

IMPACT OF FINANCIAL LITERACY ON PENSION HOLDERS' INVESTMENT DECISIONS WITH SPECIAL REFERENCE TO GAMPAHA DISTRICT

Kumari DAT^{1*} & Samarasinghe SLGMM²

^{1,2}Department of Banking and Finance, Wayamba University of Sri Lanka, Sri Lanka

¹datkumari@wyb.ac.lk, ²malmis@wyb.ac.lk

 <https://orcid.org/0000-0001-9254-6868>

 <https://orcid.org/0009-0001-9154-5684>

ABSTRACT

Financial literacy refers to the knowledge and skills that enable individuals to make informed and effective decisions in managing their finances. It plays a vital role in strengthening financial development and contributing to the overall economic growth of a country. For pension holders in Sri Lanka, financial literacy is especially important, as effective management and investment of pension income directly influence both their personal financial security and the wider economy. This study investigates the impact of financial literacy on investment decision-making among pension holders in the Gampaha District of Sri Lanka. A total of 384 pensioners participated in the research. The analysis focused on four key dimensions of financial literacy including future perspective, risk tolerance, financial knowledge, and decision-making power, with education level considered as a moderating variable. The findings reveal that financial literacy has a positive and significant effect on pensioners' investment decisions. Among the examined dimensions, future perspective demonstrated the strongest impact, while decision-making power showed the weakest. Education, as a moderating factor, was found to have no significant impact on investment decisions. One of the key contributions of this research is the focus on the pensioners as this study fills a gap in investment behavior literature by targeting pensioners specifically which is a demographic that is often under presented in financial literacy research. Based on these results, the study recommends several practical measures such as expanding investment opportunities for pensioners to enhance financial literacy, encouraging financial institutions to organize awareness sessions on current financial conditions, and providing hands on training programs to strengthen decision-making skills.

Keywords: *Education, Financial Knowledge, Financial Literacy, Future Perspective, Investment Decision Making, Pension Holders*

1. INTRODUCTION

Financial literacy is broadly defined as the knowledge and understanding of financial concepts and the skills, motivation, and confidence to apply such knowledge in order to make informed decisions across a range of financial contexts, thereby improving the financial well-being of individuals and society, and enabling participation in economic life (OECD, 2013). The scope of financial literacy is wide, but its relevance is particularly pronounced in developing countries, where individuals often face resource constraints and heightened financial vulnerability. In such contexts, financial literacy equips individuals to engage in essential financial practices, including budgeting, cash flow management, and asset allocation for achieving financial targets (Seth, Patel, & Krishnan, 2011). Moreover, financial literacy has been shown to play a critical role in retirement planning (Boisclair & Lusardi, 2014), underscoring its importance for pension holders whose livelihood largely depends on post-retirement income.

In the Sri Lankan context, the significance of financial literacy for pension holders is particularly notable. According to the Central Bank of Sri Lanka (2024), the Gampaha District alone accounts for 90,791 pensioners, the highest number in the country. As per the Central Bank (2021) around 57.9% of the Sri Lankans are financially literate which is a higher improvement compared to 35% in 2019. However, Sri Lanka has a lower financial literacy rate compared to developed countries such as Singapore (74%) and Japan (65%) and performs moderately well compared to peers such as India (24%), Pakistan (26%) and Bangladesh (19%) according to OECD (2019). Sri Lanka accounts for a higher overall literacy rate (around 93%) and the lower financial literacy continues to expose individuals to scams, frauds and risky behaviors. Thus, understanding about financial literacy is vital in the Sri Lankan context.

On the other hand, in terms of the elderly population, census data shows that nearly 3.76 million (around 17.2%) of the population is above 60 years in Sri Lanka (ESCAP, 2023). Within this age group around 58% are women and 42% are men. Further, demographic characteristics of post-retired employees highlight that a majority (81.4%) are married, 12.4% are widowed, and more than half (51.5%) live in urban areas, with 41.2% in semi-urban areas (Perera & Weerakkody, 2018). These statistics illustrate both the scale and diversity of the pensioner population, reinforcing the need to understand their financial decision-making processes.

