IMPACT OF FINANCIAL LITERACY ON RETIREMENT SECURITY AMONG PUBLIC AND PRIVATE SECTOR EMPLOYEES IN SOUTH-WEST NIGERIA

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ABSTRACT

This study sought to investigate the effect of financial literacy on retirement security among workers in South-western Nigeria, specifically considering two important dimensions: retirement planning and retirement savings. Even though there was pension reform in 2004, which led to the introduction of CPS, and total pension assets have surpassed N27 trillion, coverage of the scheme remains low owing to limited accessibility, particularly for informal sector employees, who account for 10% of the Nigerian labour force. There are about 75 million informal-sector workers who will retire without any financial cushion. Therefore, there is a need to determine how financial literacy affects retirement outcomes. Quantitative research methodology was employed by distributing structured questionnaires to workers in South-western Nigeria and conducting surveys. In analysing data collected from respondents, Structural Equation Modelling (PLS-SEM) was employed to test the measurement and structural models. Results show a strong relationship between financial literacy and both retirement planning ($\beta = 0.701$, $t = 3.980$, $p < 0.05$) and retirement savings ($\beta = 0.700$, $t = 2.850$, $p < 0.05$). All variables showed good reliability ($\alpha > 0.77$) and convergent validity (AVE > 0.68). This study concludes that increasing financial literacy can help address retirement inadequacy in Nigeria. This study also recommends conducting financial literacy awareness campaigns, employer-sponsored financial literacy training programs, and designing more accessible pension schemes, especially for the informal workforce.

Keywords: *Financial Literacy, Retirement Security, Retirement Planning, Retirement Savings, Contributory Pension Scheme.*

INTRODUCTION

Retirement security is a very important factor for Nigeria's workforce, as most workers rely on personal savings and pension contributions to ensure a quality of life after retiring. To be guaranteed of financial security and a quality life in old age, sound financial literacy and early retirement planning cannot be overemphasised (Ajemunigbohun & Azeez, 2023). According to Goodman (2023), the longer a retiree lives, the more savings are needed to finance their retirement; it is therefore pertinent to plan early for this eventuality. This is because the adverse impact of outliving one's income is much greater compared to the disadvantages of over-saving. Understanding these facts, however, depends on the level of financial literacy among those concerned, as low financial literacy often leads to poor savings behaviour and inadequate retirement planning (Nam & Loibl, 2021).

The foundation of sound retirement planning is financial literacy, which encompasses the knowledge and skills required to make informed financial decisions at every phase of life. It ranges from understanding basic budgeting and savings to managing complex investment options, thereby becoming financially literate and equipped with the tools needed to secure the future (Kapoor, 2024). The number of workers with a high level of financial literacy is directly proportional to their education level; hence, the higher the education level, the higher the number of workers with a high level of financial literacy (Dhlembeu *et al.*, 2022) and where there is high financial literacy, there is a sound knowledge of retirement planning.

In 2004, the Contributory Pension Scheme was adopted in Nigeria, shifting retirement risks onto individual workers through their Retirement Savings Accounts (RSAs). Under this scheme, both the employer and the employee contribute a certain percentage of their salaries to a personal pension account, which accumulates until retirement (Fashagba & Dunmade, 2019). According to PenCom (2024), the pension reform has grown pension assets to over N27 trillion with more than 10.5 million RSAs. Despite these achievements, significant gaps remain. The formal sector has been largely secured since 2004, but 90% of Nigeria's workforce is in the informal sector, of whom only 0.25% have pension coverage. Consequently, more than 75 million Nigerians will retire with nothing to fall back on (Odeniyi, 2026). Even many formal-sector employees lack sufficient retirement savings, as shown by Dhlembeu et al. (2022), who found that low-income earners tend to engage in less retirement planning than higher-income earners.

It is therefore important to understand the impact that financial literacy has on the financial security of workers when they retire because limited financial knowledge may result in workers’ failure to contribute enough for the security of the future, and some may even avoid getting pension schemes, which, of course, usually leads to a compromised quality of life in old age (Oni-Eseleh & Badaiki, 2024).

Objectives of the Study

While the main objective of this study is to examine the impact of financial literacy on the retirement security of workers in Nigeria, the specific objectives are to:

i. Assess the impact of financial literacy on retirement planning
ii. Evaluate the extent to which financial literacy impacts retirement savings

Research Questions

This study is aimed at providing answers to the following research questions:

i. What impact does financial literacy have on retirement planning?
ii. To what extent does financial literacy impact retirement savings?

