

THE MEDIATING ROLE OF INCOME LEVEL IN THE RELATIONSHIP BETWEEN FINANCIAL LITERACY, FINANCIAL GOALS, AND RETIREMENT PLANNING

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Abstract: *This study aims to gather concrete evidence on how financial literacy and financial goals influence retirement planning, with income level as a mediator. This research is driven by the public's need to manage their finances wisely and plan for retirement, especially as the economy becomes increasingly unstable and many people in Indonesia are not actively involved in retirement programs. Unlike previous research that typically focuses only on the direct relationship between variables, this study adds new insights by including income level as a mediator, demonstrating how financial literacy and financial goals can influence retirement planning, especially in developing countries. Data were collected using questionnaires administered to 106 working-age individuals in Indonesia. This study used the Structural Equation Modeling (SEM-PLS) method to test the direct and indirect relationships between the various variables. The findings indicate that having good financial knowledge and clear financial goals leads to better retirement planning, both directly and by influencing one's income. These results suggest that people who are more knowledgeable about money and have a clear financial plan are more likely to plan well for retirement, as greater financial knowledge and a clear direction can help them earn a higher income. This research adds to existing research on retirement planning by demonstrating how income level plays a key role in linking financial capability to long-term financial actions. This research suggests that governments and financial institutions should improve financial education programs to help people set and achieve financial goals, thereby strengthening financial skills and increasing readiness for retirement.*

Keywords: Financial Goals, Financial Literacy, Income Level, Retirement Planning.

INTRODUCTION

Retirement planning is a crucial aspect of the life of any individual who has worked for many years. Many people from lower economic backgrounds often unknowingly delay or even ignore the importance of retirement planning (Mustafa et al. 2023). Every individual, in a way, desires a prosperous life after retirement. Various factors, such as age-based

discrimination, mandatory retirement, decreased productivity, health problems, and changes in workplace structural forces, often force them to leave work, especially at the beginning (Shiri et al. 2025). In this situation, the individual who approaches an age pension usually needs to seek financial advice on the steps to take before entering retirement (Adetunji and Gumedé 2025).

Increasing life expectancy and daily needs can affect the economy, but also have a greater impact on planning and finance. To ensure a better, safer life, including during retirement, many individuals strive to manage their assets and income wisely ([Herrador-Alcaide et al. 2021](#)). Civil servants with an understanding of sound finances are generally better equipped to understand various financial instruments and risk management, and to make better financial decisions. However, low financial literacy often leads to a lack of awareness of the importance of preparing for retirement from an early age ([Sarpong-Kumankoma 2023](#)). This is seen. It is clear that in many countries, including Indonesia, many people lack adequate retirement planning and financial resources ([Safariet al. 2021](#)).

The elderly population is increasing significantly in both developed and developing countries, driven by declining birth and death rates and increasing life expectancy. This change has resulted in a comprehensive demographic transformation, with the proportion of older people increasing over time ([Kemenkes RI 2017](#)). This situation has serious implications for the economy and society, particularly regarding individuals' preparedness for retirement. On the other hand, the level of financial literacy among Indonesians remains moderate. A report by the Financial Services Authority (OJK) shows that the financial literacy rate has only reached 49.68% ([OJK 2017](#)), indicating that the majority of the population lacks an adequate understanding of financial management, including retirement planning. This low level of literacy can potentially lead to financial unpreparedness in old age, particularly in facing the risk of declining income after retirement.

This phenomenon is becoming increasingly important for employees in both the formal and informal sectors, who face increasing income dynamics and economic uncertainty. Although some employees have relatively stable sources of income, not all can allocate their

income optimally toward long-term goals. Many individuals remain focused on meeting short-term needs and have not yet made retirement planning a top priority ([Ugwu et al. 2023](#)). This situation indicates a gap between knowledge, economic capacity, and actual financial behavior, making it crucial to examine the factors influencing retirement planning, particularly the role of financial literacy, financial goals, and income level in fostering financial readiness in retirement.