Globally, the ageing population and rising dependency ratios have raised concerns about the sustainability of pension systems. High-income countries have responded by transitioning from defined-benefit to defined-contribution pension schemes, where individuals bear greater responsibility for ensuring adequate retirement savings (European Commission, 2018; Feng, 2018). In such systems, financial literacy becomes a prerequisite for effective participation, as savings and returns are shaped by employee contributions, employer support, and market performance.

Financial literacy studies conducted in Sri Lanka have focused different demographic aspects such as working adults (Heenkenda, 2014; Abeysekara, 2020), University students and young adults (Rathnayake & Nishantha, 2019; Jayasinghe & Kumari,

2021), investors in the Colombo Stock Exchange (Samarawickrama & Fernando, 2017; Gunathilaka, 2014). However, studies focusing pension holders as a distinct demographic group have received lesser attention from the scholars particularly in the Sri Lankan context. It is important to note that pensioners face unique financial challenges include fixed income dependency, limited capacity to re-earn, heightened exposure to inflation risk which differentiate their investment behavior from other population categories. Thus, there is an empirical gap as existing literature does not adequately focus on the financial decision-making dynamics specific to this group.

Against this backdrop, the main objectives of this study are to examine the impact of financial literacy dimensions namely, future perspective, risk tolerance, financial knowledge, and decision-making power on the investment decisions of pension holders, with education serving as a moderating variable. These factors, identified through prior empirical work, represent core dimensions influencing how pensioners manage and allocate their primary source of income. By focusing on pension holders in the Gampaha District, this study has multifaceted contributions. In terms of empirical contributions, the study focuses on pensioners as a distinct population as most of the studies focus on working adults, investors and undergraduates. In terms of policy contributions, financial educators and policy makers need to focus targeted financial literacy training for retirement security in Sri Lanka.

2. LITERATURE REVIEW

2.1 Theoretical literature

The theoretical framework of this study is grounded in four complementary theoretical frameworks as Expected Utility Theory (Bernoulli, 1954), Classical Portfolio Theory (Markowitz, 1952), Prospect Theory (Kahneman & Tversky, 1979), and Attribution Theory (Heider, 2013). These theories provide a robust foundation to understand how financial literacy dimensions influence the investment decisions of pension holders in the Gampaha District of Sri Lanka.

At the core of this framework lies the premise that investment decision making is neither purely rational nor entirely behavioral, but it is a product of the interplay between cognitive abilities and psychological orientations and dispositional attributes. The Expected Utility Theory states that individuals make rational decisions with the objective of maximizing utility. Within the scope of this study, the theory is applied to explain the role of financial knowledge in shaping pension holders' investment decisions. Financial knowledge allows individuals to assess potential outcomes and make rational choices that optimize expected utility. Thus, the interest of pension holders in utility-maximizing decisions is determined by their level of financial knowledge (Lasantha et al., 2019). Consistent with this theoretical lens, it is proposed that financial knowledge exerts a positive influence on the investment decisions of pension holders. On the other hand, Classical Portfolio Theory emphasizes that investors tend to avoid unfamiliar financial products and instead base their choices on financial knowledge and risk considerations (Awais et al., 2016). Pension holders, therefore, carefully evaluate alternative investment options before

selecting the most suitable ones. Education, risk tolerance, and cognitive abilities play an essential role in this decision-making process (Amisi, 2012). The theory highlights the strong correlation between financial literacy, education-based knowledge, and risk assessment. In this context, financial knowledge and risk tolerance are viewed as critical determinants of pension holders' investment behavior, with the theory suggesting a positive impact of these variables on investment decisions (Amisi et al., 2012).