Research Hypotheses

The following hypotheses were formulated from the objectives of this study:
H_{01}: There is no significant relationship between financial literacy and retirement planning.
H_{02}: There is no significant relationship between financial literacy and retirement savings

Significance of the Study

This study provides insight and enriches academic knowledge about retirement planning in the Nigerian context, where only a few studies have been carried out, addressing financial literacy, savings, and quality of life. The study will be of great importance to regulators and policymakers on the importance of financial education so that they can develop programmes and put in place policies targeted at the right audience.

This study is also of great significance to employers and financial planners, as understanding how financial literacy affects savings habits and retirement security can help organisations develop staff training and programmes to boost employees' financial capability, helping them secure a better future.

To the workers, this study will give them increased awareness regarding financial literacy and provide practical insights that can help them make better financial decisions, thereby reducing the risk of poverty, dependence and stress in old age.

LITERATURE REVIEW

Financial Literacy

Financial literacy is a multidimensional construct that encompasses the knowledge, skills, attitudes, and behaviours required to make sound financial choices throughout the life cycle. In modern research, the notion of financial literacy has been conceptualised with respect to financial knowledge, the cognitive ability to comprehend financial concepts, e.g. compound interest, inflation, risk diversification, etc., and financial capability, the capacity to put such knowledge into practical financial management practices (Amoah & Amoah, 2025). This twofold conceptualisation distinguishes between awareness and actionable competence, which is especially relevant in the field of retirement planning, where the effects of financial errors are compounded over decades.

Theoretical bases of studies on financial literacy have been heavily influenced by human capital theory, which argues that investment in financial education yields better financial performance throughout the lifespan. In this sense, financial literacy can be seen as a form of specialist human capital that increases individuals' ability to navigate more complex financial systems, compare financial products, and overcome behavioural biases such as present preference, which weaken long-term welfare (Ugwu et al., 2024). The value of financial literacy as a form of human capital in developing-economy settings, where formal social safety nets remain constrained, and pension schemes are still developing, becomes even more important.

The empirical measurement of financial literacy has evolved significantly since the initial research that relied on simple quiz-based tests of basic financial knowledge. Modern-day studies also use multi-item scales that capture not only knowledge dimensions but also financial attitudes, self-efficacy, and observed behaviours. Soepding (2023) revealed that financial knowledge, financial planning, and financial self-efficacy are independent yet correlated aspects of the learning experience, each making a unique contribution to the financial well-being outcomes of retirees in North-Central Nigeria. This type of validation, related to factor analysis, supports the view that financial literacy is not a unidimensional but a multidimensional construct.

Retirement Security

Retirement security is a personal condition of financial health during the post-employment period, defined as an adequate income stream to afford tolerable living standards without the need to engage in the labour force or excessive reliance on family or state resources. The notion goes beyond poverty avoidance to include financial resilience, the ability to withstand economic shocks like health crises or inflation without disastrous drops in welfare and psychological aspects such as lowered retirement anxiety (Ugwu et al., 2024).

In Nigeria, retirement security has taken on a new level of urgency due to the 2004 pension reform, which replaced the unfunded Defined Benefit Scheme with the Contributory Pension Scheme (CPS).

According to the CPS model, retirement security is based on accumulated balances in individual Retirement Savings Accounts (RSAs), with the responsibility for risk-taking transferred to individualemployees and the state (Fashagba & Dunmade, 2019). This personalisation of retirement risk increases the significance of financial literacy, since employees are now required to make consequential choices about contribution adequacy, fund selection, and withdrawal plans without the assurance of defined benefits.

The empirical fact of retirement security in Nigeria unveils significant challenges. Although pension funds have surpassed N27 trillion and the number of registered RSAs exceeds 10.5 million as of 2024, their coverage remains limited to the formal sector, which comprises only 10 per cent of the workforce. In Nigeria, about 90% of the workforce is in the informal sector, yet only 0.25% have pensions (Odeniyi, 2026). This gap in coverage suggests that more than 75 million Nigerians will retire without a formal pension scheme, highlighting the importance of financial literacy interventions to enable voluntary retirement savings through schemes like the Micro Pension Plan (Ashaye, 2025).

Retirement Planning and Retirement Savings

Retirement planning refers to the cognitive and behavioural processes that enable people to plan for their financial lives after retirement. These activities involve goal setting (deciding on desired retirement living standards), information seeking (acquiring knowledge of pension schemes and investment vehicles), decision making (choosing contribution levels and asset allocations), and monitoring and adjusting the plans. Retirement planning is a future-oriented behaviour that involves people forgoing present consumption in favour of uncertain future benefits, a cognitive task that financial literacy successfully fulfils by rendering future outcomes more salient and actionable (Amoah & Amoah, 2025).

