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Alternative Retirement Schemes in Malaysia: Way Forward for a Sustainable and Comprehensive Coverage for All Community Level

[1]Nik Hazimi Mohammed Foziah, [2]Puspa Liza Ghazali, [1]Mustafa Mamat and [2]Fauzilah Salleh

[1]Faculty of Informatics and Computing,
Universiti Sultan Zainal Abidin, 22200 Besut, Terengganu, Malaysia
[2]Faculty of Economic and Management Sciences,
Universiti Sultan Zainal Abidin. 21300 Kuala Nerus, Malaysia

Abstract: Malaysia country now towards an ageing population, in which exposed to the longevity risk. People in Malaysia still lack awareness on preparing for their retirement. The mainstream retirement scheme, Employees Provident Fund in Malaysia has reported inadequate to sustain the elderly after working age. Therefore, the study aims to examine the alternative options available to the public to maximize their retirement incomes. The study found that the existing pension schemes still lack efficiency regarding investment, benefits allocation and do not provide coverage to all level of community members, in particular for those in the informal sector. Thus, the authority needs to revise the retirement system to keep elderly out of poverty line.

Key words: Retirement System · Pension Schemes · Annuity · Private Retirement Scheme

INTRODUCTION

Malaysia has developed an excellent healthcare system and advanced facilities to the public which improved the rate of healthiness among the community in Malaysia. In other sides, Malaysia now is experiencing a longevity risk, as what happen in other developed countries. Statistics have shown that for life expectancy at age 65 years, males in Malaysia were expected to live for another 15 years and females 17 years [1]. Furthermore, the total of the population at age 65 age and above in 2014, was 5.6% from total Malaysian population and increased to 5.8% in 2015. This figure is estimated to be 6% in 2016 out of the total population, which is nearly reached 7% of the ageing country [2].

On top of the ageing issue, people in Malaysia still lack awareness to think about their retirement saving preparedness [3]. Furthermore, about 70% of the 54-year-old EPF members have less than RM50,000 in their account [4] Li, Montalto and Geistfeld; Moore and Mitchell; Yuh, Montalto and Hanna; Kim, Hanna and Chen [5-8] have pointed out the inadequacy of wealth saving by the retirees to live in the retirement era. It is alarming issues to raise awareness among Malaysian workforces and take attention by the authorities to cope with the potential of poverty among elderly in future.

In light of these issues, it can be an intriguing part to examine the alternative retirement savings options in Malaysia. Thus, this study aims to analyze the existing retirement schemes as an alternative to the private sectors to provide a sustainable and adequacy of pension's benefits to their retirement in futures. Then the study will propose the optimal features to be included in Malaysian retirement system to enhance the existing plans and become the guideline to the prospect retirees, especially for young workers to early set up their retirement goals to keep their welfare after retirement.

As retirement systems adopted in the world varies in designs, the primary classification given is either defined benefit or defined contribution [9]. In the defined benefit plan, provides the employees with pension benefit by taking consideration of years of services and most important things is the salary or wages. While the latter plan refers to the join regular contribution made by the employer and employees to the retirement funds. Many countries nowadays have adopted these

Corresponding Author: Puspa Liza Ghazali, Faculty of Economic and Management Sciences,
Universiti Sultan ZainalAbidin, 21300 Kuala Nerus, Malaysia.

three tier pension or retirement income systems in which comprises of social security, employment-based pensions and individual savings [10]. In fact, the major system of retirement adopted in Malaysia can be only classified as the two-tier pension system, which consists of Employee Provident Funds (EPF) and pension's scheme for the government servant. Both of the schemes can be known as the employment-based system. Statistically found that in Malaysia only 6.2% of labor force cover by government pension scheme and 52% of them cover by EPF, while another 42% of Malaysia's labor force is not covered by a retirement scheme [11]. As a developing country, the retirement system in Malaysia should have incorporated multiple tiers system so that full replacement of retirement income can be achieved [12]. The minimum of wealth-need ratio projections is 69% to be adequately prepared for retirement [13]. Furthermore, Malaysia is still left behind by other countries in the same class. As we can see Chile, Brazil, China and India are listed in a top 10 countries, have a good retirement system in the world [14]. In facts, the low-income and middle-income earners in Malaysia are facing a serious problem in the adequacy of retirement resources and savings [15]. Moreover, retirement incomes adequacy became a major problem for the EPF due to pre-withdrawal provisions and failed to maintain high investment returns [16].

