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RETIREMENT PLANNING IN MALAYSIA: ISSUES AND CHALLENGES TO ACHIEVE SUSTAINABLE LIFESTYLE

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ABSTRACT

Malaysia will be an ageing population by 2030, less than 15 years from now. Many issues and challenges will arise due to this change of demographic scenario. Current situation shows Malaysians are not ready to face the challenges ahead. This study aims to explore the issues and challenges facing by Malaysians due to fast ageing population. This study will also highlight some suggestion for improvement to encourage the people and the Government for actions and planning to be taken to achieve a sustainable lifestyle especially for aged population. Among the primary suggestions for improvement are: An efficient involvement of the Government sector, spurring the financial literacy among the Malaysian on ageing financial planning as early as possible, continuous of Government support and incentives for Private Retirement Scheme (PRS) via strengthening the Pillar III of the World Bank's Pension Conceptual Framework which is the Voluntary Personal Pension Scheme. Last but not least is to explore and introduce The Public Pension Plans that are publicly managed or Pillar I of The World Bank's Pension Conceptual Framework into Malaysia Pension Scheme, which currently is not in existence in the country.

Keywords: *Retirement, Retirement Planning, Retirement Issues, Retirement Challenges*

Introduction

Retirement, defined as the act of ending one's working career or the period after he/she have permanently stopped a job or profession (Merriam-Webster Inc., 2017). Malaysian Labor Law enforced that the age of retirement is at 60 years. However, the issue arises upon retirement is when the support provided by either the government or private institutions/companies are both insufficient for retirees to face their retirement days which is from 60 years old until death.

This study will focus on the issues and challenges face by the retirees and the Government of Malaysia in future due to the fact that the nation is going to be coming an Ageing Population by 2030. The retirees wanted to sustain their lifestyle at par or even better compared to their lifestyle before retiring and the Government requires to support the needs of the well beings of the citizen that's growing. However, there are many issues and challenges that the Malaysian need to address in order to have sustainable lifestyle during retirement.

Previous studies have found that Malaysia is subjected to rising life expectancy and falling fertility rates, the perceived inadequacy of current social security provisions, coupled with the added fear that simply more expenditure may not be conducive to the development and growth objectives of the society (Estrada et al.,2017). Study also found that 62% of elderly has lower retirement income compared to their preretirement income and it makes them more vulnerable to unpredictable events and financial conditions. (Vaghefi, Kari, & Talib, 2016).

The objective of this paper is to explore the issues and challenges facing by Malaysians due to fast ageing population. The findings can assist the people and the Government of Malaysia for actions and planning to be taken place in the future.

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Retirement Planning in Malaysia: Issues and Challenges

1. **Malaysian Getting Older at Unprecedented Speed**

The needs for retirement financial planning has become more important when Malaysian is getting older at unprecedented speed. Population ageing defined as relative increase in the number of the elderly and relative decrease in the number of the young. This explain by the longer life expectancy and declining fertility. Declining fertility is the most important demographic source of population aging at an early stage.

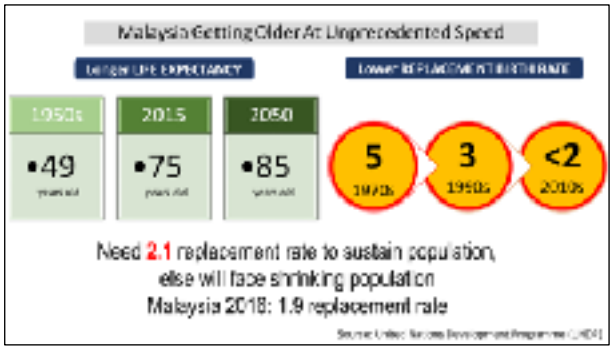

Figure 1: Malaysia Getting Older at Unprecedented Speed

Figure 1 shown that Malaysian expectancy rate has increase significantly from 49 years in 1950 to 85 years in 2050. The lengthening of life expectancy has call for additional funds to be accumulated to finance their old age. This ageing population becoming faster when coupled with lower replacement birth rate which eroded from 5 in 1970 to 1.9 in 2017. Malaysia has reached its replacement rate of 2.0 in 2007 (Figure 2) and has been reducing since then. In fact, Malaysia needs replacement rate to stay at 2.1 to sustain a balance population (UNDP 2017).