The financial assets accumulated as a result of retirement savings are the physical reserves used to consume after employment. Though conceptually comparable to retirement planning, savings are behavioural expressions of planning intentions, involving the allocation of resources, rather than cognitive preparation. The difference has practical implications: people can make good plans but fail to save because of the issue of self-control, lack of liquidity, or other financial priorities. Financial literacy is expected to promote retirement savings through multiple mechanisms. Individuals who possess adequate financial knowledge are more likely to appreciate the long-term benefits of compound interest, manage their finances effectively through budgeting, and adopt disciplined saving habits. Moreover, financial literacy helps individuals overcome short-term consumption tendencies and focus on future financial goals, thereby increasing their likelihood of accumulating sufficient retirement savings (Ojogbo *et al.*, 2024).

Income levels might moderate the relationship between financial literacy and retirement savings, where low-income workers are structurally constrained to save no matter how financially literate they are. Ojogbo *et al. (2024) discovered that the level of financial literacy among salaried workers in Lagos State was comparatively high, though a significant part of the respondents did not implement more tax-saving behaviours, and the level of income was strongly positively correlated with retirement planning behaviours*. The implication of this result is that policy interventions to combat income adequacy and the availability of suitable savings vehicles should be accompanied by financial literacy interventions.

Conceptual Clarifications

Life Cycle Hypothesis

The theoretical approach to retirement saving behaviour is the Life Cycle Hypothesis (LCH), which dates back to the efforts of Modigliani and Brumberg. According to the LCH, rational people flatten consumption across their lifetimes by saving in the high-income working years and dissaving in the low-income retirement years. Retirement planning in this context entails computing the lifetime resources, estimating future consumption requirements and identifying optimal saving paths to ensure consumption stability during different stages of life.

Financial literacy increases LCH-consistent behaviour by providing people with the computational and conceptual tools they need to plan their life cycle. Lack of financial literacy can mean that people are poor predictors of their retirement needs, do not understand how inflation will affect their buying power, or do not know how increased life expectancy will affect their savings needs

(Goodman, 2023, as cited in Akinyede et al., 2026). Financial literacy, on the other hand, will put them in a better position to employ LCH-optimising practices, such as starting to save during retirement at an early age and proper diversification of their portfolio (Ajemunigbohun & Azeez, 2023).

Financial Socialisation Theory

Financial Socialisation Theory provides a complementary approach that focuses on developmental and social-contextual sources of financial capability. This theory assumes that the acquisition of financial knowledge, attitudes, and behaviours occurs through social learning processes that involve family, educational institutions, and broader cultural contexts. Parents act as important agents of financial socialisation by passing values and setting examples as well as giving direct teachings on how to manage money (Ugwu et al., 2024).

The recent empirical research has applied financial socialisation theory into the framework of retirement planning. The study by Ugwu et al. (2024) examined the parental impact on the retirement anxiety of pre-retirees of Nigerian universities and discovered that parental impact was a strong predictor of retirement anxiety, and retirement goal clarity and saving behaviour were the sequential mediators. This result implies that financial literacy programs that aim to improve financial literacy among current employees have an intergenerational impact because financially literate parents will be more likely to socialise children into becoming efficient in terms of retirement planning. The structural equation modelling method with 926 participants used in the study is a strong indication of the suitability of financial socialisation theory in the Nigerian context, as well as indicating the mediating factors through which parental effect works.

Behavioural Economics Perspectives

Behavioural economics has made a significant contribution to the literature concerning retirement planning, in determining systematic cognitive biases which hinder LCH-consistent behaviour. Some of the important biases that are applicable to retirement security are present bias (preferring immediate to future effects), loss aversion (being more sensitive to losses than gains of equal magnitude), and status quo bias (dependence on current arrangements when a change would be more beneficial to welfare). Financial literacy can possibly reduce these biases by raising awareness of how they work and offering heuristics in decision-making that can overcome their influence (Nam & Loibl, 2021).

The behavioural perspective also enlightens the worth of choice architecture interventions that augur well with financial literacy interventions. Automatic enrolment, default contribution escalation, and simplified fund menu are examples of supply-side policies that can enhance the outcomes of retirees without demanding great financial literacy. However, these interventions assume the availability of accessible pension schemes - a situation that cannot be said to hold in Nigeria, with such a large portion of the informal sector workforce, as it stands to be entirely voluntary enrolment as the main point of entry into pension schemes. Therefore, although behavioural insights guide the development of financial literacy programmes, they do not replace the knowledge underlying financial literacy (Ashaye, 2025).