Financial literacy plays a crucial role in the quality of retirement planning and management by enhancing an individual's understanding of financial products and their inherent risks ([Sundarasan, Rajagopalan, and Ibrahim 2024](#)). Individuals with adequate financial literacy tend to be better able to recognize the characteristics of investment instruments such as time deposits, mutual funds, bonds, and stocks, and align them with their long-term needs ([Rani and Goyal 2024](#)). This understanding not only improves the ability to evaluate risk and return but also helps individuals select the most appropriate instrument to achieve their retirement goals optimally. A better understanding of risk and financial instruments, in turn, encourages more rational and planned decision-making behavior ([Alfando et al. 2025](#)). Individuals with financial literacy tend to be more disciplined in saving, better able to control consumption, and to have a more systematic plan for allocating funds to short- and long-term needs.

Various empirical findings indicate that financial literacy positively influences saving behavior and participation in retirement programs, as individuals become more aware of the importance of early financial preparation and the consequences of inadequate preparedness in old age ([Sundarasan et al. 2024](#)). Concurrently, increased financial literacy fosters a stronger future orientation, making individuals more aware of their financial needs in retirement and the risks they may face ([Castagno et al. 2025](#)). This awareness encourages individuals to be more proactive in developing sustainable

retirement planning strategies. However, previous research has shown that the effect of financial literacy on retirement planning is inconsistent, indicating that financial knowledge does not necessarily translate directly into concrete behavior. This situation emphasizes the importance of considering other factors, such as an individual's economic capacity, in explaining how financial literacy can effectively promote retirement planning.

In line with the role of financial literacy in increasing individuals' understanding and awareness of the importance of retirement planning, another equally important aspect is the presence of financial goals as a strategic direction for financial management. While financial literacy provides the cognitive basis for decision-making, financial goals serve as a directional guide that guides how those decisions are implemented. Individuals with clear financial goals, such as savings, investment, or retirement fund readiness targets, tend to demonstrate greater planning because they have well-defined priorities (Ye et al. 2025). In this case, financial goals serve as a behavioral anchor that helps individuals systematically develop financial strategies, including determining fund allocation and investment time horizons (Detthamrong et al. 2024).

Financial goals strengthen an individual's intrinsic motivation to manage their finances in a disciplined, consistent manner. Individuals with specific and measurable financial goals tend to be better able to control short-term consumption and direct resources toward activities that support the achievement of long-term goals (Ouyang et al. 2025). Various empirical findings indicate that the presence of financial goals is positively correlated with saving and investment behavior, which are key components of retirement planning (Ye et al. 2025; Ugwu et al. 2024). Thus, financial goals not only reflect a future orientation but also serve as a motivational mechanism that bridges intentions with concrete actions in preparing for retirement.

However, the influence of financial goals on retirement planning is not always direct and linear. In practice, an individual's ability to achieve financial goals depends heavily on their economic circumstances, such as income level and financial stability (Jaafar et al. 2024). Without adequate resource capacity, established financial goals may not be optimally realized. Therefore, it is important to examine further how financial goals interact with other factors, particularly income level, in influencing retirement-planning behavior, to gain a more comprehensive understanding of the process of establishing financial readiness for retirement.

This study adds income level as a mediating variable to explain how financial literacy and financial goals translate into retirement planning behavior. Financial literacy enhances an individual's ability to understand, manage, and optimize economic resources, ultimately increasing earning capacity (Negi and Jaiswal 2024). Furthermore, financial goals provide direction and motivation for individuals to improve their financial condition through more planned efforts, such as career development, increased productivity, and diversifying income sources (Ouyang et al. 2025). Thus, both financial literacy and financial goals not only directly influence financial behavior but also shape income levels, which serve as a proxy for an individual's economic capacity.

Income level determines the extent to which individuals can allocate resources to long-term goals, including retirement planning. Individuals with higher incomes have greater financial flexibility to meet consumption needs while also setting aside funds for retirement savings and investments (Karumuri et al. 2025). Conversely, limited income is often a major obstacle to achieving retirement goals, even when individuals have high financial literacy and meet their financial goals (Taylor et al. 2024). This suggests that income level functions as an enabling factor, enabling or limiting the implementation of long-term financial decisions.

