# **Malaysian Savings Behavior towards Retirement Planning**

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**Abstract.** Awareness in retirement is still a vague issue among society in Malaysia. There are a lot of retirement products being introduced by financial institutions and yet the initiatives to save for retirement are stepsided by many. Since most think that companies and government retirement plan should be enough to cover for golden years expenses. Nevertheless, many studies have shown that money saved in companies and government pension plan may not be adequate for future consumption. Therefore, this paper, subjectively, aimed at discussion on retirement issues scenario in Malaysia, attitudes towards investment, savings behavior towards retirement among the populace and current issues in Malaysia. As a result, a theoretical framework is developed to illustrate the relationship between demographic, financial education programmes, social influences, and personal retirement savings behavior.

Keywords: Retirement issues, retirement plan, Malaysia

#### 1. Introduction

In developed countries, millions of people rely on self-directed investment accounts such as IRAs and 401k for their retirement income. In the US, half of its total retirement assets are held in accounts such IRAs and 401k. Some workers seek financial experts to allocate their savings in retirement accounts but most will decide on their own as where they should save their money for retirement. Majority of the workers has no financial management and face losing their savings on non-performing financial instruments. Because of this, some of them are pessimistic about their own ability to make a good investment decision.

On the same issue, in Malaysia, current government policy makes it compulsory for all its working population to set a minimum amount of their salary into the Employee Provident Fund (EPF). This policy is a very important to make sure that employees have enough savings to cover for living maintenance after retirement.

## 2. The Malaysian Scenario

In Malaysia, those working in the public sectors mostly opt for Government pension plan and some may opt for Employees Provident Fund (EPF) plan. Majority of the workers who chose the Government pension plan has no worries on post retirement expenses as Government pensioners will receive monthly pension which is half of their last drawn salary. On the other hand, those in the private sectors are mandated to save in the Employee Provident Fund. They will have to put 20% of their monthly income credited to their EPF accounts. From this, the employer contributes 12% and the employee contributes 8%. Most will feel that their retirement future is safeguarded just by looking at the figure-1/5 of the salary. They fail to see beyond the figure depicted to them. The big question is whether the amount saved in the EPF account will be sufficient to cushion the pensioners throughout their golden years.

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Many would blame EPF for not giving good returns for the past few year, but should all the faults be shouldered on EPF? A few years since its inception, EPF put in a lot of effort to ascertain that their members will have enough savings for retirement. They have introduced various schemes which include preretirement benefits, from the death benefit scheme introduced in 1977 to the incapacitation benefit scheme [1]: mortgage housing withdrawal and contributions withdrawal for unit trust investment being the most recent schemes introduced the last few years.

EPF hopes its members are able to make sound investment decisions in getting more returns for their EPF contributions. However, with the attractiveness of the refined scheme on withdrawals for investment, the percentage of members who have taken this opportunity is still not encouraging. Most members are still fearful of losing their EPF contributions if they were to divert to unit trust investment.

#### 3. Attitudes toward Investment

No doubt most members are deliberate in their decision to let EPF decide on what and where to invest their contributions. This prevailing default behavior on investment decisions is partly due to a few factors [2]:

- Most members are not willing to deal with the complexity and difficulty of making investment choices.
- Members who are aware of the importance of making investment choices may delay or procrastinate their decision.
- Members are simply passive in making investment choices.
- Some may feel that the future is still far ahead.
- A number of members do not think of ageing, retirement and dying as part of immediate issues.

By turning a blind eye to the importance of making good investment choices, the members are actually getting relatively low investment returns since EPF mostly invests in low or middle risk investment options. Introspectively, their contributions at the point of retirement may not be enough to cover their living maintenance in the golden years. As mentioned earlier, members can simply run out of money within 3 years. This has become an increasing concern to policy makers. Due to this fact alone, the policy makers made a few adjustments on the EPF scheme (mentioned earlier) as to enable the members to make a good investment decision so as to avoid the "penniless" situation. Hence, there is a need to look at the savings behaviour towards retirement savings among us.

# 4. Savings Behaviour on Retirement

Retirement Savings is one issue of growing concern everywhere. Retirement may seem to be far away in the future but it needs planning now to make sure that retirees have enough to support themselves. Some of the basic needs of retirees will include a place to live, money to cater for day-to-day expenses, medical bills and emergencies. The one taboo thing retirees need to avoid is having outstanding loans by the time they retire from the workforce. This is all the more reason why the world population needs to plan early for their retirement.