Empirical Review

Financial Literacy and Retirement Planning

The empirical literature provides substantial evidence of a positive correlation between financial literacy and retirement planning across different national settings. Amoah and Amoah (2025) explored this relationship using multivariate regression analysis with Ghanaian data and found that financial literacy is an important factor in retirement planning and is positively correlated with the management of public pensions. The fact that the study focuses on older adults in a developing economy is especially relevant to Nigeria, given similarities in the evolution of the pension system, the informal sector, and demographic changes. The authors found that the majority of respondents had only planned their retirement at a basic level, suggesting that financial literacy may encourage them to plan, but financial circumstances and limited access may limit the quality of their planning.

In Nigeria, in particular, Ajemunigbohun and Azeez (2023) found that financial literacy and retirement planning significantly increased the uptake of life insurance among lecturers at tertiary institutions in Lagos State. This observation is instructive, as life insurance is one element of overall retirement planning, offering risk protection as well as pension savings. The research suggests that all financially literate people are more proactive in a variety of areas of retirement preparedness, not limited to the extent of pension contribution.

To determine the role of learning experience dimensions in financial well-being, Soepding (2023) used a confirmatory factor analysis and hierarchical regression on 376 North-Central Nigeria retirees. Findings affirmed that financial knowledge, financial planning, and financial self-efficacy are independent variables in the learning process, with financial knowledge having the greatest influence on financial well-being, followed by financial planning and financial self-efficacy. Taken together, the dimensions of learning experiences explained about 46.5 per cent of the variance of the financial well-being of the retirees. This result has significant implications for the design of interventions: although knowledge is a prerequisite, programmes that also teach planning and self-efficacy can have better results.

Financial Literacy and Retirement Savings

Financial literacy and retirement savings have a long history of empirical studies, with meta-analyses showing a clear positive relationship that is not affected by demographic factors or national settings. The processes that explain this correlation include increased knowledge of compound interest (which boosts the incentive to save), better budgeting skills (which allow people to determine how much they can save), and awareness of employer matching and tax subsidies (which boost the returns to saving).

A study in the context of the Cameroon informal sector that investigated the mediation of financial service utilisation revealed that both formal and informal financial service utilisation have positive and significant impacts on retirement preparedness, with utilisation mediating the financial literacy-retirement preparedness association (2025). This observation indicates that financial literacy is not directly related to retirement savings but functions by facilitating the effective use of available financial services. The dualistic model of financial inclusion suggested in the study, which emphasises the complementary nature of formal and informal services, is also relevant in Nigeria, where informal savings systems (such as rotating savings associations) are common and formal pension schemes continue to exist.

Ojogbo et al. (2024) surveyed 200 salaried employees in Lagos State to investigate the financial planning practices. Although the research revealed a high level of financial literacy and that a large percentage of respondents were well aware of financial instruments, a considerable percentage of respondents did not save taxes, and a strong positive relationship was observed between income levels and retirement planning behaviour. This observation qualifies the relationship between financial literacy and retirement savings, indicating that financial literacy may be required but is not a sufficient factor for adequate retirement savings in the presence of an income constraint.

The Nigerian Pension Context

The 2004 pension reform, which introduced the Contributory Pension Scheme, marked a paradigm shift in pension provision in Nigeria. Within the framework of the CPS, employers and employees pay certain proportions of their salaries into their own RSAs, which are managed by licensed Pension Fund Administrators. The scheme is fully funded, regulated by PenCom, and portable even when job status changes, unlike the previous Defined Benefit Scheme, which had liabilities and failed to pay pensions to many retirees (Fashagba & Dunmade, 2019).

Nevertheless, despite all the structural changes, coverage gaps remain extremely significant. According to PenCom (2024), pension fund assets amount to over N27 trillion, and there are over 10.5 million RSAs in Nigeria; however, these figures refer to pension coverage in the formal sector. At the same time, about 90% of the Nigerian labour force belongs to the informal sector, where the pension coverage is less than 0.25% (Odeniyi, 2026).

The major limitation in pension uptake, according to stakeholders in the industry, is the lack of financial literacy among individuals. Ashaye (2025) noted that there is a perception among Nigerians that pensions are insignificant because people are more concerned about meeting their needs right away. This mindset emanates from the need for basic necessities like food, shelter, and clothing, as well as a lack of understanding of the benefits of the CPS. Addressing this barrier requires not only financial literacy campaigns that explain pension mechanics but also product innovations that accommodate irregular income patterns and simplify enrolment processes.

