

**SAVINGS FOR RETIREMENT IN MALAYSIA:
DEMOGRAPHIC AND SOCIAL ASPECTS OF EMPLOYEES**

Abstract

The objective of this study is to investigate the demographic and social aspects of existing and past employees in the attempt to determine whether these aspects may have prevailing effects on their saving decisions for retirement in Malaysia. In this study, a quantitative method was accordingly employed. Among others, the findings on demographic aspect disclose that there is a sign of evidence on the relationship between asset allocation decisions and age in the case of existing employees. Also, the findings on social aspect indicate that there exist considerable influences of peers' effect on employees toward making the pre-retirement withdrawals during employment in a rational manner. Since the awareness on retirement savings among the employees is an equally important issue, increased understanding on the broader perspective of retirement investment influences can benefit many stakeholders in the public and private sectors towards transforming into the positive savings behaviour for retirement planning in Malaysia.

Keywords: demographic; retirement; savings; social

1. INTRODUCTION

In developed countries such as the United States (U.S), millions of people accumulate their retirement wealth via channelling incomes into the Individual Retirement Accounts (IRAs) and 401(k) plans. Meanwhile, in developing Asian economies such as Malaysia, the working population is compulsory to set aside a minimal portion of each monthly salary to be allocated in the Employees Provident Fund (EPF). With that, the employees are assured to some extent that they will have adequate retirement incomes.

Specifically, the EPF provides the financial security in retirement to the elderly population especially among the private and non-pensionable public sector employees in Malaysia. In contrast, considerably large public employees who opt for the government pension plan have no worries on covering the retirement expenses since each pensioner will receive a considerable amount of money in a month that represents half of his or her last drawn salary (Ibrahim, Isa & Ali, 2012). Intentionally, the EPF is established by a shared contribution between employers and employees albeit with different contribution shares in accordance with the yielded wages. Particularly, in the case of averaged employees that yield their monthly wages of RM5,000 and less, they are likely to contribute 11 percent whereas respective employers are obliged to contribute 13 percent that are based on the employees' monthly wages.

Inevitably, the demographic and social aspects contribute to the individuals' commitment in planning for their retirement savings. In term of the demographic aspect, Bassett, Fleming and Rodrigues (1998) utilized the Current Population Survey data in 1993 to examine the use of 401(k) options by the U.S employees. From the findings of Bassett *et al.* (1998), it was revealed that the rise in participation rates is consistent with the increase in employees' ages. In addition, there were disclosures of findings on older employees are likely to contribute more than younger employees and they tend to reach the legally imposed maximum for before-tax contributions while holding the effects of income and job tenure levels to be fixed, respectively (Holden & VanDerhei, 2001b). Furthermore, on the income level, Bassett *et al.* (1998) discovered that the indicator represents the key determinant of participation in an employer-sponsored 401(k) plan. Accordingly, participation rates rise in accordance with income level (Hubbard & Skinner, 1996). As such, participation rates were 81 percent for employees with incomes of at least USD75,000 whereas participation rates were 36 percent for employees with incomes of less than USD15,000 (Bassett *et al.*, 1998).

53 As far as the social influences are concerned, one instance is that the effect of peers can
 54 represent an important factor that influences other people's retirement saving decisions.
 55 Based on the evidence from the City National Investment programme that was aimed to train
 56 shift supervisors to educate the Latino employees on their 401(k) options, it was revealed in
 57 Hansen (1999) that the employees started to become more receptive to the idea of retirement
 58 planning and voluntarily expressed their interests to participate in the 401(k) options since the
 59 information was delivered by a respected person that they acknowledge him or her as a peer.

60 In recent years, the retirement savings have become an equally important concern in
 61 Malaysia. Therefore, this study is aimed at investigating the demographic and social aspects
 62 of existing and past employees in the attempt to determine whether these aspects may have
 63 prevailing effects on the saving decisions for retirement in this country. While the financial
 64 institutions continually offer various products as part of the orchestrated effort for the
 65 Malaysian to develop sound financial strategies for retirement, there remain many of the
 66 Malaysian people with the relatively low ratios of those who plan savings for pre-retirement
 67 and post-retirement as stemmed from the strong adherence to "wait and see" behaviour or
 68 procrastination attitude (Ibrahim *et al.*, 2012). Thus, the push for active participation in
 69 savings towards retirement planning notably among the working population at-large should
 70 not be taken for granted before the consequence of having inadequate retirement incomes
 71 among retirees may inflict the country with severe socioeconomic problems such as poverty
 72 and crime-related activities.

