The State of the Nation: Putting old-age security within reach of Malaysians without public pension, RM1 mil savings

CALLS to widen the social safety net — including putting in place some sort of universal basic income (UBI) to close gaps in social protection amplified during the pandemic or at least having a universal basic pension (UBP) to combat old-age poverty — were repeated last week as Malaysians were reminded yet again that most people here cannot afford to retire, even before Covid-19 hit, due to generally low wages.

Among private-sector wage earners, salaries, increments and bonuses could have been hit even if they had no part in the RM101.1 billion prematurely taken out from the Employees Provident Fund (EPF) by 7.4 million members due to Covid-19-related-withdrawal schemes — i-Sinar, i-Lestari and i-Citra — which made up one-fifth of the government's stimulus programme. Those in the informal sector, including business owners hit by the pandemic, would have also been set back. Financial security for dependents would likely become more precarious.

Some 48% of EPF members below age 55 have critically low retirement savings, up 28% from before the pandemic, EPF chairman Tan Sri Ahmad Badri Mohd Zahir said in his opening address at the 9th International Social Wellbeing Conference (ISWC) 2021 last Tuesday (Nov 23), also made available to all Malaysians virtually.

"Median savings of all EPF members below age 55 stands at RM13,000, which translates to RM54 a month for their [20] retirement years," he said, noting the 95% shortfall from the EPF's recommended basic savings of RM240,000 [RM1,000 a month for 20 years, based on the minimum civil service pension, assuming one retires at age 55 and the average Malaysian's life expectancy is 75 years old]. The EPF had previously said only 27% of members below age 55 have RM240,000 savings post-Covid-related withdrawals compared with 36% in 2020.

The retirement savings threshold should be RM648,000 if one were to use the monthly "living wage" of RM2,700 that Bank Negara Malaysia estimates every individual should have to meet social as well as basic needs. Assuming the EPF's minimum 2.5% dividend, one needs to save RM1.3 million to have RM2,700 a month, or RM32,400 a year, without drawing down the capital.

As at 2020, a total of 67,919 or 0.5% of 14.9 million EPF members have at least RM1 million saved up and collectively own 12.4%, or RM116.1 billion (RM1.7 million on average). A total of 248 EPF members or the top 0.002% have at least RM10 million saved up (RM17.5 million on average) and collectively own 0.46% of total savings — that's at least RM41,667 a month for 20 years. (See Table A.)

Redistributing a fraction of this sum via tiered dividends in favour of those with much lower savings could provide some relief to the lower income, but is unlikely to entirely close the savings gap. (See also "Varied response to EPF implementing tiered dividends", Issue 1350, Dec 21, 2020.)

RM41,667 versus RM78 a month for 20 years

In contrast, half of 12.6 million EPF members below the age of 55 had savings of RM18,785 as at end-2020 — which works out to RM78 a month for 20 years — according to data from the **Department of Statistics Malaysia (DoSM)**. That was before more Covid-19-related withdrawals this year.

Based on the EPF's guide on how much one should at least have saved for retirement by every birthday, it is fine to have below RM18,000 if one is below the age of 25, but this pool only made up 15.5% of EPF members (1.96 million). But that level of median income means half of EPF members aged 19 to 54 (6.3 million) had less than RM18,785 savings with the EPF in 2020.

Only 2.76 million or 21.5% of 12.8 million EPF members aged 18 to 55 achieved the recommended basic savings rate at their respective age threshold in 2020, The Edge's extrapolation of DoSM's and EPF's data shows. This assumes that younger EPF members will continue to meet minimum recommended savings thresholds at every subsequent birthday. (The EPF had another two million members above age 55 in 2020, for which savings data was not immediately available to The Edge at the time of writing.)

The EPF, meanwhile, says some members could replenish savings taken out due to Covid-19 by working an extra four to six years.

Still, there is a need to address the fact that half of the 1.35 million EPF members aged 50 to 54 had at most RM39,585 saved with the provident fund as at 2020, DoSM data shows. That is RM165 a month for 20 years, putting retirement out of the question if he has no other savings, assets or income.

