

Building Resilience of Older Persons in a Changing Malaysia

Jarud Romadan Khalidi and Puteri Marjan Megat Muzafar



Views are short opinion pieces by the author(s) to encourage the exchange of ideas on current issues. They may not necessarily represent the official views of KRI. All errors remain the authors' own.

This view was prepared by Jarud Romadan Khalidi and Puteri Marjan Megat Muzafar, researchers from the Khazanah Research Institute (KRI). The authors are grateful for the valuable comments from Hawati Abdul Hamid.

Author's email address:

jarud.khalidi@krinstitute.org
marjan.muzafar@krinstitute.org

Attribution – Please cite the work as follows: Jarud Romadan Khalidi and Puteri Marjan Megat Muzafar. 2022. Building Resilience of Older Persons in a Changing Malaysia. Kuala Lumpur: Khazanah Research Institute. License: Creative Commons Attribution CC BY 3.0.

Information on Khazanah Research Institute publications and digital products can be found at www.KRIInstitute.org.

Introduction

1 October marks the United Nations International Day of Older Persons (UNIDOP), a day to raise awareness about challenges affecting older persons and celebrate the contributions of older persons. This year's UNIDOP theme is aptly titled "Resilience of Older Persons in a Changing World", recognizing the need to build the resilience of older persons in the face of a myriad of challenges such as the Covid-19 pandemic, the cost of living crisis and climate change¹.

As Malaysia is already an ageing nation and will soon be an aged nation by 2044, it has become more pressing than ever to build the necessary infrastructure to ensure current and future older persons live with dignity. This includes guaranteeing income security during old age, in which the introduction of a social insurance pension is instrumental to

¹ United Nations (2022)

address long-standing issues of covering gaps and inadequate savings in the current retirement ecosystem².

Majority of Malaysians cannot afford to retire

According to the Employees Provident Fund (EPF), considering expected price increases, outpatient medical bills and other necessities, Malaysians would need a minimum of roughly RM600,000 to have a dignified retirement in Kuala Lumpur in the next few years³. Even in the most affordable place to retire Alor Setar, a person would need RM480,000.

This is especially shocking when we contrast with the fact that only 4% of EPF contributors could afford to retire with at least RM600,000 savings. Among contributors aged 54 years, about half have less than RM50,000. Lump sum withdrawal upon reaching 55 years old in the following year would likely last for about four years assuming they spend only RM1,000 a month. With spending shocks such as medical emergencies, RM50,000 is likely to deplete even faster.

61% of working-age population not covered by retirement scheme

61% of working-age Malaysians do not save in retirement schemes nor have any form of guaranteed income during old age⁴. In Malaysia, only two elderly groups are guaranteed with some income which is tax-funded and do not require individual saving: (1) 'poor' elders who are eligible for Financial Assistance for Elderly or Bantuan Warga Emas (BWE), and (2) public sector employees who are eligible for pension. Others have to rely on individual efforts to save either in EPF or other voluntary saving schemes.

Those excluded from the formal retirement ecosystem are collectively referred to as the "missing middle": they are not poor enough for BWE, not civil servants entitled to pension and working without employers who can co-contribute for EPF. The missing middle includes self-employed persons, gig riders, petty traders and agricultural workers as well those not in the labour market such as homemakers and persons with disabilities.

The status quo cannot continue

Those with inadequate savings must find ways to stretch their budget amid rising living and medical costs. The declining prevalence of three-generation households and lower fertility rates suggests that we can no longer just rely on traditional, familial support.

Among proposed solutions to bolster EPF savings revolve around increasing employer's contribution for low-wage workers, applying higher dividend rates for low savings and lengthening contribution period to the age of 65⁵. However, these measures would only assist EPF contributors which represent only one-third of Malaysia's working-age population. The World Bank similarly suggests increasing the retirement age to ensure older persons continue to earn

² KRI (2021)

³ The Star (2022)

⁴ KRI (2021)

⁵ The Edge Malaysia (2022)

and save⁶. However, reception has been mixed. While Malaysians live longer, we are not necessarily healthier⁷, thus not everyone is able to work in their golden years.

We need to address the existing coverage gaps, not just through small, incremental fixes to the existing system but through major reforms.

Saving for retirement collectively through Social Insurance Pension

A social insurance pension (SIP) model would be a more enduring approach towards achieving full coverage for basic income security during old age. In this model, everyone consistently contributes a small amount to the SIP fund from early on and throughout their working years. For those who are unable to contribute such as unpaid caregivers, the unemployed or those with very low income, the government should step in to ensure continuity of contributions.

By contributing early, this will give time for the fund to grow. Once the retirement age is reached, contributors can reap the benefits and receive a lifetime monthly basic pension. This benefit can be used to cover basic needs, while one's own savings can 'top up' the basic income in order to live more comfortably.

At the same time, there are growing calls to introduce social pension in Malaysia, avoiding the complexity of the contribution model. It is similar to the BWE which is a tax-funded periodic old-age benefits for the poor, but expanded to cover everyone. However, the main hindrance of a universal social pension is the cost.

Malaysia still has a window of opportunity to prepare well ahead to embrace more ageing. If we start building the collective fund now with the new working-age cohort, we can expect to be able to guarantee a basic income for them when they reach retirement age in the next 30 – 35 years.

Whatever the choice may be, the conversation and action must start now. Arguably, the SIP is an important step towards developing a sustainable and equitable pension system in Malaysia that can ensure old-age income security. While the SIP could bear fruit only long into the future, the seeds of change must be sown now.

⁶ World Bank (2020)

⁷ KRI (2020)

References

- KRI. 2021. "Building Resilience: Towards Inclusive Social Protection in Malaysia." Kuala Lumpur: Khazanah Research Institute. <http://www.krinstitute.org/Publications-@-Building-Resilience-; Towards Inclusive Social Protection in Malaysia.aspx>
- KRI. 2020. "Social Inequalities and Health in Malaysia: The State of Households 2020 Part III." Khazanah Research Institute. <http://www.krinstitute.org/Publications-@-Social Inequalities and Health in Malaysia.aspx>
- The Edge Malaysia. 2022. "Special Report: Fixing The Low Retirement Savings Of EPF Members." The Edge Malaysia. <https://www.theedgemarkets.com/article/special-report-fixing-low-retirement-savings-epf-members>
- The Star. 2022. "RM1mil needed for retirement." The Star Online, 2022. <https://www.thestar.com.my/news/nation/2022/09/23/rm1mil-needed-for-retirement>
- United Nations. 2022. "International Day of Older Persons 1 October." United Nations. <https://www.un.org/en/observances/older-persons-day>
- World Bank. 2020. A Silver Lining - Productive and Inclusive Aging for Malaysia (English). The Malaysia Development Experience Series Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/287981606116408851/A-Silver-Lining-Productive-and-Inclusive-Aging-for-Malaysia>