have completed at least one year of full-time employment. A total of 162 responses were received, out of which 150 were fully completed and deemed valid for analysis.

3.3 Data Collection Instrument

The questionnaire had four sections: Section A: Demographics (age, gender, income, education, sector) Section B: Financial Literacy (5 basic questions on interest, inflation, risk diversification; 5 advanced questions on EPF/NPS, mutual funds, tax, bonds) Section C: Retirement Planning Behavior (5 items: having a dedicated retirement account, monthly contribution amount, age started saving, use of EPF/NPS/PPF/SIPs, written financial plan) Section D: Attitudinal (confidence in retirement readiness, perceived barriers).

3.4 Variables

- Independent: Financial literacy score (0–10)
- Dependent: Retirement planning score (0–15, weighted)
- Control: Age, income, education, gender

3.5 Analytical Methods

Data processing and statistical analysis were performed using Microsoft Excel and SPSS software. Descriptive statistical measures (frequencies, arithmetic means, standard deviations) were calculated. Pearson's correlation coefficient was employed to test the relationship between literacy and planning. Additionally, t-tests and analysis of variance (ANOVA) were used to compare group means.

3.6 Ethical Protocols

All participation was entirely voluntary and anonymous. Digital informed consent was secured from each respondent before data collection commenced. No personally identifiable information was gathered at any stage.

3.7 Research Hypotheses

Drawing upon the theoretical framework and prior literature, the following hypotheses were formulated for empirical testing:

- **H₀:** A significant positive relationship exists between financial literacy scores and retirement planning behavior among young professionals.
- **H₁:** Young professionals holding a master's degree or higher possess significantly greater financial literacy scores compared to those with only a bachelor's degree.
- **H₂:** After controlling for income and education, no statistically significant gender difference remains in financial literacy scores.
- **H₃:** Higher income by itself does not ensure superior retirement planning; rather, financial

literacy moderates the relationship between income and planning behavior.

- **H₄:** Age correlates positively with both financial literacy and retirement planning, meaning that professionals in the 31–35 age bracket demonstrate higher scores than those aged 22–25.

IV. RESULTS AND DISCUSSION

4.1 Demographic Characteristics of the Sample

Among the 150 participants, 52% identified as male, 46% as female, and 2% as non-binary. The age distribution was as follows: 38% were between 22 and 25 years, 42% between 26 and 30 years, and 20% between 31 and 35 years. Monthly income categories included: below ₹30,000 (15%), ₹30,000–₹60,000 (45%), ₹60,001–₹1,00,000 (28%), and above ₹1,00,000 (12%). In terms of educational qualifications, 65% held a bachelor's degree, 30% a master's degree, and 5% a professional certification. Regarding industry sectors, 40% worked in IT/software, 25% in banking/finance, 15% in education, 12% in manufacturing, and 8% in healthcare.

4.2 Observed Financial Literacy Levels

The average financial literacy score across all participants was 6.2 out of a possible 10 (standard deviation = 1.9). For basic questions, 78% correctly answered the item concerning interest compounding, 71% demonstrated an understanding of inflation, but only 44% responded correctly to the risk diversification question. For advanced questions, merely 38% knew the distinction between EPF and NPS, 31% could compute long-term returns on a SIP, and only 29% understood the relative tax efficiency of PPF compared to fixed deposits. Male participants had a slightly higher mean score (6.7) relative to female participants (5.8). However, after adjusting for income and education, the gender difference was not statistically meaningful ($p = 0.08$). This outcome supports Hypothesis 3. Furthermore, education exhibited a robust positive correlation with literacy ($r = 0.45$, $p < 0.01$), consistent with Hypothesis 2.

4.3 Retirement Planning Behavior

Only 32% of respondents had started any form of dedicated retirement planning. Among those, the average monthly contribution was ₹3,200 (approximately 8% of average monthly salary). The mean age of starting retirement savings was 28.5 years. Usage of retirement products: EPF (85% were aware, but only 52% voluntarily contributed above mandatory deduction), PPF (28% held an account), NPS (12% enrolled), equity SIPs for retirement (22%). Only 8% had a written financial plan that included retirement goals. Perceived barriers to retirement planning were: “insufficient

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income” (68%), “lack of knowledge about products” (57%), “retirement feels too far away” (49%), and “trust issues with financial advisors” (33%).