However, investment decision making among pension holders extend beyond rational cognition and portfolio reasoning as Prospect Theory, provides an alternative to purely rational models of decision-making. The theory argues that individuals often deviate from rationality due to psychological biases and perceptions of risk. It emphasizes how people evaluate potential gains and losses differently, often exhibiting loss aversion (Tversky & Kahneman, 1986). In the context of pension planning, psychological factors and risk perceptions shape decision-making behaviors, leading to diverse investment attitudes (Harahap et al., 2022). This study applies Prospect Theory to highlight how pension holders' future perceptions influence their investment decisions. The theory suggests that future-oriented perceptions significantly affect investment choices, indicating a positive relationship between pension holders' future prospects and their investment decisions (Amisi et al., 2012). Furthermore, the Attribution Theory explains behavioral outcomes by distinguishing between internal and external factors that drive human action (Heider, 2013). Internal attributions, such as personality, attitudes, locus of control, and self-perception, influence individuals' financial behavior, while external attributions relate to situational factors such as available resources and opportunities (Fishman & Husman, 2017; Park & Martin, 2019). In the context of retirement planning, attribution theory is useful for understanding how dispositional attributes, such as risk tolerance and financial literacy, interact with external circumstances to influence decision-making (Su et al., 2020). This theoretical perspective posits that pension holders' investment decisions are positively associated with risk tolerance, shaped by both internal psychological traits and external situational factors.

Taken together, these four theories are not competing but rather mutually reinforcing as each addressing a distinct yet interconnected dimension of pension holder's investment behavior. The Expected Utility Theory discusses about using financial knowledge for investment decisions, the Classical Portfolio Theory discuss about the risk tolerance, the Prospect Theory introduces future behavioral and psychological dimensions of future oriented thinking and the attribution theory captures the decision making power.

2.2 Empirical review

2.2.1. Financial literacy and investment decision

Financial literacy is a multidimensional construct, and there is no universally accepted definition. The Organization for Economic Co-operation and Development (OECD, 2005) defines financial literacy as a combination of awareness, knowledge, skills, attitudes, and behaviors necessary to achieve financial well-being. Similarly, Mandell (2007) describes it as the ability to make sound financial decisions when confronted with various alternatives. Huston (2010) further conceptualizes financial literacy as a skill that enables individuals to make efficient and effective financial choices. Individuals who are financially literate are expected to understand core financial concepts, including interest rates, inflation, compound interest, risk, and basic economic principles (Lusardi & Mitchell, 2007; Huston, 2010).

Retirement planning is inherently complex and requires a sufficient degree of financial literacy. Previous research has established that higher financial literacy is positively associated with retirement preparedness and informed investment decisions (Lusardi, 2009; Lusardi & Mitchell, 2008, 2011; Van Rooij, Lusardi, & Alessie, 2012). Financially literate individuals tend to accumulate more wealth and express greater confidence in their retirement planning compared to financially illiterate individuals, who often overestimate their pension income and underestimate future expenses (Mullock & Turcotte, 2012; Alessie, Van Rooij, & Lusardi, 2011). Despite its importance, financial illiteracy remains widespread, with vulnerable groups such as women, the elderly, and individuals with lower educational attainment reporting particularly low levels (Lusardi, Mitchell, & Curto, 2010; Samy et al., 2008). Women, in particular, demonstrate lower financial literacy and higher risk aversion than men, making them more vulnerable to poor investment outcomes (Lusardi & Mitchell, 2008).

In this study, the impact of financial literacy on pension holders' investment decisions in the Gampaha District is examined by focusing on four key dimensions: future perspective, risk tolerance, financial knowledge, and decision-making power.

2.2.2. Future perspective

Future time perspective refers to the degree to which individuals focus on long-term goals rather than immediate consumption. In the context of financial planning, it is a critical psychological variable (Hershey & Mowen, 2000). Empirical evidence shows that individuals with stronger future orientations exhibit higher levels of retirement preparedness and wealth accumulation (Bernheim, Skinner, & Weinberg, 1997; Burtless, 1999; Lusardi, 1999). Moreover, individuals with high future orientation are more likely to engage in purposeful behaviors, such as goal setting, retirement saving, and long-term investment (Petkoska & Earl, 2009). These findings suggest that future time perspective significantly influences pension holders' investment decisions.