Apparently, there is little individual involvement in the process of savings for the old age or retirement. Every public policy encourages people to save in order to accumulate wealth for their retirement. Most people save based on their expected lifetime income. Nevertheless, a majority of households do not save enough for retirement to maintain their pre-retirement standard of living. Those who plan enough for retirement normally are highly educated and from the high income bracket [11]. Ignorant in retirement decision can lead to individuals having difficulty to understand why planning for retirement is imperative importance. Learning is a process: knowledge is created through experience-experiential learning theory [9]. Consequently, the elements of involvement in retirement savings decision are based on the experiential learning cycle. People learn from experience and when there is lack of experience, learning is likely to succumb to failures [8] This is to suggest that in order to be able to plan successfully for retirement savings, individuals have to be involved actively in the decision making process. If the individuals are unwilling to get in involved, knowledge attainment on retirement planning will not be enough.

#### 5. Issues

Gradually, the retirement savings become a growing concern among the Malaysian. Through this, the financial institutions take up the opportunity by offering various products in an encouragement for the society to save for their retirement. Nonetheless, there are still a majority of the population still holding on to "wait and see" behaviour diminishing the effort of policy makers and financial institutions when the percentage of those planning for pre-retirement and post-retirement is still minimal. Consequently, this procrastination attitude will pose socioeconomic problems to Malaysia. These socioeconomic problems could include homelessness, and a higher crime rate, just to name a few. The chain reaction to these problems can be endless. Therefore, retirement savings must be given top priority before the consequence of not having enough retirement money infects Malaysia with more persistent problems in the future.

Malaysian employees should be educated on the importance of retirement savings if not they will be running out of money in a couple of years once they receive the lump sum amount upon retirement. Will then the retirement savings issues become top notch topic among us? Who should be blamed if this situation persists? Is it the savings behaviour of the workforce or the regulators?

#### 6. The Theoretical Framework

Figure 1 set out the theoretical framework which illustrates the relationship between personal retirement savings behaviour is the dependent variable and the independent variables such as demographic, financial education programs, and social influences.

Saving behavior of an individual changes greatly with demographic circumstances such as income, wealth, ages, marital status and other socio-economic conditions during various stages of the individual life [10]. In addition, women tend to have smaller accumulation in their basic and supplemental retirement plans due to they tend to have lower annual earning [6].

Financial education programs also contribute to individuals' commitment in planning for their retirement, if individuals have insufficient knowledge concerning the retirement savings process, they are unlikely to be able to make optimal retirement saving decision [4]. Now, there are organizations or other associations providing programs on financial education for their workers to increase their awareness as well as contribution for their retirement. This is due to financial information played a significant role in increasing contribution rate [5]. Insufficient knowledge concerning the retirement savings process will unable the individual to make any optimal decisions regarding retirement savings [4].

People can obtained information and make decision through socializing with others. There are researchers who believed that highly social people may be more likely to invest for their future saving [3]. A study suggested that peer effects may be an important determinant of savings decisions. Their paper showed that peer effects are another source of extra-economic influence on people's decisions [7].

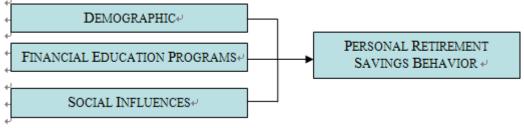


Figure 1 Theoretical framework

This model is adapted from several researchers [3,4,5,6,7,10]

# 7. Conclusion

When looking at the issues on retirement savings, the awareness level among Malaysian employees can be still considered low. Conclusively, Malaysian employees are very much lacking on the knowledge related to retirement. Awareness is the ability to perceive, to feel and to be conscious about something. Thus,

awareness on the importance of retirement savings is about understanding the importance of retirement savings. Malaysian employees are taking this issue for granted. When will they start to think of their retirement? Typically, they just do not think. They only realize the need to save for retirement when they start to have insufficient money to finance their future expenses. This laid back behaviour that caused most retirees enter the job market as to cover for their retirement living maintenance. Hence, awareness on retirement savings among the employees is the utmost important issue to everyone; either they work with the government, private sector or self-employed. They have to know their lifetime path, rates of return on various types of investments, age of retirement and etc. The employer also needs to play a role in increasing the knowledge on retirement savings among the employees. Positive retirement savings behaviour is important. The employees should plan for the retirement. They should look into extensive information and that financial education programs are important. Hopefully, it will inculcate positive behaviour among employees in investing for retirement. Employers can also provide assistance to their employees on retirement by sponsoring retirement seminars or perhaps set up a voluntary fund for retirement savings as extra coverage for retirement.

To sum up, it is true when we talk about the savings behaviour on retirement savings; it is easier said than done. But, with persistent efforts in giving awareness on the need for retirement savings, the authors believe the negative savings behaviour of the population on savings for retirement can be transformed. Of course, this will only be achieved through cooperation and collaboration between many parties; either in public or private sectors. It is hoped changes can be made to see some lights into the retirement issues in Malaysia.

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