This research gap highlights the limited research exploring the mechanisms underlying the relationship between financial literacy and retirement planning, particularly by incorporating financial goals as a motivational factor and income level as a mediating variable. Previous research tends to focus on direct influences and overlooks the role of economic capacity in bridging the gap between the transformation of financial knowledge and goals into actual behavior ([Núñez-Letamendia et al. 2025](#); [Noviarini et al. 2023](#)). Therefore, the novelty of this study lies in the inclusion of income level as a theoretical mediating variable, given the inconsistent findings in previous studies regarding the relationship between financial literacy and retirement planning. This study argues that financial literacy and financial goals do not directly translate into retirement planning behavior, particularly in developing countries, due to resource constraints. Therefore, income level serves as an important mechanism for mediating the transformation of financial knowledge and goals into actual retirement-planning behavior.

Based on the background and research gaps outlined, this study aims to analyze the influence of financial literacy and financial goals on retirement planning, using income level as a mediating variable. Specifically, this research seeks to explain the mechanisms by which cognitive and motivational factors translate into retirement planning behavior through an individual's economic capacity. Thus, this study not only examines the direct relationship between variables but also uncovers the underlying processes that shape financial readiness for retirement.

This study contributes by extending the Theory of Planned Behavior (TPB) to demonstrate that the relationship between attitudes and intentions (reflected in financial literacy and financial goals) and actual behavior (retirement planning) is influenced not only by psychological factors but also by economic resource capacity, namely, income level. This

study confirms that intentions and knowledge are not always sufficient to produce behavior without adequate economic support. Placing income level as a mediating variable offers a new perspective on explaining inconsistencies in previous empirical findings, while also confirming that the transformation of financial knowledge and goals into actual behavior is highly dependent on economic resource capacity. Therefore, this study is expected to broaden theoretical understanding of the mechanisms of retirement planning formation, particularly in the context of developing economies.

This research is based on the Theory of Planned Behavior (TPB). The Theory of Planned Behavior (TPB) is a theory of behavior that was developed by Ajzen (1991). This theory states that what people do depends on their intentions to act, and these intentions are based on three things: their feelings about the behavior, what they think others believe, and how easy they think it is to perform the behavior. TPB says that people's behavior is carefully thought out and depends on what is going on in their minds. [Griffin et al. \(2012\)](#) state that the TPB focuses on how individual actions are viewed objectively, meaning that a person's view of their own behavior stems from their personal thoughts and feelings. The TPB allows people to choose and act based on what they want to achieve. [Ajzen \(1991\)](#) says that people who feel good about a behavior are more likely to want to perform it. When it comes to retirement planning, people who perceive it as important and worthwhile are more likely to take steps to plan for their retirement. Previous research has found that how people manage their money and how they feel about the future play a large role in their retirement planning. ([Herrador-Alcaide et al. 2021](#)).

Subjective norms refer to a person's perception of social pressure to perform or avoid certain behaviors from important people in their lives, such as family, friends, and coworkers. [Ajzen \(1991\)](#) states that personal norms can

strengthen or weaken an individual's intention to act in a certain way. When planning for retirement, support from family and work can increase awareness and encourage people to start planning for retirement early. Several studies have shown that the social environment plays a key role in shaping an individual's intentions towards long-term financial planning (Hershey et al. 2007). Perceived behavioral control indicates the extent to which an individual believes they have the resources and opportunities to perform a particular behavior. In retirement planning, financial literacy is considered a form of behavioral control because it refers to an individual's ability to understand and manage their finances. Financially literate individuals often feel confident in selecting financial products and making investment decisions to plan for their retirement.

Previous research has shown that financial literacy positively impacts retirement planning and financial readiness later in life (Lusardi and Mitchell, 2011). The intention to act is the closest thing to a person's actual behavior. Ajzen (1991) found that people with strong intentions are more likely to actually carry out the behavior. In this study, individuals' intentions to plan for retirement were influenced by attitudes toward retirement planning, subjective norms, and perceived behavioral control, with financial literacy mediating the effects. These intentions drive individuals to take specific actions when planning for retirement, including saving,

investing, and choosing financial products that suit their needs (Maharani and Sari 2023). Efforts by those still working to secure their well-being in retirement are referred to as retirement preparation (Donaldson et al. 2010). This covers a wide range of topics, from investing and retirement planning to financial management. A person's chances of becoming wealthy in retirement increase with good financial literacy, as it helps them make more informed retirement planning decisions.