As mainstream retirement scheme in Malaysia, EPF needs to reform the country's central pension pillar from merely retirement savings investment fund to a fully-fledged pension fund, in which at least offers some minimum annuities and if possible change to the non-defined contribution scheme [11]. Asher [25] has suggested to reconstruction the Malaysia's pension system through a combination of parametric and systemic reforms of individual schemes, which then links the social pensions with formal pension schemes likes EPF.

Therefore, it is vital effort for individual to play their roles to maximize their retirement income via alternative retirement schemes. Thus, the study examines the existing schemes in Malaysia concer ning their sustainable and types of benefit provided by the schemes.

Analysis on Existing Annuity Scheme in Malaysia

Private Retirement Scheme: Private Retirement Scheme (PRS) came into advent in Malaysia in 2012. The purpose of PRS is to provide an alternative retirement savings tool for employees especially for those in the informal sector to enhance their accumulated retirement savings. It is considered as Pillar 3 retirement system as it designed as a voluntary based long-term investment. The PRS will be monitored by the Securities Commission Malaysia and have been conducted by eight financial institutions in Malaysia.

- AmInvestment Management SdnBhd
- American International Assurance Bhd
- CIMB-Principal Asset Management Bhd
- Hwang Investment Management Bhd
- ING Funds Bhd
- Manulife Unit Trust Bhd
- Public Mutual Bhd
  RHB Investment Management SdnBhd

It is a convenience to join the scheme, as the PRS providers will help individual to manage the allocation funds in a growth fund, moderate fund and conservative fund, depending the age of contributors. However, the individual also can decide on which type of funds they want. On top of that, people can only withdraw their savings upon reaching the retirement age of 55 years old. Only 30% of the funds would be available for pre-retirement withdrawal which subjects to the tax penalty of 8%.

Since the inception of the PRS in Malaysia, only 251,000 members have joined the scheme recorded by Security Commission as at December of 2015. According to the given figure, it depicts that the public demands towards PRS can be considered as at low level, by almost 2% of the working population, as the working people in Malaysia about 14.15 million people [17]. Since the total participants are not even reaching 10% of the population, it shows that the demand towards the PRS is not depicting a rigorous trend in Malaysia. There would probably the model of PRS available in this country do not attract to the public, or maybe lack of public awareness towards the scheme. In addition, the expert admits that the demands towards PRS schemes by Malaysian investors have sometimes refused to join the schemes as they are uncertain return on investments [18]. It is subjective since PRS just introduced in 5 years and there is still a lack of historical performance regarding their dividend and investment profits. Other than that, the PRS is not appropriate to serve people in the self-employed workforce, as the majority of them comes from low-income earners likes farmers, fishermen and small entrepreneurs. Therefore, it is needed to revise the PRS mechanism, so that increase the coverage by having a minimal contribution and convenience to deposit the fund.

Deferred Annuity Scheme: In general, an annuity is a contract offered by insurance and takaful operators to provide a stream of income in exchange for lump sum

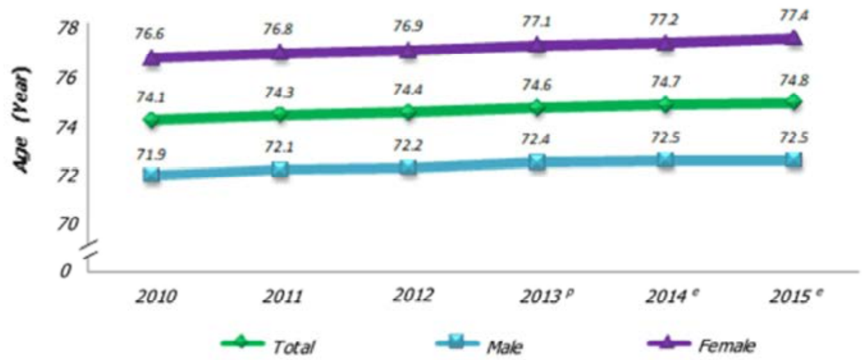

Fig. 1: Life expectancy at birth, Malaysian, 2010-2015
Sources: Department of Statistics Malaysia, 2015.

payment. The income payment can be received in a monthly basis, every three months, six months, or once a year. In order to participate into the annuity scheme, the annuitant needs to make a certain contribution amount to the annuity contract provider, which can be a lump-sum payment or in regular basis likes monthly contribution to the scheme during accumulation period. The benefits of annuity will receive until the death of participant and no more benefits given to their beneficiaries, which would differ from Malaysian government pension scheme that the pension benefits will be given to the spouse or beneficiaries. Many of annuity contract offered in Malaysia are deferred annuity, which means the income stream will receive one year later from the purchased date.