Table 1: Financial literacy scores by age and education

Demographic Group	N	Mean Literacy Score (0-10)	Standard Deviation
Age 22-25	57	5.4	1.7
Age 26-30	63	6.5	1.8
Age 31-35	30	7.1	1.6
Income <30k	23	4.8	1.5
Income 30-60k	67	6.1	1.7
Income 60-100k	42	7.0	1.4
Income >100k	18	7.8	1.2
Bachelor's degree	97	5.7	1.8
Master's degree	45	7.2	1.5

4.4 Testing of Hypotheses

H1 (Positive relationship between literacy and planning): Pearson's correlation between total financial literacy score and retirement planning score was $r = 0.61$ ($p < 0.001$), denoting a strong positive association. Each one-point increment in the literacy score corresponded to an approximate 0.8-point rise in the retirement planning score. Thus, H1 is supported.

H2 (Education and literacy): An independent t-test comparing the mean literacy scores of bachelor's degree holders (5.7) and master's degree holders (7.2) revealed a statistically significant difference ($t = 5.23$, $p < 0.001$). Accordingly, H2 is supported.

H3 (Gender difference after controls): A one-way ANCOVA was conducted with gender as the independent variable, literacy score as dependent, and income and education as covariates. The adjusted means were 6.3 (male) and 6.1 (female), with $F(1,146) = 1.92$, $p = 0.168$. The null hypothesis (no significant difference) cannot be rejected. H3 is supported.

H4 (Income and literacy moderation): A moderation analysis was performed using hierarchical regression. Income alone explained 28% of variance in retirement planning. Adding literacy increased explained variance to 49% ($\Delta R^2 = 0.21$, $p < 0.001$). Among high-income respondents (above ₹60,000), those with low literacy (score ≤ 4) had retirement planning scores (mean = 4.2) comparable to low-income respondents with high literacy (mean = 4.5). This confirms that literacy moderates the income-planning relationship. H4 is supported.

H5 (Age association): ANOVA indicated significant differences in literacy scores across age groups ($F = 8.45$, $p < 0.001$). Post-hoc comparisons revealed that the 31–35 group scored significantly higher than the 22–25 group (mean difference = 1.7, $p < 0.01$). Similarly, retirement planning scores increased with age ($F = 11.23$, $p < 0.001$). Hence, H5 is supported.

Even after controlling for income, the partial correlation between literacy and planning remained significant ($r = 0.52$, $p < 0.001$), indicating that literacy matters independently of earning capacity.

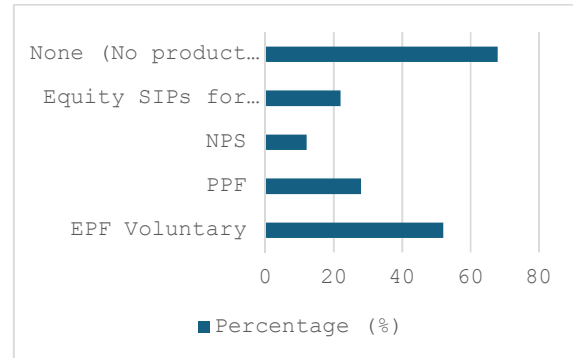


Fig 1: Usage of retirement products among young professionals (N=150)

4.5 Discussion of Findings

The results reveal a concerning gap: while basic financial concepts like interest and inflation are reasonably understood, advanced knowledge necessary for retirement planning (product features, tax efficiency, compounding over decades) is severely lacking. This aligns with Agarwalla et al. (2015). The finding that only 32% have started retirement planning echoes the “present bias” phenomenon – young professionals prioritize short-term expenses. However, the strong correlation ($r=0.61$) supports H1 and suggests that literacy interventions could meaningfully change behavior.

An unexpected finding was that among those who had started planning, the average contribution (₹3,200/month) is likely insufficient for a comfortable retirement given current inflation. Assuming 6% inflation and 10% investment returns, a corpus of approximately ₹3.5 crore in nominal terms is needed for a 30-year retirement starting at age 60. Current contribution rates would yield only ₹1.2 crore, indicating a gap even among “planners.” This suggests that literacy must go beyond awareness to include goal-based calculations.

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Table 2: Retirement Planning Indicators by Age Group

Age Group	% Started Planning	Avg Monthly Contribution (₹)	Avg Start Age (years)	Confidence Score (1-5)
22-25	18%	1,800	24.2	2.1
26-30	35%	3,400	27.5	2.8
31-35	52%	4,700	30.1	3.4