Retirement planning can be understood as a transition process from a working life or career, accompanied by changes in the value of resources and income (Sari, and Hizazi 2021). Retirement is the phase in which an individual stops working and receives a salary (Lusardi and Mitchell, 2011). One key to achieving a successful retirement is preparation while still productive. Individuals who have planned for retirement tend to be more successful at adapting to life changes (Sari, and Hizazi 2021). Retirement preparation is defined as the efforts made by working individuals to ensure their well-being in retirement (Donaldson et al. 2010). This encompasses various aspects, from financial management and investment to retirement planning. With good financial literacy, individuals can make more informed decisions regarding retirement planning, thereby increasing their chances of achieving well-being in old age. The research framework is shown in Figure 1.

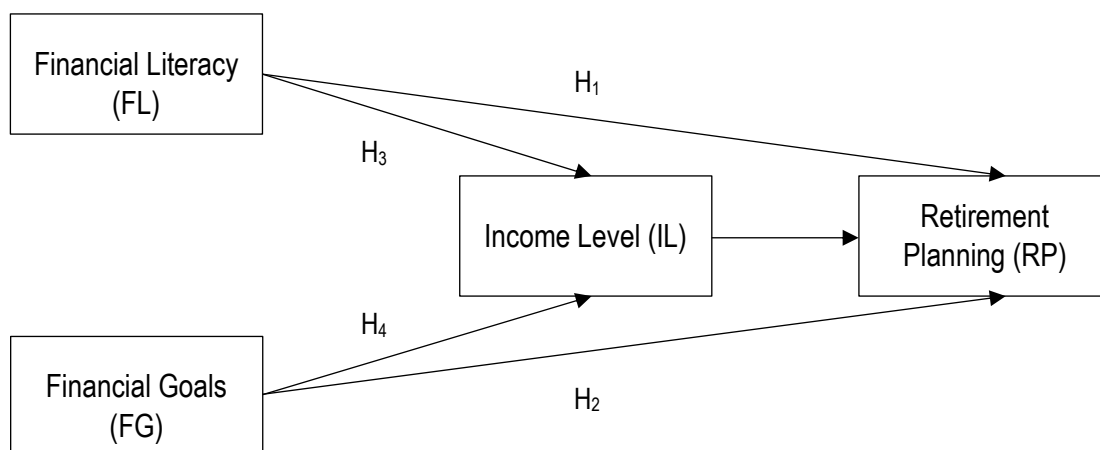


Figure 1. Conceptual Diagram

The Relationship Between Financial Literacy and Retirement Planning

Financial literacy is a crucial aspect of an individual's life, involving an understanding of financial concepts and the ability to act based on that information ([Noviarini et al., 2023](#)). [Lusardi \(2019\)](#) states that financial literacy is the knowledge and understanding of financial concepts and risks, as well as the skills, motivation, and confidence to apply this knowledge and understanding to make effective decisions in various financial contexts, to improve the financial well-being of individuals in society, and to enable participation in economic life.

Individuals with financial literacy tend to be more confident about preparing for retirement than those without it. This applies to individuals with financial literacy who recognize the importance of retirement planning and, consequently, take deliberate steps to build wealth in preparation for retirement. Financial literacy is considered the foundation of successful retirement planning and has been demonstrated by [Hauff et al. \(2020\)](#), who examined the relationship between financial literacy and retirement planning. Financial literacy provides individuals with insight and information about finances, helping them make wise financial decisions, manage cash flow effectively, and take the initiative to set aside funds for the future. [Kalmi and Ruuskanen \(2018\)](#) revealed that higher levels of personal financial literacy are directly proportional to individuals' retirement plans. [Kalmi and Ruuskanen \(2018\)](#) finds that an extended, more demanding literacy measure is positively and significantly related to retirement planning, especially among women.

H₁: Financial literacy has a positive effect on retirement planning.