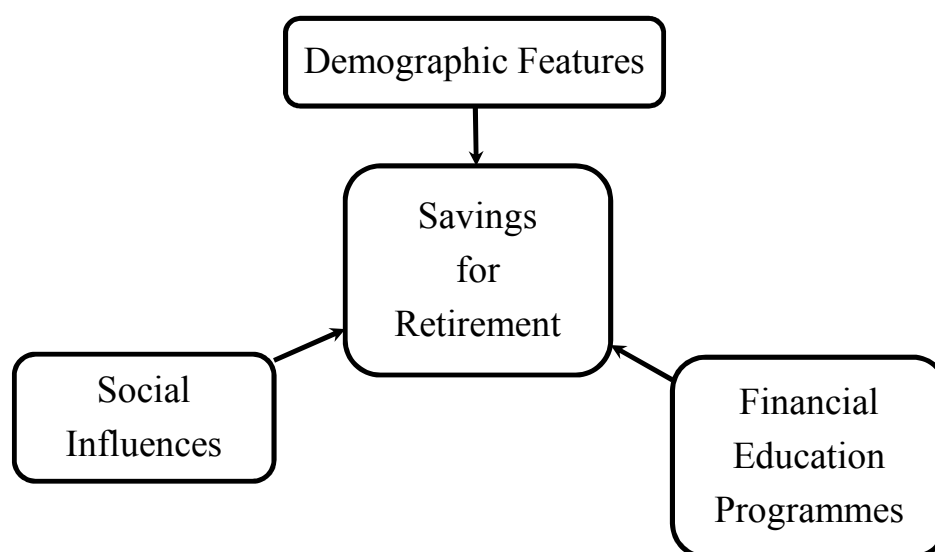
73 The rest of this paper is organized as follow. Section 2 discusses on the used
 74 methodology. While Section 3 reports on the results, Section 4 wraps up with the conclusion
 75 of the study.

76 **2. METHODOLOGY**

77 ***2.1 Theoretical Framework***

78 Figure 1 illustrates the theoretical framework that exhibits the relationship between savings
79 for retirement as the dependent variable and several independent variables; demographic
80 features, social influences and financial education programmes.

81



82

83 Figure 1

84 *Key Factors of an Individual to Participate in the Savings for Retirement*

85 Source: Duflo and Saez (2002); Bailey, Nofsinger and O'Neill (2003)

86

87 The saving decisions for retirement vary greatly by demographic features such as age,
88 gender, education, income, marital status and other socio-economic conditions in various
89 stages of an individual's life (Tin, 2000; Bailey *et al.*, 2003). Furthermore, by socializing
90 with others, people may have the opportunities to receive and digest information on the
91 retirement saving decisions. Apart from that, the socially active people tend to invest in the
92 stock market and 401(k) plan for their future savings more than those of socially inactive
93 persons (Bailey *et al.*, 2003). Also, the effect of peers can represent an important factor that
94 influences other people's saving decisions for retirement. Moreover, the availability of
95 financial education programmes can contribute to inducing individuals' commitment

realistically plan for their retirement savings. In the absence of sufficient knowledge on the retirement savings process, it is expected that the individuals are less likely to be able to make the retirement saving decisions in an optimal manner (Clark & D'Ambrosio, 2002).

2.2 Data and Sampling Method

In this study, a typical individual level analysis is undertaken. Primary data are collected using a self-reported survey. Under a random sampling method, the questionnaires are individually distributed to a total sample of 300 existing and past employee respondents; 250 retirees (or interchangeably known as past employees or even can be loosely termed as older employees) and 50 existing employees (or can be loosely termed as younger employees) particularly from the private sector. Pertaining to the respondents, they are found to come from four different categories namely services, manufacturing, construction and others. By integrating two groups of respondents, potential findings can be accordingly compared.

2.3 Method of Analysis

The data are analysed using a quantitative method. It is employed to collect numerical data, which are measured in the forms of nominal and ordinal scales, in the demographic and social aspects of the respondents. With the data being put in-place orderly, corresponding percentage values can be estimated thereafter.

3. DISCUSSION OF RESULTS

A survey was administered to a total sample of 300 existing and past employee respondents. In the survey, several demographic features were considered. Hence, the results are reported in Table 1.