Accordingly, in the accumulation period the participants will make contribution payment to the scheme in getting the annuity payment during retirement age. If the participant died before reaching retirement age, all the contribution amount plus the investment profit will be given to the beneficiaries of the participant.

In the deferrement period, there will be no annuity payment given to participant, and the regular contribution payment to the scheme will be stopped. If the participant died during this period, all the contribution amounts and profit from investment will be given to the beneficiaries.

While in the deccumulation period, the annuity benefits payment will start to give to the participant of the scheme, basically in monthy basis of payment. After the death of the participant, then the annuity payment will be stopped and the contract consider terminated. Let say participant died after one year received the annuity payment, the rest of the contributions will be entitled to the annuity provider and no payment will be given to the participant's beneficiaries.

Previously, EPF had introduced the so-called annuity scheme in 2000 and received great responsed from their members. The scheme was given to the takaful operators and insurance company due to no expertise in EPF to handle the annuity case. There were two options to subscribe the scheme. First, the EPF member can buy the product before reaching age 55 and get the annuity payment when reaching age 55. Second, the EPF annuity can purchase between the ages of 55 to 70 and get the benefit after one month from the date of purchased. As the monthly income received for one unit purchased is RM100, if the members want to receive their income payment of RM1,000, so they need to multiple the unit purchased by ten times. If the price of one unit is RM0.50, then they will pay for RM50 per month following the schedule of payment. If the members died before reaching age 55, then their heirs will get the monthly income payment for ten years. If they survive up to 55, then they will receive the monthly income payment for ten years. However, the EPF annuity was banned the year after since the concept applied was for protection from death coverage and permanent disability [19].

Basically, people who participate in the scheme will receive death benefit before the retirement age, or get the benefit of monthly income payment when to retire. However the scheme offered a high price and not all people afford to purchase the product, thus limit the individual pension coverage.

EPF Annuity Scheme: Previously, EPF had introduced the so-called annuity scheme in 2000 and received great response from their members. The scheme was given to the takaful operators and insurance company due to no expertise in EPF to handle the annuity case. There were two options to subscribe the scheme. First, the EPF member can buy the product before reaching age 55 and get the annuity payment when reaching age 55. Second, the EPF annuity can purchase between the ages of 55 to 70 and get the benefit the after one month after the purchased. As the monthly income received for one unit purchased is RM100, if the members want to receive their income payment of RM1,000, so they need to multiple the unit purchased by ten times. If the price of one unit is RM0.50, then they will pay for RM50 per month following the schedule of payment. If the members died before reaching age 55, then their heirs will get the monthly income payment for ten years. If they survive up to 55, then they will receive the monthly income payment for ten years. However, the EPF annuity was banned the year after since the concept applied was for protection from death coverage and permanent disability [19].

Malaysia Retirement Savings Scheme: Following the budgets 2010 announced by Prime Minister Datuk Seri Najib Tun Razak, the 1Malaysia Retirement Savings scheme was introduced by Malaysian government in 3 January 2010 collaborated with EPF institution as to ensure the self-employed workforces and individuals without a fixed income stream to save for their retirement. The scheme has designed to encourage the people likes farmers, fishermen, petty traders, taxi drivers and housewives to voluntarily contribute into the scheme based on their budget, which can be as minimum RM50 and not necessarily done by every month. Since its inception, about 66,000 contributors have joined into the scheme[20].

Accordingly, to increase the number of participants, the government has increased its contribution from 5% to 10% or from a maximum of RM60 to RM120 per year employee provident fund [21].

The available retirement schemes are still not practical to solve the problems of income retirement adequacy and individual pension coverage. Statistics showed that life expectancy of Malaysian in 2015 is estimated around 75 years old for both male and female (Figure 1).

In this case, the monthly income streams should maintain for at least 20 years after retirement. However, from 2010 to 2015, the pattern of life expectancies show a slight increment through the years, which means the retirement savings should be better prepared for more than 20 years.