The following hypothesis was developed considering the literature mentioned above.

H1: There is a significant impact of future prospective on pension holders' investment decision.

2.2.3. *Risk tolerance*

Risk tolerance represents the level of uncertainty an individual is willing to accept in financial decision-making (Grable, 2000). In general investment behavior, risk-tolerant individuals tend to prefer high-risk, high-return options, whereas risk-averse individuals opt for safer, low-yield investments such as bonds or deposits (Bajtelsmit, Bernasek, & Jianakoplos, 1999; Sunden & Surette, 1998). Research indicates that financial literacy enhances risk tolerance, as knowledgeable individuals are better equipped to assess and manage risk (Yuh & DeVaney, 1996). Gender differences also emerge, with women consistently found to be more risk-averse than men, resulting in lower returns on retirement investments (Agnew & Szykman, 2003; Sabri & Tze Juen, 2014). Age is also influential; individuals aged 40–60 typically exhibit greater risk aversion, often prioritizing tax benefits and financial security (Dash, 2010). Thus, risk tolerance is an essential factor linking financial literacy to pension investment decision-making.

The following hypothesis was developed considering the literature mentioned above.

H2: There is a significant impact of risk tolerance on pension holders' investment decision.

2.2.4. *Financial knowledge*

Financial knowledge underpins individuals' ability to evaluate investment strategies, assess risk-return trade-offs, and make informed choices (Brown, Gallery, & Gallery, 2002). Studies consistently demonstrate that financial knowledge is positively correlated with retirement saving practices and investment behaviors (Ekerdt et al., 2001; Hershey & Mowen, 2000). Lack of knowledge often results in retirement anxiety, poor planning, and overreliance on inaccurate assumptions (Hayslip, Bezerlein, & Nichols, 1997; Mitchell & Moore, 1998). Conversely, knowledgeable individuals are more likely to diversify their portfolios, adopt sound saving strategies, and achieve higher retirement preparedness (Rooij, Lusardi, & Alessie, 2007, 2009). Moreover, expert financial planners and trained novices outperform untrained individuals in investment decision-making (Walsh & Hershey, 1993; Hershey & Walsh, 2001). These findings underscore that financial knowledge is a decisive dimension in pension holders' investment behavior.

The following hypothesis was developed considering the literature mentioned above.

H3: There is a significant impact of financial knowledge on pension holders' investment decision.

2.2.5. Decision-making power

Decision-making power refers to the ability of individuals to evaluate alternatives and make final choices regarding investments. Pension holders' decision-making is influenced by factors such as income level, risk perception, security, returns, and reliability of options (Miller, Williams, & Allen, 2014). Education and experience strengthen decision-making capacity, enabling individuals to make informed judgments independently or with the support of financial advisors (Rooij, Lusardi, & Alessie, 2009). A higher level of decision-making power translates into better investment choices and, ultimately, stronger financial well-being during retirement.

The following hypothesis was developed considering the literature mentioned above.

H4: There is a significant impact of decision making on pension holders' investment decision

2.2.6. Education as a moderator of financial literacy and investment decision

Education plays a critical role in shaping investment behavior, not only directly but also as a moderating factor in the relationship between financial literacy and investment decisions. Empirical evidence suggests that individuals with higher levels of education are more likely to engage in sophisticated investment activities, such as stock market participation and portfolio diversification, compared to those with lower education levels (Christelis, Jappelli, & Padula, 2010; Van Rooij, Lusardi, & Alessie, 2011). Education enhances individuals' ability to process complex financial information, evaluate risk, and apply financial knowledge in decision-making (Cole, Sampson, & Zia, 2011; Lusardi & Mitchell, 2014). Furthermore, it strengthens cognitive ability and reduces behavioral biases, enabling more rational financial choices (Guiso & Jappelli, 2005). Accordingly, education is widely recognized as a moderating factor that influences the extent to which financial literacy translates into sound investment decisions (Hilgert, Hogarth, & Beverly, 2003). Based on this theoretical and empirical background, the study posits that education level significantly moderates the relationship between financial literacy and pension holders' investment decisions.