Table 1

Demographic Features of Combined Existing and Past Employee Respondents

Demography	Characteristics	Frequency	Percentage
Year of Birth	1950 - 1959	220	73.3
	1960 - 1969	30	10.0
	1970 - 1979	8	2.7
	1980 - 1989	28	9.4
	1990 - 1999	14	4.6

Gender	Male	136	45.3
	Female	164	54.7
Ethnicity	Malay	282	94.0
	Chinese	12	4.0
	Hindu	6	2.0
Marital Status	Bachelor	36	12.0
	Married	264	88.0
Educational Status	Primary School	30	10.0
	Lower High School	156	52.0
	Upper High School	55	18.3
	Diploma/Certificate	38	12.7
	Degree	12	4.0
	Extended Degree	9	3.0
Number of Dependent Persons	1 – 3 Persons	149	49.7
	4 – 6 Persons	151	50.3
Occupational Status	Still Working	50	16.7
	Still Working in Retirement	160	53.3
	Not Working in Retirement	90	30.0

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120 Pertaining to year of birth, the elderly respondents with their years of birth lie within
121 1950 - 1959 are found to be the highest group, thus representing about 73 percent of the total
122 sample. In term of gender, female respondents are disclosed to be greater than male
123 respondents with about 55 percent of the total sample. From the table, Malay respondents
124 constitute as the highest ethnic group followed by Chinese and Hindu, accordingly. Further,
125 there are considerably large married respondents over the bachelor respondents in the total
126 sample. On the educational status, over half of the respondents are turned out to be the lower
127 high school graduates (i.e. SRP/PMR/LCE candidates) within the third year of study in the
128 secondary level. Additionally, it is revealed that there is a close tie between the respondents
129 with 1 – 3 dependent persons and those with 4 – 6 dependent persons. While Clark and Pitts
130 (1999) and Gunderson and Luchak (2001) unveiled marital status, number of dependent
131 persons, gender, education level and other demographic characteristics to be associated with
132 certain plan features, the findings of this study align with Dulebohn, Murray and Sun (2000)
133 who discovered that an employee's age, marital status and number of dependent persons to be
134 not related to any type of selected savings plan. One reason is due to the inaccessibility of

detailed data that is foreseen to constitute as a hindrance in establishing potential relationships between those variables. Also, many respondents are found to belong in the elderly and retiree-typed respondents. Despite that, over half of the past employee respondents, i.e. 160 of 250 individuals, decided with various reasons to resume working in retirement via rejoining in the labour force. In this regard, one feasible reason is that inadequate financial resources may result in decreasing the retirement living standards relative to the pre-retirement living standards, thus necessitating him or her to make a re-entry move to the labour force (Li, Montalto & Geistfeld, 1996).

Separately, the analysis on 250 past employee respondents was duly performed. Correspondingly, associated results are shown in Table 2.

Table 2
Demographic Features of Past Employee Respondents

Demography	Characteristics	Frequency	Percentage
Compulsory Retirement Age Opted	55 Years Old	45	18.0
	56 Years Old	55	22.0
	58 Years Old	65	26.0
	60 Years Old	85	34.0
Total EPF Savings at the Compulsory Retirement	< RM50,000	160	64.0
	RM50,000 – RM100,000	30	12.0
	> RM500,000	60	24.0
Pre-Retirement Withdrawals Opted (in term of ‘Yes’)	55-Years (Flexible) Withdrawal	190	76.0
	50-Years Withdrawal	65	26.0
	Housing Withdrawal	60	24.0
	Health Withdrawal	30	12.0
	Education Withdrawal	60	24.0
Total Savings Other Than EPF on 31 Dec 2014	< RM20,000	100	40.0
	RM40,001 – RM60,000	90	36.0
	> RM140,000	60	24.0
Still Working in Retirement	Yes	160	64.0
	No	90	36.0
Job Sub-sector	Service	100	62.5
	Others	60	37.5
Job Category	Supporting Staff	100	62.5
	Professional Staff	60	37.5
Monthly Gross Income	RM1,001 – RM3,000	100	62.5
	> RM10,000	60	37.5