The Relationship Between Financial Goals and Retirement Planning

Financial goal setting is a fundamental aspect of personal financial planning, providing

individuals with a roadmap to achieving their financial aspirations ([Yeo et al. 2024](#)). Setting clear and achievable financial goals is crucial for several reasons. First, financial goals help individuals prioritize their spending and focus on what is truly important to them. By setting goals, individuals can distinguish between needs and wants, making informed decisions about how to allocate their resources. Second, financial goals provide motivation and a sense of purpose. These goals give individuals something to strive for, encouraging them to take the necessary actions to achieve their goals. Poor financial literacy can lead to poor financial goals, which impact an individual's ability to achieve long-term goals ([Dimaunahan et al. 2025](#)).

Previous research by [Gallego-Losada et al. \(2022\)](#) found increased awareness among government agencies and the public of financial literacy as a means to manage financial goals and design retirement strategies. [Tomar et al. \(2021\)](#) found a positive relationship between clarity of financial goals and social support with retirement planning behavior, moderated by financial literacy. This refers to a person's perceived personal financial problems, as measured by responses to statements or opinions that can be influenced by routine activities and financial experiences, through which financial actions can be perceived as good or bad from their own perspective or that of others. [Rooij et al. \(2011\)](#) assessed the impact of financial literacy on retirement readiness and found that financial goals significantly influence retirement planning. Therefore, individuals with high financial goals are more likely to plan for retirement. Individuals with a sound personal financial plan can manage their money wisely ([Ghadwan, et al. 2023](#)). However, it has been shown that younger workers feel burdened by retirement planning because they must develop long-term financial plans.

H₂: Financial goals positively affect retirement planning.

The role of income level in mediating the influence of financial literacy on retirement planning

Financial literacy plays a crucial role in enhancing an individual's economic capacity by enabling more rational, informed financial decision-making. Individuals with a high level of financial literacy tend to be better able to manage their income, allocate resources efficiently, and capitalize on economic opportunities such as investment and income diversification. Furthermore, financial literacy improves the quality of decisions about education, careers, and other productive activities, ultimately leading to increased income. Thus, financial literacy serves not only as cognitive knowledge but also as a driver of income growth by optimizing individual economic behavior. Financial literacy also contributes to an individual's ability to identify and capitalize on economic opportunities. Individuals with a sound financial understanding tend to be more adaptable to various market instruments and opportunities, such as investment, entrepreneurship, and income diversification. Furthermore, they are better able to rationally evaluate risks and returns, enabling them to choose economic activities that provide optimal added value. In the long term, this ability drives asset accumulation and income growth, both by increasing primary income and by generating additional sources of income.

Furthermore, income level is a key determinant in driving retirement planning behavior ([Ningsih et al. 2024](#)). Individuals with higher incomes have a greater capacity to meet current consumption needs while allocating a portion of their income to long-term goals, including retirement savings and investments ([Zacharias et al. 2025](#)). Income level not only reflects the amount of income an individual receives but also represents their real capacity to allocate resources over time. Individuals with higher incomes tend to have higher disposable income after meeting basic needs, allowing for the formation of a surplus that can be allocated

to long-term instruments such as pension funds, investments, or insurance. Furthermore, a high income level increases an individual's ability to diversify their portfolio, enabling better management of financial risk and promoting the sustainability of retirement planning. Furthermore, individuals with higher incomes generally have broader access to financial services, such as pension plans, mutual funds, and other investment instruments, either because they meet minimum investment requirements or because financial institutions deem them more viable.

H₃: Income level mediates the influence of financial literacy on retirement planning.

The role of income level in mediating the influence of financial goals on retirement planning

Financial goals reflect an individual's orientation toward achieving specific future financial conditions, including economic stability and long-term well-being. Individuals with clear financial goals tend to be more focused on managing their economic behavior, such as increasing work effort, seeking additional sources of income, and allocating resources more strategically ([Ouyang et al. 2025](#)). Goal-setting theory suggests that having specific, measurable goals motivates individuals to improve their economic performance and financial discipline, ultimately contributing to higher income levels ([Khalil 2024](#)). In other words, financial goals not only shape financial preferences but also influence an individual's capacity to generate income.