The following hypothesis was developed considering the literature mentioned above.

H5: Education level significantly moderates the relationship between financial literacy and pension holders' investment decisions.

3. METHODOLOGY

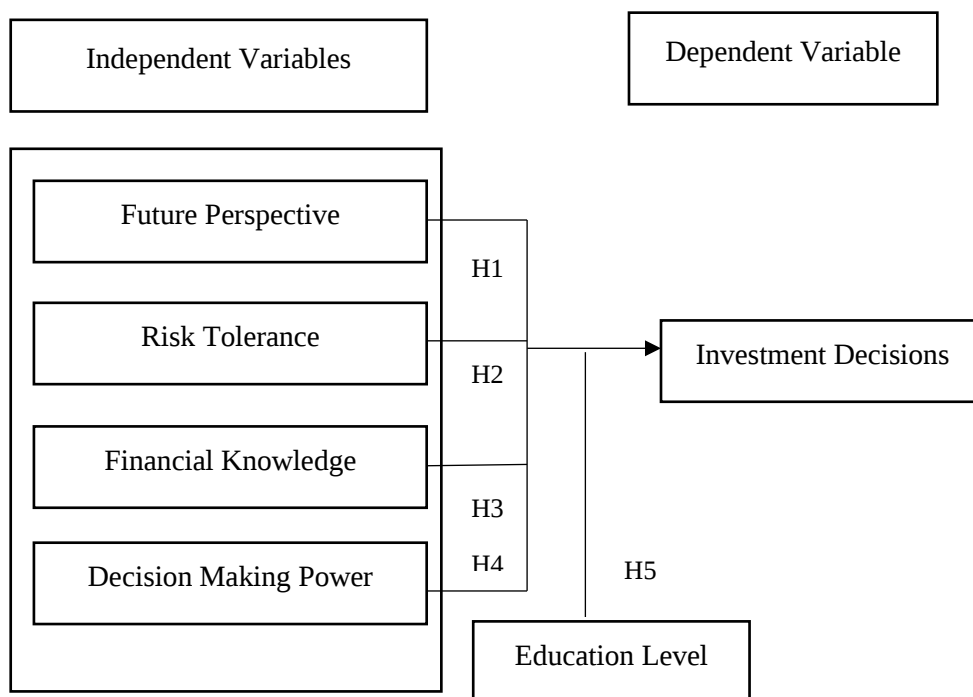
3.1. Sample, sampling technique and data collection

The target population of this study comprises pension holders in Sri Lanka, with a specific focus on the Gampaha district. According to the Central Bank of Sri Lanka (2024), there were 90,791 pensioners in the Gampaha district. Based on this population, the sample size was determined using Morgan's table, which indicated that 384 respondents would be sufficient to ensure representativeness.

The study adopted the convenience sampling method due to the ease of accessibility and availability of respondents. Primary data were collected through a structured multiple-choice questionnaire administered to pension holders in the Gampaha district. The questionnaire was designed to gather information on financial literacy dimensions, investment decision-making, and demographic characteristics. Data was analyzed by using statistical package for social science (SPSS) 26.0 version.

3.2. Conceptualization of variables

Based on the extensive literature review conducted, the following conceptual framework has been constructed.



Source: Developed by researcher based on prior research

Figure 1: Conceptual Framework

4. DATA PRESENTATION AND ANALYSIS

4.1. Response rate

The questioner was distributed among 384 pension holders in the Gampaha District and the response rate was 100% as the researcher himself recorded the information provided by the pension holders.