The fast ageing of Malaysian as stated in Malaysia Statistic Department in year 2015, 10% population is above 60 years old (Ageing Population), in 2030 is expected 14% of population is above 60 years old (Aged Population) and 2050 there will be 21% of population is above 60 years old (Super Aged Population). This pace of ageing in Malaysia 2015-2030 (15 years) is higher than other countries in the world such as France 1864-1979 (115 years), Sweden 1887-1972 (85 years), USA 1942-2014 (72 years) and Singapore 1998-2017 (19 years).

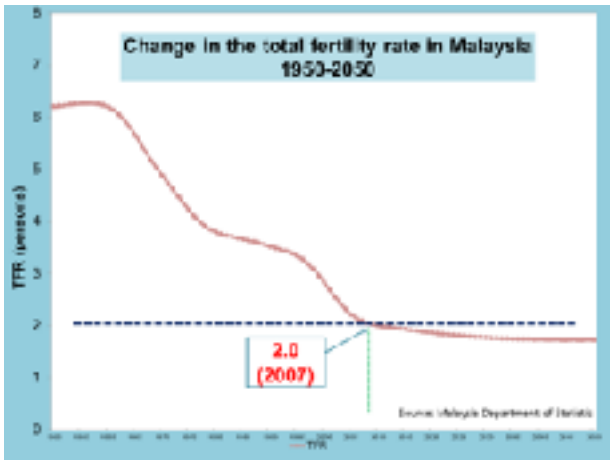

Figure 2: Fertility Rate in Malaysia 1950-2050

2. **Many Malaysian Do Not Have Enough Money to Retire**

Melbourne Mercer Global Pension Index continues to bring together government, industry and academia to provide valuable insights on pension system around the world. The Melbourne Mercer Global Pension Index 2016 recorded Malaysia Retirement & Pension Index was rated C (55.7%), categorized as second last from all categories of A, B+, B, C+C+, C and D. The Index uses 3 sub-indices, adequacy, sustainability and integrity to measure each country's retirement income system against more than 40 indicators. This describes Malaysian income system has some good features but

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also has major risks and/or shortcomings that should be addressed. Without improvement, its efficacy and long-term sustainability can be questioned. This inference, currently many Malaysians do not have enough money to retire and special attention is required in order to improve the financial readiness for retirement among the people in the future.

3. Low Salary among EPF Members Leads to Lower Saving, Affecting Retirement Future

The Central Bank of Malaysia or Bank Negara (2013) and The Employee Provident Fund Malaysia (2016) showed that 88% or 9/10 of EPF contributors earns salary lower than RM5,000 per month. This reflected into low labor income share against GDPI in Malaysia of 33% comparing to neighboring countries such as, 44% Singapore, 54% South Korea, 57% Australia. The optimal level of labor income share against Gross Domestic Production Index (GDPI) is 50%.
The finding showed that majority of EPF members earning lower than RM5,000 per month indicates that, at the age of 60 years old, their saving is estimated at RM480,000, with assumption of life expectancy is 75 years old, total contributions to EPF from individual and employer of 22% from monthly salary. In this scenario, retirement income will be at RM2,666 per-month (inflation not included) and the lifestyle of the EPF members therefore can't be maintained but required to be cut into half compared to lifestyle before retirement.
Eleventh Malaysia Plan 2016-2020 (Economics Planning Unit, 2015) reported there are 2.7 million B40 households with mean monthly household income of RM2,537 in Malaysia in 2014. B40 households refer to households that are at the bottom 40% of income distribution. This low salary will subsequently followed by low saving and inadequacy of retirement financial cash flow.
Making financial situation worse is when income has been stagnant for many Malaysian retirees despite the consumption has been steadily increased, left retirement saving at risk. Figure 3 shows that labor income not so much of changes from year 2004 to 2014 for Malaysian retirees, however there are significant increase in consumptions.
The consumption has increased basically due to inflation effects, increase in foreign currency rate, increase of cost of living, desire to assist adult children or grandchildren financially, the unpredictable economic forces, increase of health care cost, the extended life expectancy and retaining funds for lifetime gifts. All these are the factors that increases the need for more retirement funds in the future.