Income level is a key factor determining an individual's ability to realize retirement planning. Individuals with higher incomes have greater financial flexibility to allocate a portion of their income to savings, investments, or pension plans ([Nabeshima et al. 2025](#)). Conversely, limited income can be a major obstacle to allocating funds for long-term needs, even if an individual has clear financial goals ([Karumuri et al. 2025](#)). This suggests that income level plays

a key role in enabling individuals to implement financial plans, particularly in the context of retirement planning.

Income level serves as a mediating mechanism that explains how financial goals influence retirement planning. Individuals with strong financial goals tend to increase their earning capacity through more productive economic behavior, which then allows them to allocate financial resources more effectively in preparing for retirement. Thus, the influence of financial goals on retirement planning is not only direct but also indirect, with income levels serving as the primary transmission channel.

H4: Income level mediates the influence of financial goals on retirement planning.

METHOD

This study uses quantitative methods to process and analyze the data. The data used in this study are primary. Primary data was obtained through distributing questionnaires via Google Forms. The researcher used a non-probability sampling method with a purposive sampling technique, in which sampling was based on several criteria: people in their

productive years, people planning their finances, and people planning for retirement. The data collected in this study comprised 150 respondents, but only 106 met the criteria. Primary data was obtained through questionnaires. This study used Partial Least Squares-Structural Equation Modeling (PLS-SEM). Data analysis of this study included descriptive statistics, validity tests (convergent and discriminant), and reliability, coefficient of determination, and hypothesis testing.

Measurement of retirement planning (RP) variables refers to indicators of financial readiness, standard of living, and retirement expenses (Harahap et al., 2022). The financial literacy (FL) variable relates to indicators of general personal finance knowledge, saving and borrowing, investment, and insurance (Chen and Chen 2023). The financial goals (FG) variable refers to indicators of determining funding sources, risk management, fund use, future planning, and financial strategies (Tomar et al. 2021). The mediating variable, income level (IL), refers to indicators of work experience, skills, and cost of living (Bilkova 2020).

Table 1. Respondent Identity Data

Respondent Characteristics	Sum	Percentage
Gender		
Male	67	63%
Female	39	37%
Education		
High School	33	31%
S1	65	61%
S2	8	8%
Age		
22 - 30	64	60%
31 – 45	42	40%
Length of work		
>1 Year	10	9%
1-2 Years	18	17%
2–4 Years	36	34%
>4 Years	42	40%

Source: Data processed 2025

Table 1. Outer Loading

Items	FL	RP	FG	IL
FL 1	0,869			
FL 2	0,843			
FL 3	0,852			
FL 4	0,867			
RP 1		0,850		
RP 2		0,873		
RP 3		0,865		
FG 1			0,888	
FG 2			0,916	
FG 3			0,923	
FG 4			0,927	
IL 1				0,840
IL 2				0,884
IL 3				0,853

Source: Data processed 2025

Table 1 illustrates the profile of 106 respondents. By gender, the study was dominated by men (63%), with women at 37%. By education level, most respondents had a bachelor's degree (61%), followed by high school/vocational school (31%) and a master's degree (8%), indicating that the majority had higher levels of education. In terms of age, 60% of respondents were aged 22–30 years, and 40% were aged 31–45 years, indicating that most were in the productive age group. Based on length of service, 9% of respondents had worked for more than 1 year, 17% had worked for 1–2 years, 34% for 2–4 years, and 40% had worked for more than 4 years, which illustrates

that most respondents had quite long and stable work experience.

Table 2 presents discriminant validity, with all indicators for each research variable declared valid. Each measurement indicator for each research variable has a different value, as seen from the outer loading value being above.

Table 3 shows convergent validity, as indicated by an AVE value of greater than 0.5 for each variable. Furthermore, Table 3 shows a Cronbach's alpha greater than 0.6, indicating that the research data is reliable. Table 3 also shows the VIF values, indicating that the research variables are not affected by multicollinearity, as the VIF values are below 10.