4.2. Reliability and validity analysis

4.2.1. Reliability test

Cronbach's Alpha was used to assess the internal consistency and reliability of the variables (questionnaire items in the questionnaire). A Cronbach's Alpha value of 0.700 or higher is deemed to indicate acceptable reliability.

Table 1: Reliability Analysis

Variable	No of Items	Cronbach's Alpha	Reliable
Investment Decision (ID)	4	0.817	Reliable
Future Perspectives (FP)	5	0.923	Reliable
Risk Tolerance (RT)	5	0.949	Reliable
Financial Knowledge (FK)	5	0.937	Reliable
Decision Making (DM)	5	0.842	Reliable

Source: SPSS Output (2024)

Table 01 indicates that there is reliability in questioner items as the Cronbach's Alpha value for all the variables are above 0.70. This depicts that the data is both reliable and internally consistent.

4.2.2. Validity test

The construct validity can be assessed using the Kaiser-Meyer-Olkin (KMO) measure of sample adequacy. The validity of the study's measures was assessed using the KMO and Bartlett's tests. Here, 0.5 is the minimum value required to guarantee validity.

Table 2: Validity Test

Variable	KMO Value	Significance
ID	0.553	0.000 (Significant)
FP	0.774	0.000 (Significant)
RT	0.781	0.000 (Significant)
FK	0.830	0.000 (Significant)
DM	0.654	0.000 (Significant)

Source: SPSS Output (2024)

The results, presented in Table 2, indicate strong validity across all variables: ID, FP, RT, FK and DM. Each variable showed adequate to highly adequate sample adequacy (KMO values between 0.55 and 0.83) and statistically significant (Sig. Value = 0.000), which proved that they could be used for testing construct validity. These findings underscore the robustness of the study's measurement instruments and support the validity of its conclusions, ensuring that the data collected is reliable and appropriate for analyzing the dimensions of financial literacy on investment decisions.

4.3. Descriptive statistics

Table 03: Descriptive Analysis

Variable	Min	Max	Mean	Std. Deviation
ID	3.0	4.8	3.9688	0.4728
FP	3.2	5	3.9547	0.47554
RT	3.0	5	3.9198	0.58709
FK	3.2	5	4.0417	0.38501
DM	3.4	5	4.1125	0.35468
Education	1	4	1.86	1.067

Source: SPSS Output (2024)

The above Table 03, depicts that most variables including ID, FP, RT, FK and DM are clustered around 3.9 to 4.1 indicating that respondents generally agree positively. The mean value of education is around 1.86 indicating that majority of the respondents are highly educated either with a postgraduate level qualification or a University degree (as per the questioner). The mean of investment related constructs such as ID, FP, RT, FK and DM are high indicating that the pension holders are fairly confident, knowledgeable and future oriented in financial decisions. The higher level of FK and DM can be attributed to higher education qualifications of the respondents. In terms of variability indicated from the Standard Deviation, DM and FK depicts the lowest variability (0.35) and (0.38) respectively showing that the responses are consistent across participants. However, RT has the highest variability depicting risk tolerance differs widely among the participants. Further, Education has the highest Standard Deviation of 1.067 reflecting a wide range of education levels ranging from secondary education to postgraduate level.

4.4. Correlation analysis

These correlations indicate the extent to which these variables are related and how they influence each other.

Table 04: Correlation Analysis

	ID	FP	RT	FK	DM	Education
ID	1.000	0.628	0.636*	0.598*	0.420*	-0.42
FP	0.628*	1.000	0.660*	0.524*	0.450*	-0.52
RT	0.636*	0.660*	1.000	0.681*	0.413*	0.13
FK	0.598*	0.524*	0.681*	1.000	0.564*	-0.21
DM	0.420*	0.450*	0.413*	0.564*	1.000	0.16
Education	-0.42	-0.52	0.13	-0.21	0.16	1.000

*. Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS Output (2024)