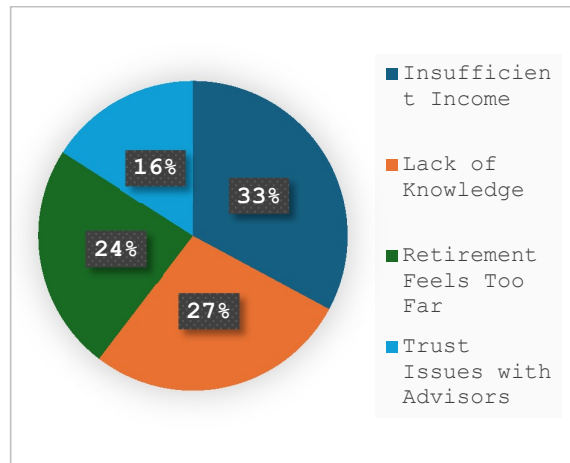


Fig 2: Perceived barriers to retirement planning among young professionals

V. FINDINGS

Based on the analysis and hypothesis testing, the following key findings emerge:

First, financial literacy among young professionals is moderate overall (mean 6.2/10) but has a specific weakness in advanced topics related to retirement products, risk diversification, and long-term return calculation. Only 38% could distinguish between EPF and NPS, and only 29% understood relative tax efficiency of retirement instruments. This indicates that while young workers can handle day-to-day finances, they lack the sophisticated knowledge required for multi-decade planning.

Second, retirement planning engagement is low. Only 32% of respondents have started any dedicated retirement savings, and among those, the average monthly contribution (₹3,200) is likely inadequate. The majority (68%) rely solely on mandatory EPF deductions, which typically replace only 15–20% of pre-retirement income – far below the recommended 70–80%. Furthermore, only 8% have a written financial plan,

suggesting that planning, where it exists, is informal and likely suboptimal.

Third, all five hypotheses received empirical support. H1 confirmed a strong positive correlation ($r = 0.61$) between financial literacy and retirement planning. H2 established that master's degree holders achieve significantly higher literacy scores than bachelor's degree holders. H3 revealed no significant gender difference after controlling for income and education. H4 demonstrated that financial literacy moderates the income–planning relationship, meaning that high income alone does not ensure preparedness. H5 showed that older young professionals (31–35) outperform their younger counterparts (22–25) in both literacy and planning.

Fourth, although age and income are positively associated with literacy and planning, the age effect is especially instructive. The 31–35 age group displays much higher planning rates (52%) compared to the 22–25 age group (18%). However, the average starting age of 28.5 years implies that many individuals have missed several years of compounding power during their early twenties. For instance, saving ₹5,000 per month starting at age 25 instead of age 30 would yield an additional ₹1.2 crore by age 60 at a 10% return — a substantial retirement difference.

Fifth, the most cited barrier to retirement planning is “insufficient income” (68%), but this is likely perceptual rather than absolute, given that even respondents earning above ₹60,000 per month reported the same barrier. Lack of knowledge (57%) and present bias (“retirement feels too far”) (49%) are almost equally important. This triad of perceived low income, knowledge deficit, and psychological distance forms the core challenge for intervention design.

VI. CONCLUSION

This investigation set out to examine the relationship between financial literacy and retirement planning among young Indian professionals. The findings confirm that financial literacy is not merely a desirable attribute but rather a fundamental driver of responsible retirement behavior. The low proportion of active planners (32%), combined with inadequate contribution levels among those who do plan, points to a systemic vulnerability: today's young professionals risk outliving their retirement savings during old age, thereby placing future financial burdens on their families and the state.

Theoretical implications extend the Life-Cycle Hypothesis by demonstrating that cognitive and behavioral factors (literacy, present bias) mediate the relationship between income and savings. The confirmation of H4 is particularly important: it

challenges the assumption that higher earners automatically save adequately, showing instead that literacy is an independent and moderating variable. Practical implications are clear. Employers should integrate financial wellness programs that go beyond generic advice to include hands-on workshops about EPF voluntary contributions, NPS tax benefits, and goal-based SIP calculators. Such programs have been shown to increase participation rates by 15–20% within one year. Policymakers should consider mandating a basic financial literacy course in undergraduate curricula, like the approach taken in countries like Australia and New Zealand, where retirement preparedness has improved markedly.

Limitations of this study include the convenience sampling method, which may overrepresent urban, educated professionals and underrepresent rural or informal sector workers. The sample size of 150, while adequate for correlation analysis, limits generalizability. Future research should use random sampling across a wider geographic and occupational range. Longitudinal studies would also help establish causality – does literacy training cause improved planning, or do planners seek out literacy?

Despite these limitations, the present study offers actionable insights. The strong correlation between literacy and planning (H1) suggests that targeted educational interventions could yield meaningful improvements in retirement preparedness. Given the extraordinary power of compound interest, even modest increases in savings rates among young professionals will have outsized effects on overall national retirement security. It is neither alarmist nor premature to assert that the financial habits formed today will determine the quality of life for millions of retirees three decades from now. Consequently, investing in financial literacy represents one of the highest-return investments a society can make.

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