As far as the compulsory retirement age options are concerned, the majority of respondents, i.e. 34 percent of the total sample, who have already reached at the peak of their careers and must go into retirement when finally reaching 60 years old. With respect to the total EPF savings, many of the respondents are unfolded to have less than RM50,000 notably for covering the retirement expenses being measured at the compulsory retirement. In terms of the pre-retirement withdrawals, many of respondents are revealed to make flexible withdrawals when they were 55 years old (76 percent) and 50 years old (26 percent), respectively, followed by various other withdrawals such as housing (24 percent), health (12 percent) and education (24 percent). Because of the relatively easy access to various pre-retirement withdrawals during the employment, this would divert the main objective of a retirement savings fund that is to provide adequate retirement incomes to elderly workers (Asher, 2001). By making pre-retirement withdrawals, this would render an elderly worker to being exposed to the risk of having an inadequate income at retirement if the amount saved in the fund is carelessly managed (Yusuf, Ali & Yusoff, 2014). To financially support the retirement with non-EPF savings, many respondents are found to possess total savings of less RM20,000 and within RM40,001 – RM60,000 level, respectively, in the conventional banks, Tabung Haji and insurance-related schemes. Apart from that, it is turned out that 160 of 250 elderly respondents are still working in retirement to cover their daily expenses and living needs. In specific, 160 elderly respondents in total are associated with the private employees both in the service and other commercial types of organizations, accordingly. In term of the job category, many of elderly respondents are found to assume the roles of supporting personnel and earnestly yield the incomes of within RM1,001 – RM3,000 level in a month, respectively.

Furthermore, Table 3 reports the results of 50 existing employee respondents who currently render their services in respective organizations from the private sector. In the table,

60 percent of the respondents are revealed to be working in the service-related companies whereas the rest of respondents are seen to be working in manufacturing and construction-typed companies, accordingly. In particular, over half of the respondents are attributed to the groups of supporting staff greater than those of labour and professional staff in private companies, respectively. In term of the monthly gross income, over half of respondents are found to earn less than RM1,000 in a month. In the table, many respondents are disclosed to recently become the EPF members between 2000 and 2009. Thus, this implies that the EPF member respondents are mainly comprised of young working persons.

Table 3
Demographic Features of Existing Employee Respondents

Demography	Characteristics	Frequency	Percentage
Job	Service	30	60.0
Sub-sector	Manufacturing	15	30.0
	Construction	5	10.0
Job Category	Labour	20	40.0
	Supporting Staff	26	52.0
	Professional Staff	4	8.0
Monthly Gross Income	< RM1,000	28	56.0
	RM1,001 – RM3,000	10	20.0
	RM3,001 – RM5,000	10	20.0
	RM5,001 – RM7,000	2	4.0
Year to become EPF Member	1990 - 1999	4	8.0
	2000 - 2009	29	58.0
	2010 - 2015	17	34.0
Compulsory Retirement	55 Years Old	45	90.0
Year Options	56 Years Old	2	4.0
	60 Years Old	3	6.0
Total EPF Savings on 31 Dec 2014	< RM50,000	42	84.0
	RM50,001 – RM100,000	2	4.0
	RM250,001 – RM300,000	6	12.0
Pre-Retirement Withdrawals Opted (in term of ‘Yes’)	Health Withdrawal	6	12.0
	Investment Withdrawal	5	10.0
	Housing Withdrawal	3	6.0
Total Savings Other Than EPF on 31 Dec 2014	< RM20,000	40	80.0
	RM20,001 – RM40,000	4	8.0
	RM60,001 – RM80,000	6	12.0

On the compulsory retirement year options, 90 percent of the total sample chose 55 years old as the preferable age to declare their official exit from the labour force. Further,

over 80 percent of the respondents are unveiled to earn less than RM50,000 in the total EPF savings as of December 2014. On the pre-retirement withdrawals as can be seen in Table 3, many of them are found to make health withdrawal (12 percent) followed by other withdrawals such as investment (10 percent) and housing (six percent). In this respect, there prevails the evidence on the relationship between asset allocation decisions and an employee's age. Younger employees are likely to allocate some portions of their accounts and contributions to unit trust investment funds whereas older employees tend to allocate more portions of their accounts and contributions to fixed-income assets (e.g. housing), securities and bonds (Holden & VanDerhei, 2001a). To financially support the post-retirement with non-EPF savings, 80 percent of the respondents are found to have total savings of less than RM20,000 being invested in various banks, i.e. both conventional and Tabung Haji and insurance-related schemes, respectively.

Moreover, various views were gathered thereafter from 300 existing and past employee respondents on the social aspects and financial education programmes associated with the EPF scheme during the survey. The results are duly shown in Table 4.