The Pearson correlation analysis was conducted to examine the relationship between investment decisions and the dimensions of financial literacy. Future Perspective shows a strong positive investment decision ($r = 0.628$, $p < 0.01$), indicating that pension holders with a higher future orientation are more likely to make favorable investment decisions. Risk Tolerance shows strong positive correlation with investment decision ($r = 0.636$, $p < 0.01$), suggesting that those with higher tolerance for risk tend to engage more actively in investment activities. Financial Knowledge shows depicts moderate to strong positive correlation with investment decision ($r = 0.598$, $p < 0.01$), confirming that greater financial knowledge improves decision-making capability. Decision-Making shows moderate positive correlation with investment decision ($r = 0.420$, $p < 0.01$), implying that sound decision-making skills support better investment outcomes. However, Education has a negative correlation with investment decision ($r = -0.420$), indicating that formal education level does not necessarily enhance pensioners' investment decisions. Similarly, education was negatively correlated with future perspective ($r = -0.520$) and financial knowledge ($r = -0.210$). Overall, these results confirm that future perspective, risk tolerance, financial knowledge, and decision-making are positively associated with investment decisions, while education does not play a significant role.

4.5. Regression analysis

4.5.1. Multiple regression analysis

As per Saunders et al. (2019), multiple regression analysis is used when there are two or more independent variables.

4.5.2. Model summary

Table 05: Model Summary

Model	R	R Square	Adjusted R Square	St. error of the Estimate	Durbin Watson
1	0.720 ^a	0.518	0.513	0.32014	1.759

a. Predictors: (Constant), TDM, TRT, TFP, TFK, Education

b. Dependent Variable: TID

Source: SPSS Output (2024)

The regression analysis produced a correlation coefficient (R) of 0.720, indicating a strong positive relationship between the independent variables (future perspective, risk tolerance, financial knowledge, and decision-making) and the dependent variable (investment decision). The coefficient of determination (R^2) was 0.518, meaning that approximately 51.8% of the variation in pension holders' investment decisions can be explained by the model. The adjusted R^2 of 0.513 further confirms that the model maintains strong explanatory power after adjusting for the number of predictors included. The standard error of the estimate (0.32014) indicates a reasonable prediction accuracy, with smaller errors in estimating the dependent variable. The Durbin–Watson statistic was 1.759, which falls within the acceptable range of 1.5–2.5. This suggests that the model does not suffer from significant autocorrelation in the residuals.

4.5.3. ANOVA table

Table 06: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	44.426	5	8.885	81.522	0.000 ^b
Residual	41.199	378	0.109		
Total	85.625	383			

a. Dependent Variable: TID

b. Predictors: (Constant), TDM, TRT, TFP, TFK, Education

Source: SPSS Output (2024)

As per Table 06, the F-value is 81.522, which is statistically significant at $p < 0.001$ (Sig. = 0.000). Thus, the results indicate that the regression model is statistically significant, meaning that the set of independent variables (future perspective, risk tolerance, financial knowledge, decision-making, and education) together significantly predict investment decisions among pension holders. This confirms the relevance of financial literacy dimensions in influencing investment behavior.

4.5.4. *Coefficients***Table 7: Coefficients Analysis**

Model	Standardized Coefficients Beta	t	Sig.
Constant	0.543	2.467	0.14
FP	0.323	6.556	0.00
RT	0.242	4.328	0.00
FK	0.241	4.478	0.00
DM	0.038	1.860	0.39
Education	-0.024	-2.675	0.50

a. Dependent Variable: TID

Source: SPSS Output (2024)

According to Table 07, FP emerges as the strongest positive predictor of pension holders' investment decisions, with the highest standardized beta value of 0.323 and a statistically significant result. This indicates that pension holders with better FP make better investment decisions. RT is also having a positive and significant impact on investment decisions and higher risk tolerance improves investment decision making. As per the results FK stands positive and significant indicating that more financial knowledge leads to better investment decisions. Thus, the results indicate that financial planning, risk tolerance and financial knowledge are the most influential and statistically significant factors affecting investment decisions. On the other hand, DM is not statistically significant showing that decision making skills do not significantly predict investment decisions. Further, Education has a negative impact and also not statistically significant indicating that Education level alone does not influence pension holder's investment decisions.