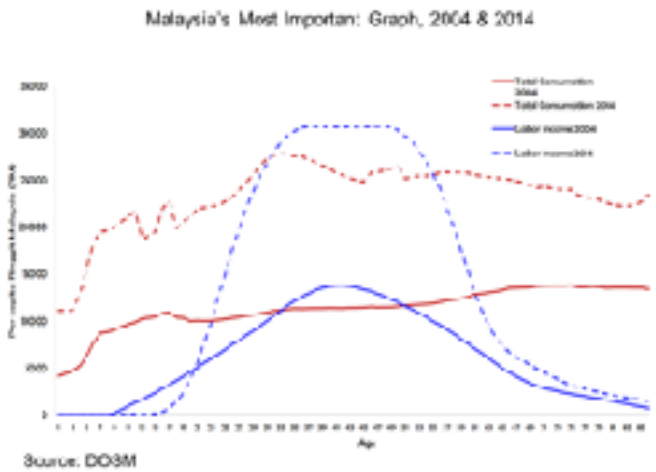

Figure 3: Malaysia Income and Consumption in 2004 and 2014

4. Malaysia have the Highest Household Debts to Income Ratio in the world

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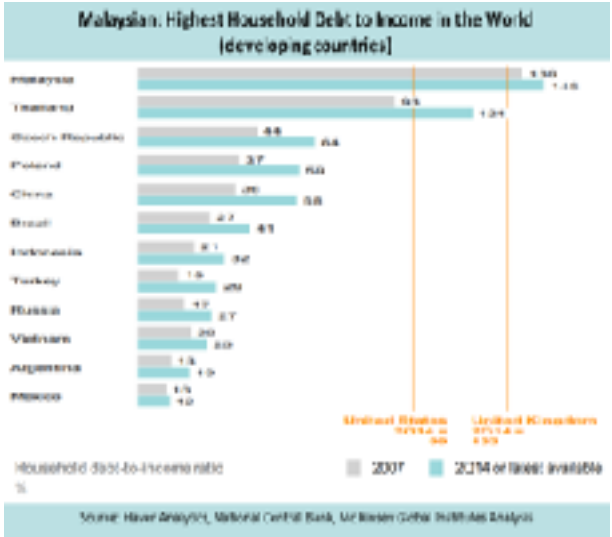

Figure 4: Malaysian have the highest household debt to income ratio in the world (Developing Countries)

On top of this situation, Malaysian was ranked first in the world to have the highest household debt to income ratio (McKinsey, 2015). Malaysia Household Debt to Income Ratio stand high at 146:100. Every 100 income there are 146 Debts. The report mentioned that seven countries have household debt that may be unsustainable are the Netherlands, South Korea, Canada, Sweden, Australia, Thailand and Malaysia is on the top of the list.

High household debt can harm the economy in years. Since the 2008 financial crisis, a great deal of research has been conducted to establish the link between household debt, financial crises, and the severity of recessions. This includes work by (Mian et al., 2017), their work has demonstrated a strong connection between the level of household indebtedness and the magnitude of the decline in consumption during a recession or financial crisis. The rise and fall of household debt affect the magnitude of a recession. Then, after the crisis hit and credit dried up, the decline in consumption was especially sharp as households could no longer borrow and had to make payments on previous debts, often for homes in which their equity has been wiped out.

5. Incongruent Framework to address Malaysian Retirement Planning

Another alarming situation is 62% labor force in Malaysia has no formal retirement planning. Referring to Figure 5, out of 22 Million of total Working Age Population (16-60 years old), there are 1.5 mil (7%) civil servants, 6.8 mil (31%) private sector employee (Employees Provident Fund, EPF active members) and 13.7mil (62%) self-employed and outside labor force (not working).

All these 22 million workforces in Malaysia having their own issues. The first category of 7% civil servants is facing inadequate monthly pensions paid by the government once they retire. Their financial retirement is under-covered because only receiving RM2,100 average monthly pensions, which is very low and insufficient to cover today cost of living. The second category of 31% is private sector employee that mandatory to contribute to EPF and will be able to withdraw the EPF saving when reaching age 55. From EPF records, the EPF active members are facing inadequate retirement saving because only 33% of these active members achieve Basic Savings (saving that is enough to support their living after retirement). The last category of workforce that makes up to 62% (the largest portion) of Malaysia labor force is coming from self-employed and those unemployed. These Malaysian are depending only on personal savings or save money voluntarily for their own retirement. In short, there are 62% of working adults age in Malaysia has no formal social protection programme for their retirement.