Table 4

Views from Respondents on Social Aspects and Financial Programmes of the EPF Scheme

Statement	Choices	Frequency	Percentage
The Financial Standing of One's EPF Savings Scheme?	At the Right Amount	113	37.7
	Too Small	146	48.7
	Not Sure	41	13.6
Satisfied with the Payout of EPF Dividends?	Yes	217	72.3
	No	43	14.3
	Not Sure	40	13.4
Is the EPF Contribution Important?	Yes	294	98.0
	No	6	2.0
The Effectiveness of Various EPF Pre-Retirement Withdrawals?	Yes	261	87.0
	No	36	12.0
	Not Sure	3	1.0
Is the EPF Alone Sufficient to Cover the Retirement Expenses?	Yes	5	1.7
	No	251	83.7
	Not Sure	44	14.6
Are the Total Savings (Including the EPF) Sufficient to Cover	Yes	71	23.7
	No	155	51.6
	Not Sure	74	24.7

the Retirement Expenses?

What are the Estimated	RM10,000 – RM50,000	38	12.7
Total Savings	RM50,001 – RM100,000	58	19.3
that Adequate to Cover	RM100,001 – RM500,000	142	47.3
the Retirement Expenses?	> RM1,000,000	62	20.7

203

204 Concerning on the overall performance of EPF savings scheme, a major proportion of
205 respondents, i.e. about half of the total sample, are found to reach the consensus that their
206 total EPF savings were relatively small to financially support their retirement expenses. This
207 is followed by about 38 percent of the respondents who claimed that they have ample EPF
208 savings in possession to sufficiently cover their post-retirement expenses. Yet, the remaining
209 share with about 14 percent from the respondents is still unsure on the amount saved in the
210 fund is adequately cover them for living in retirement. Thus, insufficient knowledge on the
211 savings for retirement, which can be learnt from the exposure to financial education
212 programmes, will deter the individuals to make any optimal decision regarding the retirement
213 savings (Clark & D'Ambrosio, 2002). On the yearly payout of EPF dividends, many
214 respondents, i.e. about 72 percent of the total sample, are found to be satisfied with the
215 earnings on the annual basis since it is commonly considered as a 'safe' investment. While
216 the EPF has been blamed for generating unattractive returns in recent years, there is very low
217 percentage of members who make the investment withdrawal during the employment albeit
218 many of them remain to be fearful of losing the EPF contributions if they were to divert to
219 unit trust investment in hoping to get more competitive returns elsewhere (Ibrahim *et al.*,
220 2012). Further, 98 percent of the respondents are found to be in the position to support for the
221 importance of EPF contribution for an elderly retired person to cover his or her expenses
222 throughout the golden years. In addition, 87 percent of the respondents are seen to be in
223 favour of the availability of various EPF pre-retirement withdrawals in-place. With
224 considerable influences of peers' effect, some socially active persons may capitalize on the
225 chance to carefully think on the benefits and shortcomings of particular plans, thus

facilitating them to make retirement savings in a rational manner (Duflo & Saez, 2002). Although the availability of pre-retirement withdrawals help to reduce the burden of purchasing a house and due to other feasible reasons, this would lead to reducing the total accumulation amount saved in the fund upon reaching the retirement age (Yusuf *et al.*, 2014). When examining funds to cover the post-retirement expenses, considerably low respondents are turned out to assert that both the EPF alone and total savings (including the EPF) are adequate to cover those expenses. On the contrary, the majority of the respondents are found to strongly oppose those two statements. As a whole, many respondents are seen to believe that the estimated total savings of RM100,001 – RM500,000 were conceivably adequate to cover the retirement expenses.

4. CONCLUSION

Many Asian countries, including Malaysia, have experienced rapidly ageing populations over the last four decades (United Nations, 2012). Furthermore, the demographic trends suggest that women are likely to live longer than men and women have the tendency to face higher risk of poverty in retirement (Bernasek & Shwiff, 2001). Undisputedly, the awareness on retirement savings is an equally important concern to the working population in the government and private sectors as well as self-employed. Pertaining to the saving decisions for retirement, there are many influences on employees that positively induce them to participate in the EPF scheme in which the scope is mainly revolved on the demographic features, social influences and financial education programmes. Therefore, it is expected that increased understanding on the broader perspective of retirement investment influences can benefit many stakeholders in the public and private sectors namely employees, employers, plan sponsors and researchers alike towards transforming into the positive savings behaviour for retirement in Malaysia.

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