4.5.5. *Regression equation*

Based on the coefficients, the linear regression model can be constructed as follows:

Investment Decision = $\beta_0 + \beta_1$ Future perspective + β_2 Risk tolerance + β_3 Financial knowledge + β_4 Decision making power – β_5 Education

$$Y = \beta_0 + \beta_1 FP + \beta_2 RT + \beta_3 FK + \beta_4 DM - \beta_5 EDU + \varepsilon \dots\dots\dots (1)$$

$$ID = 0.543 + 0.322FP + 0.195RT + 0.296FK + 0.051DM - 0.11EDU \dots\dots\dots (2)$$

4.5.6. Testing hypotheses with regression analysis

Table 8: Testing Hypotheses with Regression Analysis

Hypothesis	β	t	significant	Outcome
H1: There is a significant impact of future prospective on pension holders' investment decision.	6.556	0.00	Significant	Accepted
H2: There is a significant impact of risk tolerance on pension holders' investment decision.	4.328	0.00	Significant	Accepted
H3: There is a significant impact of financial knowledge on pension holders' investment decision.	4.478	0.00	Significant	Accepted
H4: There is a significant impact of decision making on pension holders' investment decision.	1.860	0.39	Insignificant	Rejected
H5: Education level significantly moderates the relationship between financial literacy and pension holders' investment decisions.	-2.675	0.50	Insignificant	Rejected

Source: Constructed by Authors

5. CONCLUSION

This study examined the impact of financial literacy on pension holders' investment decisions in the Gampaha District, focusing on the dimensions of future perspective, risk tolerance, financial knowledge, decision-making ability, and the moderating role of education. A quantitative approach was adopted, and data were collected from 384 pension holders using a structured questionnaire. Statistical analyses were performed using SPSS version 26. In terms of financial literacy dimensions, the results confirm that financial literacy positively influences investment decision-making. Among these dimensions, future perspective emerged as the most critical determinant, followed by financial knowledge, risk tolerance, and decision-making power. Education, tested as a moderating variable, did not exert a significant effect. These findings imply that while education enhances knowledge broadly, it does not necessarily translate into better investment decisions among pension holders.

Based on the findings, several recommendations are proposed. Pension holders should be encouraged to strengthen their future perspective through awareness programs and financial planning initiatives that promote long-term thinking. Risk tolerance should be managed by educating retirees on logical and informed risk-taking, ensuring they avoid unnecessary financial exposure. To enhance financial knowledge, targeted workshops, training sessions, and investment projects tailored for pensioners should be introduced, enabling them to make sound financial decisions while also contributing positively to the broader economy. Programs aimed at improving decision-making skills are also essential, equipping pensioners with the ability to evaluate alternatives and make rational investment choices. Finally, although formal education was not found to significantly moderate investment decisions, focused financial education initiatives remain important; workshops and awareness campaigns should address safe investment practices and highlight the dangers of fraudulent schemes such as pyramid systems.

Despite its contributions, the study faced several limitations. First, the sample of 384 pensioners, although statistically valid, was insufficient to fully represent the entire Gampaha District. Some respondents lacked understanding of certain questions, leading to potential bias or inaccurate responses. Data collection was also challenging due to the limited availability of pensioners, who were often approached on pension distribution days when they were preoccupied. Time constraints further limited the depth of the study.

For future research, researchers can expand the sample size to enhance generalizability across districts. Employ longitudinal methods to capture changes in pensioners' investment behavior over time, rather than relying solely on cross-sectional data. Explore the role of unobserved variables (e.g., behavioral biases, family influence, or social networks) in shaping investment decisions. Extend the study to other groups such as undergraduates, women, private sector employees, or entrepreneurs to broaden the applicability of findings. Consider alternative measurement scales, such as a 1–7 Likert range, to capture more nuanced responses.

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