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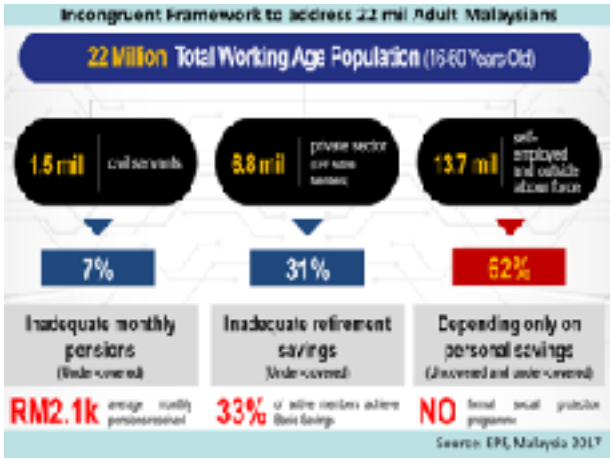

Figure 5: Incongruent Retirement Framework

6. Low Financial Literacy Among Malaysian Adults

According to Standard and Poor Report (2016), only 36% of Malaysian Adults are financial literate as shown in Figure 6. This has ranked Malaysia number 66 over 150 countries surveyed by the report. Without an understanding of basic financial concepts, people are not well equipped to make decisions related to financial management. People who are financially literate have the ability to make informed financial choices regarding saving, investing, borrowing, and more. Financial ignorance carries significant costs. Consumers who fail to understand the concept of interest compounding spend more on transaction fees, run up bigger debts, and incur higher interest rates on loans (Lusardi and Tufano, 2015; Lusardi and de Bassa Scheresberg, 2013). They also end up borrowing more and saving less money (Stango and Zinman, 2009). Meanwhile, the potential benefits of financial literacy are manifold. People with strong financial skills do a better job planning and saving for retirement (Behrman et al., 2012; Lusardi and Mitchell, 2014).

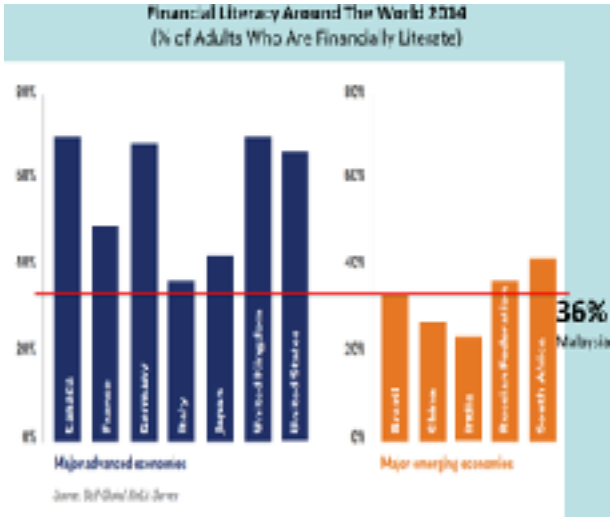

Figure 6: Only 36% of Malaysian Adults are Financial Literate

Financially savvy investors are more likely to diversify risk by spreading funds across several ventures (Abreu and Mendes, 2010). Consequence of low financial literacy in Malaysia reflected to the fact that more than 107,000 Malaysian were declared bankrupt within 6 years (2010-2015) reported by Malaysia Department of Insolvency (2015).

7. Government Expenditures will Increase Significantly

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Ageing population will change the demographic proportion. Working age population will drop and ageing population will increase. This indicates lower productivity, shortage in the labor market (elderly has limited job and work scope) and eventually lower income to the nation. Malaysia productivity as a whole will decrease and government expenditure will increase to support the needs of the citizen's wellbeing especially in 3 main sectors such as healthcare, pension expenditure and social protection.

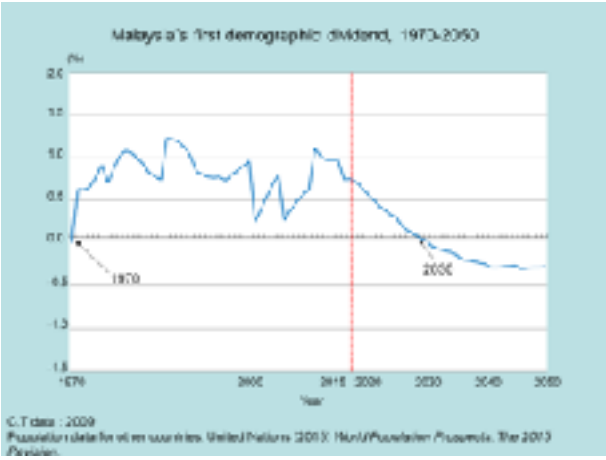

Figure 7: Negative Demographic Dividend

Demographic dividend, as defined by the United Nations Population Fund (UNFP) means the economic growth potential that can result from shifts in a population's age structure, mainly when the share of the working-age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older). In other words, it is a boost in economic productivity that occurs when there are growing numbers of people in the workforce relative to the number of dependents. Malaysia will still have positive dividend estimated until year 2030 (Figure 7).