Gaps in Existing Literature

There are some gaps in the literature of the above studies that require some mention. First, there has been a bias towards formal-sector employees, such as civil servants and academia, in previous Nigerian research, and hence, there has not been much empirical research on informal-sector employees. The above is an important omission because informal-sector employees represent 90 per cent of the Nigerian labour force and have the worst retirement prospects.

Second, the above studies are mostly limited to cross-sectional designs and therefore cannot establish any cause-and-effect relationships between the level of financial literacy and retirement outcomes. There is already evidence in the developed world on causal interpretations, but the same is missing in the Nigerian context.

Third, financial literacy has not been measured consistently across Nigerian studies, with some studies utilising short knowledge scales and other scales being more comprehensive. Such heterogeneity in measurement makes meta-analytic synthesis challenging and reduces the ability to compare studies.

Fourth, little has been done on the demand-side constraints to retirement saving, such as income volatility, financial inclusion, and competing consumption requirements, which might mediate or moderate the effects of financial literacy. This study (2025) on the mediation of financial service use is an exception, although the mechanism variables should be studied further.

Summary of Literature Review

The reviewed literature confirms that financial literacy is a major determinant of retirement security, which has a mechanism of operation in terms of retirement planning and savings. According to theoretical explanations, such as the Life Cycle Hypothesis, Financial Socialisation Theory and behavioural economics, there are complementary interpretations of the role of financial literacy in retirement outcomes. Empirical studies in Nigeria and other similar developing economies affirm positive relationships between financial literacy and planning and saving behaviour, but the magnitude of these effects varies across populations and settings.

The Nigerian pension environment has unique characteristics, such as the 2004 reform that created the CPS, high levels of coverage gaps in the informal sector, and the recent introduction of the Micro Pension Plan, all of which shape how financial literacy affects retirement security. Financial literacy, as reported by industry stakeholders, is key to increasing the number of people joining pension schemes, especially informal employees.

Nevertheless, the literature remains deficient in several respects, including the underrepresentation of workers in the informal sector, a lack of causal evidence, measurement heterogeneity, and insufficient attention to mediating mechanisms. The study focuses on South-western Nigeria, incorporates various classes of workers, and uses structural equation modelling to analyse both planning and saving outcomes to address some of these gaps.

3.0 METHODOLOGY

A qualitative, descriptive research design was used to understand the impact of financial literacy on retirement planning and savings. The population used for this study was workers (among Public and Private Sector Employees) in South-western Nigeria. Primary data were used for this study; a Self-administered questionnaire was used to collect data via an online Google Form.

Model specification

The simple regression model was used for this study based on the variables contained in the research objectives. The dependent variables for this research work are retirement planning and retirement savings, while the independent variable for this study is financial literacy. A SEM model was used for this study to understand the impact of financial literacy on retirement planning and savings, as shown below;

Y=a + bX
For this research, our model will be;
RTP = $\beta_0 + \beta_1$FLT + e_i
RTS = $\beta_0 + \beta_1$FLT+ e_i
Where;
The independent variable is Financial Literacy
Dependent Variables are Retirement Planning and Retirement Savings
RTP = Retirement Planning
RTS = Retirement Savings
FLT = Financial Literacy
β_0 = Constant

β_1, β_2, $\beta 3$,…, $\beta\alpha$ = Regression Coefficients associated with the independent variable.
ei represents the error term or residual. It accounts for the unexplained Variance in the dependent variable Y that cannot be attributed to the independent variables in the model. It represents the difference between the observed values of Y and the model's predictions.

Materials and Methods

Materials Employed: The principal materials used in the study were a structured questionnaire, data analysis software, and statistical modelling tools. These materials and their specifications are presented in Table 3.1.

Table 3.1: Materials and Specifications

Material / Tool	Specification	Purpose	Quantity / Version
Structured Questionnaire	Self-designed survey items measured on a 5-point Likert scale	Collection of primary data on retirement planning and retirement savings	365 copies (physical and electronic)
Measurement Scale	Likert scale	Standardisation of responses for statistical analysis	Embedded in the questionnaire
Statistical Software	Smart-PLS	Estimation of measurement and structural models using PLS-SEM	Version 4
Data Screening Tool	Microsoft Excel	Data coding, cleaning, and preliminary descriptive analysis	Version 2019

Bootstrapping Procedure	5,000 subsamples	Hypothesis testing and estimation of path significance	Integrated in Smart-PLS

Source: Author Computation (2026)