Although both PRS and Deferred Annuity Scheme are still not well-demanded by the public, as a result failed to provide a comprehensive coverage within the population, especially for self-employed group (Wolf, 2013). Therefore, to guarantee retirement income adequacy among the elderly, the alternative retirement schemes should provide a feasible investment return in attracting people to join the schemes. The structure of the schemes also need to revise in widening their coverage for not only high- and middle-income earners, but low-income to join the scheme, as most of the informal sectors come from low-income earners.

DISCUSSION AND RECOMMENDATION

Malaysia has taken a serious step to overcome the issues of income inadequacy among reitrees by providing a few alternatives retirement savings besides the mandatory schemes likes EPF and government pensions scheme. Malaysian government has also expressed its sensitivity by giving incentives for those participating into the schemes. As for example the PRS scheme, the government offered a tax reliefup to RM3000 per annum, and RM500 one-off contribution by the government for youth incentive as an encouragement for saving in the early age [22]. Accordingly, pursuant to the budget 2017, the youth incentive was enhanced by RM1,000 in 2017, the youth incentive were increased to RM1,000 by the government.

Although both PRS and Deferred Annuity Scheme are still not well-demanded by the public, as a result failed to provide a comprehensive coverage within the population, especially for self-employed group [23]. Therefore, to guarantee retirement income adequacy among the elderly, the alternative retirement schemes should provide a feasible investment return in attracting people to join the schemes. The structure of the schemes also need to revise in widening their coverage for not only high- and middle-income earners, but low-income to join the scheme, as most of the informal sectors come from low-income earners.

In conjunctin to this, the 1Malaysia Retirement Savings scheme provided by the Malaysian government is actually to cater the problem of retirement income inadequacy amonginformal sector workforces especially for low-income earners category likes farmers, fishermen and petty traders. It is one of the government efforts to create an independent society and reduce the number of dependency among elderly towards the Social Welfare Department of Malaysia’s programme allocation in the future.The early incentive of 5% is upgraded to 10% in order encourage those people to start saving into the scheme. However, the savings mechanism is not systematic as participant voluntarily contribute to the scheme from minimum RM50 and not compulsory to commit the contribution for every month. Therefore, it is just a kick start and not guaranteed for financial freedom in the retirement age.

The available retirement schemes are still not practical to solve the problems of income retirement adequacy and individual pension coverage. Statistics showed that life expectancy of Malaysian in 2015 is estimated around 75 years old for both male and female (Figure 2).

In this case, the monthly income streams should maintain for at least 20 years after retirement. However, from 2010 to 2015, the pattern of life expectancies show a slight increment through the years, which means the retirement savings should be better prepared for more than 20 years.

As mainstream retirement scheme in Malaysia, EPF needs to reform the country's central pension pillar from merely retirement savings investment fund to a fully-fledged pension fund, in which at least offers some minimum annuities, and if possible change to the non-defined contribution scheme [24]. Asher [25] has suggested to reconstruction the Malaysia's pension system through a combination of parametric and systemic reforms of individual schemes, which then links the social pensions with formal pension schemes likes EPF.

CONCLUSION

In developing a viable pension system and provide a great social protection before getting ageing country, Malaysia has established a new regulatory framework for the voluntary basis of retirement saving, named as Private Retirement Scheme (PRS) in 2011. Furthermore, Malaysian workers also have the opportunity to get additional retirement savings through the Deferred Annuity Scheme, as their monthly income streams during retirement. In 2000, EPF attempted to introduce EPF annuity scheme but was banned.

Although the existing schemes also have their weaknesses. Both PRS and annuity schemes still cannot facilitate most of the population in Malaysia. Retirees need to have a large budget before paying to the annuity scheme. However, 70% of the EPF members retired under RM50, 000 and 50% of them not even having RM20,000 in their EPF account. While the PRS is more practical for those in middle- and high-income earners, but not for the low-income earner. This is important for authorities to pay attention to the low-income earner's group, as most of them comprise of self-employed people with no mandatory retirement scheme, likes farmers, fishermen and small entrepreneurs. Besides that, the main reasons of why people hesitate to join the PRS is because the reliability of the product itself especially in term of their investment performance.

Therefore it is consensus to propose Malaysia authorities especially EPF, to structure again their form of retirement scheme order to provide a better coverage and benefits to the retirees. In future research, it is crucial to investigate and construct a practical annuity scheme so that can provide the retirees with income streams for their entire life because most of the Malaysian elderly do not well-managed their retirement savings.

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