When Malaysia dividend turns negative, beyond 2030, there will be potential warning on taxpayer revolt threatens public pension system. Working age population will reject to pay taxes supporting retirees because the taxes has becoming very high and they can't bare too high taxes to pay for overloaded pensioners. This is currently happening in Asia for example in Japan. Besides Malaysia, other countries like China, India, Thailand and many other Asian countries are also facing numerous challenges to establish and/or improve their social protection programs. Korea and Taiwan for example are currently facing serious shortage of caregivers for their frail elderly.

Suggestion for Improvement

In the nut shell, the retirement planning is crucial in order to sustain current lifestyle after retirement. The importance of retirement planning is a call in Malaysia due to fast ageing population in the country. Currently, the retirement plans available in Malaysia such as employee provident fund (EPF) and pension scheme is not sufficient in funding the retirees. Studies have shown that the pre-planned accumulated fund by the governing body of the provident funds is insufficient to fund them till death. The evolving economy causes a significant drop in the value of money.
Pensioners are facing insufficient funds or rather unprepared to face retirement and are at the risk of lower standard of living during retirement if they rely solely on EPF(Mazlinda, 2015). A study by (Yin–Fah & Paim, 2010) revealed that retirement is a period off bereavement for those who takes work as their life which last for at least another 20 years, and that the living standard of these retirees decreases upon retirement. According to (Mohd, 2013) if this issue is not dealt with, Malaysia will face poverty among the elderly and shortage in the labor market with the increasing of elderly population.

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This is worsened by the fact that many Malaysians are financially illiterate and generally with no proper retirement savings planning Moorthy et al., (2012). The availability of income sources and potential resources after retirement are important considerations.
Financial education and retirement planning provides an important basis for the development of new human resource policies in higher education and the importance of proper retirement planning, prior to retirement (Lai et al., 2009).
These issues and challenges will be the key input to the sound retirement planning.
Some recommendation actions as way forward are listed as below:
Financial issues among the elderly should be addressed and resolve in many forums set up by the Government of Malaysia such as National Financial Literacy Strategy, Malaysia Social Protection Council (MySPC), National Social Protection Blueprint and consolidated efforts across ministries and agencies.

Spurring the financial literacy among the Malaysian on ageing financial planning as early as possible. Develop financial-planning curriculum for high schools and colleges. Provide simple, user-friendly, easy-to-understand information on retirement savings. Develop an education campaign that includes different messages targeted at different groups: people at risk, young people, low-income people, savers vs. non-savers, ethnic groups, and high/low education levels.

Continuous of Government support and incentives for Private Retirement Scheme (PRS). PRS was approved and introduced by Malaysian government in 2012. PRS is the Pillar III of the World Bank's Pension Conceptual Framework and also known as the Voluntary Personal Pension Scheme. It should be given emphasis and strengthened. This scheme is significantly important as it was proven that forced savings though EPF, which accumulations are insufficient despite the contribution by both the employer and employee plus the minimum yearly dividend of 2.5% (Private Pension Administrator, 2014). The PRS contributions in Malaysia is growing and indirectly showing growing importance of it.

Last but not least is to explore and introduce The Public Pension Plan that are publicly managed or Pillar I of The World Bank's Pension Conceptual Framework into Malaysia Pension Scheme, which currently is not in existence in the country.

Conclusion

Ageing population in Malaysia is facing some alarming issues and challenges due to fast ageing process. The foreseen problem is majority of Malaysian will be old and poor due to factors discussed earlier. The Government of Malaysia is also foreseen to face fiscal challenges in order to financially support the affected group. The good news is Malaysia still have positive demographic dividend for around of 13 years (until 2030). There is still time to plan. Although there is only short window for planning, the people and the Government is urge to addressed the issues and challenges or Malaysia will be heading towards retirement crisis.

Special attention should be given to strengthen the Government functions to plan and execute the new policy on the ageing population issues and challenges through various platforms, forums, blueprints and concerted efforts from various Government agencies. Early education on saving and financial retirement planning should be expose to the Malaysian. Lastly, it is also important for the Government of Malaysia to continue supporting and incentive toward the retirement saving such as PRS and exploring the possibilities of introducing the Public Pension Plans that are publicly managed which is not currently being applied in Malaysia.

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