Impact of Financial Literacy on Retirement Security in Nigeria

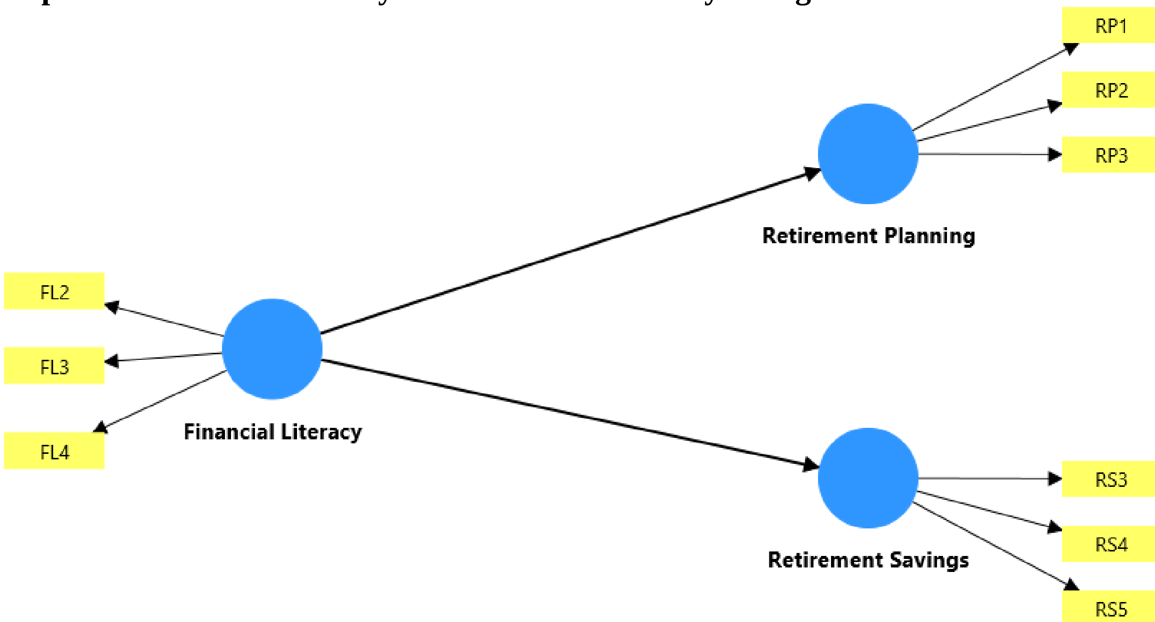

Figure 1: Conceptual Framework
Source: Author Computation (2026)

4.0 RESULTS

TABLE 1: Measurement model Assessment

Outer loadings			
	Financial Literacy	Retirement Planning	Retirement Savings
FL2	0.846		
FL3	0.872		
FL4	0.836		
RP1		0.763	
RP2		0.902	
RP3		0.894	
RS3			0.800
RS4			0.848
RS5			0.832

Source: Author Computation (2026)

The outer loadings presented in the measurement model provide important evidence regarding the reliability and convergent validity of the constructs used in this study on the impact of financial literacy on retirement security in Southwest Nigeria. In structural equation modelling, outer loadings indicate the degree to which each observed indicator adequately reflects its underlying latent construct. A commonly accepted benchmark is 0.70 or above, which suggests that the item contributes meaningfully to the construct.

For the Financial Literacy construct, all three indicators, namely, FL2 (0.846), FL3 (0.872), and FL4 (0.836), have shown satisfactory loadings above the suggested value. This suggests that the items are very good measures of financial literacy, and they are able to measure the underlying construct. Likewise, the construct of Retirement Planning shows good indicator reliability, since the loadings of RP1 are 0.763, RP2 are 0.902, and RP3 are 0.894.

RS3 (0.800), RS4 (0.848), and RS5 (0.832) are some other indicators which are showing satisfactory loadings. This indicates that the items are good measures of retirement savings. The results indicate that all indicators possess adequate convergent validity and should be retained for further structural model analysis and hypothesis testing.

TABLE 2: Validity and Reliability of Research Instrument

	Cronbach's alpha	Composite reliability (rho_c)	Average variance extracted (AVE)
Financial Literacy	0.810	0.888	0.725
Retirement Planning	0.813	0.891	0.732
Retirement Savings	0.771	0.866	0.684

Source: Author Computation (2026)

The results of the construct reliability and validity are very compelling and support the reliability and statistical significance of the measurement model. Regarding Financial Literacy, the Cronbach's alpha of 0.810 exceeds the widely used minimum threshold of 0.70, indicating consistent measurement of the construct by the scale. The construct's composite reliability of 0.888 supports its reliability, while its average variance extracted (AVE) of 0.725 indicates convergent validity, as it exceeds the benchmark of 0.50.