Table 2. Construct Reliability and Validity

	Cronbach's alpha	Composite reliability	AVE	VIF
FL	0,880	0,918	0,736	2,184-2,350
RP	0,828	0,897	0,744	1,825-1,952
FG	0,934	0,953	0,835	2,891-4,012
IL	0,823	0,894	0,738	1,668-2,134

Source: Data processed 2025

Table 3. Hypothesis Test Results

	Original sample	Sample mean	Standard deviation	T statistics	P values
FL -> RP	0,527	0,520	0,116	4,548	0,000
FL -> IL	0,426	0,423	0,125	3,417	0,001
FG -> RP	0,370	0,376	0,113	3,269	0,001
FG -> IL	0,459	0,461	0,131	3,516	0,000
IL -> RP	0,353	0,350	0,111	3,183	0,001

Source: Data processed 2025

Table 4 presents the results of a direct test of the relationship between financial literacy and retirement planning. The results indicate that financial literacy has a significant positive effect on retirement planning, as evidenced by a t-statistic >1.96 and a p-value of 0.000. This means that the higher an individual's financial literacy, the better their retirement planning behavior. Similarly, financial goals have a significant positive effect on retirement planning, as indicated by a t-statistic >1.96 and a p-value of 0.000. Individuals with financial goals will plan their retirement well.

Meanwhile, Table 5 explains the indirect relationship between financial literacy and financial goals on retirement planning, mediated by income level. The results show that income level mediates the influence of financial literacy and financial goals on retirement planning. Financial literacy and financial goals indirectly influence retirement planning through income levels. Individuals with higher financial literacy and clearer financial goals tend to earn higher incomes, which in turn enables better retirement planning.

RESULTS

The results of this study indicate that financial literacy significantly influences retirement planning, meaning that the higher a person's financial knowledge, the higher their retirement planning ([Maharani and Sari 2023](#)). Individuals with good financial literacy can make wise financial decisions, control their income and expenses, and set aside a portion of their funds to plan for their family's future, such as saving,

insurance, and investing. This allows them to plan and manage funds for retirement planning. This is because individuals possess good financial literacy regarding general financial knowledge, savings and loans, investments, and insurance, enabling them to manage their finances wisely ([Hauff et al. 2020](#)).

[Kimiyaqahlam et al. \(2019\)](#) showed that financial literacy has a significant effect on retirement planning, and that many people have high and low levels of financial literacy, which can contribute to a lack of financial planning and insufficient retirement savings. So this explains that a person's level of financial literacy directly impacts retirement planning. From the explanation above, it can be concluded that when a person has good financial literacy, it directly impacts retirement planning, how the person earns income, manages an asset portfolio, and builds wealth through investment instruments. Hence, they are better prepared in their career.

[Safari et al. \(2021\)](#) revealed that financial literacy has a significant influence on personal retirement planning, based on an individual's financial calculation and planning skills. This means that financial literacy makes a significant contribution to retirement planning. Each individual can apply their financial literacy to manage their income and expenses, aiming to create more effective financial management plans. Individuals with good financial literacy will be able to make wise financial decisions, control their income and expenses, and set aside a portion of their funds to plan for their family's

future, such as saving, insurance, and investing. This allows them to plan and manage funds for retirement.

Furthermore, other studies have shown that financial literacy does not influence retirement planning as much as higher levels of education ([Harahap et al. 2022](#)). However, financial literacy, an aspect of retirement planning, has received attention and recognition across various research domains. The literature defines financial literacy as a crucial factor influencing retirement planning in several developed countries ([Lusardi, 2014](#)).

The Influence of Financial Goals on Retirement Planning

The results of this study indicate that financial goals significantly influence retirement planning ([Tomar et al. 2021](#)). Individuals with clear financial goals tend to be more motivated to increase their income to realize those goals. This increase in income ultimately has a positive impact on retirement planning efforts. When someone has financial goals, such as wanting to live independently in old age, finance their children's education, or want to leave an inheritance, these goals will motivate them to manage their finances more diligently, including saving and investing for retirement. Research by [Dhlembeu et al. \(2022\)](#) also shows that specific financial goals encourage individuals to plan actively for retirement, especially when supported by sufficient income. For civil servants, even with pension security, a limited income can hinder the achievement of personal financial goals without proper financial management ([Tomar et al. 2021](#)).