Retirement Planning is another construct showing reliable and valid measures. Its Cronbach's alpha is 0.813, while composite reliability and AVE are 0.891 and 0.732, respectively. This proves that the indicators are reliable and can explain significant variance within the items.

The same applies to Retirement Savings. Cronbach's alpha, composite reliability, and AVE of this construct are 0.771, 0.866, and 0.684, respectively.

TABLE 3 – Discriminant Validity

Heterotrait-monotrait ratio (HTMT)			
	Financial Literacy	Retirement Planning	Retirement Savings

Financial Literacy			
Retirement Planning	0.760		
Retirement Savings	0.724	0.680	

Source: Author Computation (2026)

Based on the HTMT ratios, it can be confirmed that all constructs measured in the current research model are empirically distinct and sufficiently different from one another. Thus, the correlation between Financial Literacy and Retirement Planning equals 0.760, whereas the relationship between Financial Literacy and Retirement Savings is estimated at 0.724. At the same time, the correlation between Retirement Planning and Retirement Savings is equal to 0.680. Such estimates reflect moderate-to-high relationships between constructs that are reasonable given their nature. Nevertheless, it should be noted that all estimates are less than the acceptable threshold of 0.85, and even less than a strict one that is used when measuring discriminant validity of constructs, 0.90. Hence, the relationship among the measured variables is reasonable but does not imply excessive similarity among the constructs. Therefore, it is possible to state that all measures have satisfactory discriminant validity.

Fornell-Larcker criterion			
	Financial Literacy	Retirement Planning	Retirement Savings
Financial Literacy	0.851		
Retirement Planning	0.701	0.855	
Retirement Savings	0.700	0.695	0.827

Source: Author Computation (2026)

Results from the Fornell-Larcker criterion provide strong evidence for the discriminant validity of the study constructs. According to the Fornell-Larcker criterion, the square root of the average variance extracted for each construct, which corresponds to the diagonal values in the table below, must be larger than its correlation with other constructs. The diagonal value for the Financial Literacy construct is 0.851, which is larger than its correlations with Retirement Planning (0.701) and Retirement Savings (0.700).

Likewise, the diagonal value for Retirement Planning is 0.855, which is larger than its correlations with Financial Literacy (0.701) and Retirement Savings (0.695). Finally, the diagonal value for Retirement Savings is 0.827, meaning that it is larger than its correlations with Financial Literacy (0.700) and Retirement Planning (0.695). Therefore, each construct is distinct empirically.

TABLE 4: Hypothesis Testing

The relationships among constructs were tested using bootstrapping (5,000 sub-samples). Significance was determined using t-values and p-values.

Path coefficients			
	Original sample (O)	T statistics (|O/STDEV|)	P values

Financial Literacy -> Retirement Planning	0.701	3.980	0.000
Financial Literacy -> Retirement Savings	0.700	2.850	0.000

Source: Author Computation (2026)

The test of hypotheses results reveal that Financial Literacy positively and significantly impacts both Retirement Planning and Retirement Savings among individuals within Southwest Nigeria. The first finding shows that the path coefficient from Financial Literacy to Retirement Planning is 0.701, implying that there is a strong positive relationship between these variables. This means that there is a considerable improvement in people's retirement planning when they improve their financial literacy.

The computed t-statistic is 3.980, which is higher than 1.96, the critical level. Moreover, the probability value is 0.000, proving that there is a significant effect on Retirement Planning based on the 5% level.

The second finding shows that the path coefficient from Financial Literacy to Retirement Savings is 0.700, indicating a strong positive relationship between the two variables. This means that there is a likelihood of improving savings when people improve their financial literacy. Overall, the findings confirm that financial literacy plays a critical role in enhancing retirement security through better planning and savings behaviour.

4.1 Discussion of Findings

The findings of this study provide compelling evidence of the important role of financial literacy in improving the quality of retirement in Southwest Nigeria through its positive effects on retirement planning and saving. Specifically, the hypothesis test results indicate that financial literacy has a significant positive effect on retirement planning ($\beta = 0.701$, $t = 3.980$, $p < 0.05$) and on retirement saving ($\beta = 0.700$, $t = 2.850$, $p < 0.05$). The findings of this research are consistent with theoretical expectations and with current empirical studies in this field, conducted not only in Nigeria but also elsewhere. In terms of the significant positive relationship between financial literacy and retirement planning, one can conclude that people with higher financial literacy have greater awareness of different financial instruments and the ability to manage personal finances successfully, making them more likely to engage in retirement planning. This is explained by the Life Cycle Hypothesis, which holds that individuals make consumption and saving decisions during their working period, taking into account future income needs during retirement.

This finding is supported by current findings from Nigeria. In a study carried out recently, Ajemunigbohun & Azeez (2024) established that the level of financial literacy and retirement planning played a significant role in enhancing the uptake of life insurance among lecturers in tertiary institutions in Lagos State, implying that people who are financially literate tend to be proactive in providing for their welfare in post-retirement life. A similar finding was reported in a recent study of Nigerian civil servants on financial literacy and retirement planning.

This implication is very significant when viewed against the backdrop of Southwest Nigeria. This area is home to a large number of civil servants, academics, businesspeople, and private workers whose retirement plans rely heavily on the ability to make adequate pension payments and savings. Poor financial literacy can make it difficult for an individual to understand the intricacies of pension schemes, the risks of inflation, the importance of investment diversification, and the need to plan for retirement from a young age.

Additionally, the strong positive relationship between financial literacy and retirement savings provides evidence that financially literate people are more likely to save for future consumption. The path coefficient value of 0.700 shows that financial literacy plays a critical role in influencing saving behaviour among survey participants. It means that financial literacy increases individuals' ability to understand compound interest, the risk-return relationship, and the need to practice disciplined saving.

According to Sajuyigbe et al. (2024), financial literacy positively impacts the financial behaviour of individuals living in Western Nigeria. In other words, financially literate people have better financial behaviour and well-being in the long run because they can effectively balance current and future spending. The findings also confirm the empirical observations from the international front. Studies conducted recently in African institutions of higher learning reveal that financial knowledge and behaviour play a vital role in retirement preparedness and adequacy of savings. Moreover, empirical evidence from various sources shows that financial literacy contributes positively to retirement preparedness by promoting early savings and wise portfolio investments.

This outcome could be attributed to the finding that financial literacy reduces susceptibility to present bias and consumption impulsivity. They understand the ramifications of not saving adequately and, as such, develop a foresight-oriented approach to finances. This could explain why individuals in Nigeria, given economic volatility, inflation, and irregular income, may lack a long-term orientation toward savings.

Furthermore, the significance of both path coefficients shows that financial literacy affects retirement security via various mechanisms. Financial literacy not only promotes knowledge and planning intentions but also ensures concrete savings behaviour. Both mechanisms are important since planning without savings might not necessarily ensure retirement security. Thus, the significance of both relationships offers strong evidence for the current research.

The results point to a critical need for financial literacy programs targeting Southwest Nigeria. The corporate sector, pension fund operators, financial institutions, and governmental authorities should step up their financial literacy efforts for retirement security. Educational programs on pension plans, investment strategies, annuity alternatives, inflation protection, and saving behaviours should be included in corporate training, particularly for employees at mid-career and pre-retirement levels.

These findings confirm that financial literacy is a critical determinant of retirement security in Southwest Nigeria. By significantly improving retirement planning and retirement savings, financial literacy strengthens individuals’ ability to achieve financial independence and stability in old age. The results, therefore, reinforce the importance of policy interventions to improve financial capability as a means of ensuring sustainable retirement well-being.

5.0 Conclusion

The results of this study reveal that financial literacy is an important factor that positively influences retirement security in Southwest Nigeria, as it shapes retirement planning and saving. Based on the empirical data collected in the course of the current research, people who are more financially literate can plan their retirement better and make the appropriate savings for retirement. The above findings indicate that financial literacy plays an essential role in forming prudent financial behaviour, which contributes to the development of proper financial security. Additionally, it can be stated that financial literacy improvement can be a viable tool for overcoming retirement inadequacy among the employees of Southwest Nigeria. In conclusion, the improvement of financial literacy programs is necessary to ensure sustainable retirement planning and minimise financial insecurity post-retirement.

5.1 Recommendations

Based on the findings of this study, it is recommended that the concerned stakeholders in government, financial regulators, and pension schemes put in effort to boost the number of financial literacy campaigns which focus on the workers in the South West regions of Nigeria. This campaign should focus on retirement planning, savings behaviour, investments, and pension management in order to enable the workers to make informed financial decisions. Employers should develop financial education programs as part of their human resources development programs, especially for workers at the mid-career or pre-retirement stage of their work life cycle. Financial institutions should develop simplified financial products for retirement savings.

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