The Influence of Income Level as a Mediator

The test results show that income level significantly mediates the relationship between financial literacy and retirement planning. This finding indicates that financial literacy not only directly influences retirement planning behavior but also operates through mechanisms that increase an individual's economic capacity. Financial literacy is considered a form of human capital that enhances an individual's ability to understand and manage financial aspects, such as investment decision-making, debt management, and consumption and savings planning ([Agarwal et al. 2024](#)). Individuals with high levels of financial literacy tend to be more rational in allocating resources and are better able to take advantage of available economic opportunities. This ultimately contributes to increased productivity and individual earning capacity.

This increase in income level then becomes a key factor in encouraging retirement planning. Retirement planning essentially requires the ability to set aside a portion of income over the long term, either as savings or investments. Individuals with higher incomes have greater financial flexibility to create a surplus after meeting consumption needs, thereby enabling them to participate in retirement programs ([Polvinen et al. 2024](#)). Conversely, limited income can hinder the implementation of retirement plans, even if an individual has a good understanding of finance. Thus, income level functions as a mediator explaining how financial literacy translates into retirement planning behavior. This finding confirms that the relationship between financial literacy and financial behavior is indirect and that an individual's economic capacity is the primary contributing factor.

Table 4. Specific Indirect Effects

	Original sample	Sample mean	Standard deviation	T statistics	P values
FL -> IL -> RP	0,150	0,145	0,060	2,522	0,012
FG -> IL -> RP	0,162	0,164	0,078	2,066	0,039

Source: Data processed 2025

The results also show that income level significantly mediates the relationship between financial goals and retirement planning. This suggests that financial goals not only directly influence retirement planning but also indirectly through higher income levels. Financial goals reflect an individual's orientation toward achieving certain future financial conditions, such as economic stability and retirement readiness. From the perspective of goal-setting theory, specific and measurable goals can increase individual motivation to achieve higher performance (Ugwuet al. 2024). Individuals with clear financial goals tend to be more disciplined in managing their finances and more proactive in increasing their income, whether through skill enhancement, career development, or entrepreneurial activities.

The increased income level resulting from this goal orientation then enables individuals to realize long-term financial plans, including retirement planning (Ouyang et al. 2025). Higher income allows individuals to allocate resources to savings and investments, which are key components of retirement planning (Alfando et al. 2025). Conversely, without adequate income support, financial goals risk remaining mere aspirations rather than concrete plans. Thus, income level acts as a mediator explaining how financial goals can be translated into concrete actions in retirement planning. This relationship demonstrates that financial goals alone are not sufficient to promote retirement readiness; they require adequate economic capacity support.

CONCLUSION

Based on the analysis and discussion, financial literacy and financial goals play a significant role in shaping retirement planning behavior, while income serves as a supporting factor for both variables. Individuals with high financial literacy and clear financial goals tend to exhibit more mature retirement-planning behavior, but this is strongly influenced by income adequacy. For Civil Servants, despite

receiving a steady income and pension security, limited financial literacy and the pressures of daily economic needs mean that most have not yet optimally prepared for retirement. The limitations of this study lie in the small number and scope of respondents, so the results cannot be generalized broadly. Furthermore, the research design describes conditions at a single point in time, thereby preventing observation of changes in retirement-planning behavior over the long term.

This research also makes an important contribution to the development of the Theory of Planned Behavior (TPB) by broadening our understanding of how financial intentions and behaviors are shaped in the context of retirement planning. In the TPB, individual behavior is explained through three main determinants: attitude, subjective norms, and perceived behavioral control (PBC). This research demonstrates that financial literacy and financial goals can serve as antecedents shaping individual attitudes and goals toward financial management, particularly in the context of retirement planning. Individuals with high levels of financial literacy tend to have a more positive evaluation of the importance of retirement planning (attitude). In contrast, financial goals reflect a goal orientation that strengthens the intention to achieve a specific financial condition in the future. Furthermore, this research enriches the TPB by demonstrating that income level acts as a concrete representation of perceived behavioral control (PBC). In the TPB, PBC refers to an individual's perception of the extent to which they have the resources and ability to perform a behavior. The findings of this study provide evidence that income level is not merely a perception but an objective condition that determines an individual's ability to realize these intentions. In other words, even if an individual has a positive attitude and clear financial goals, limited income can hinder the implementation of retirement-planning behavior.

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