At least half of those aged 40 to 49 look to be in a similar desperate state, with median savings for 1.7 million EPF members aged 40 to 44 at only RM43,448 (when it should be at least RM86,000 to RM116,000), and median savings for 1.5 million EPF members aged 45 to 49 at only RM48,444 (when it should be at least RM125,000 to RM164,000). (See Table B.)

For those above the age of 40, catching up on the RM200,000 shortfall in reaching RM240,000 basic savings recommended by the EPF is near impossible for those earning below RM3,471 a month even if he continues working for 20 years, our back-of-the-envelope calculations show. If one had 15 years to catch up on RM200,000, the minimum basic wage would need to be about RM4,600 a month. The basic monthly wage rises to RM7,000 if one only had 10 years and close to RM14,000 if one only had five years. Strong dividends from EPF and compounding interest would help but would not be enough if basic wages are just too low and more withdrawals are made before retirement.

This is likely why an economics professor told conference attendees that working longer would do little to boost their retirement savings with the EPF and recommends a UBP for the lower wage earners. (See sidebar on page 79.)

Only 1.9 million can retire?

And that is just the retirement savings shortfall among EPF members, about six million of whom are still active contributors.

Only 1.6 million or 10% of Malaysia's 16 million labour force, or 7% of Malaysia's 23 million working-age population, have civil service pension, which puts the fiscal burden on the government and not civil service retirees.

EPF members are salaried private-sector wage earners in the formal sector that is mandated by law to contribute 11% of their basic salary every month towards their retirement savings (70% of which goes to Account 1, which cannot be accessed before age 55 under normal circumstances, but for which an unprecedented nod for withdrawal was granted due to Covid-19). Employers contribute another 12% or 13% depending on whether one's salary is above or below RM5,000 a month.

That leaves two-thirds of working-age adults uncovered by either EPF or public pension, including seven million outside the labour force.

In the absence of more granular data, we can only confidently say 1.9 million people have at least the minimum amount saved up for retirement (1.6 million civil service pensioners and 245,805 or 1.7% of EPF contributors have more than RM500,000 savings) as at 2020.

Researchers, including the EPF, are very concerned because time is a luxury many may not have.

8 mil above age 55 by 2030

Citing international definitions, the World Bank says Malaysia is already an "ageing society" in 2020 (7% at least 65), will be an "aged society" by 2044 (14% at least 65) and a "super-aged society" by 2056 (more than 20% at least 65).

Malaysia only has nine years before 2030 when just over one-fifth of the population (7.8 million) is at least 55 years old, 15% (5.8 million) of the population is at least 60, and close to 11% (4.1 million) is at least 65. That is about two million more older people than today, with about 16% (5.6 million) above age 55, 11% (4 million) above 60 and 7.5% (2.6 million) above 65, according to population projection data by the DoSM in 2019.

By 2030, the youngest Gen-Y or millennial (born 1981-1996) would be 34 while the youngest Gen-X (born 1965-1980) would be 50 and the oldest at 65.

In his closing address at the two-day ISWC conference last Wednesday (Nov 24), Finance Minister Tengku Datuk Seri Zafrul Aziz acknowledged that the Covid-19-related EPF withdrawals "raised concerns about old-age pension adequacy" even though "it has helped members in need".

"Following the withdrawals, we discovered that 50% of members under the age of 55 have less than RM10,000 in their account. A variety of factors contribute to such concerns, including low wages, inconsistent EPF contributions and a lack of financial literacy. However, as policymakers, we are equally, if not more, concerned about the underlying structural issues that have contributed to retirement fund inadequacy," Zafrul said, noting that nearly 75% of 6.1 million EPF members under the age of 55 with savings of less than RM10,000 "will not have enough funds to retire above the poverty line".

To expand social security protection in accordance with the United Nations Development Goals 2030, Zafrul said the Ministry of Finance "must analyse, acknowledge and address the challenges to ensure better social security".

Developments on this space would certainly be keenly watched, with Zafrul acknowledging that "policies on retirement income, retirement age and reemployment are critical to a country's fiscal sustainability".

“As people live longer, those without adequate retirement savings for health and long-term care will add to the financial obligations of the country. To this end, the EPF is required by law to protect its members’ retirement funds. As more economic and social sectors reopen, the government will look into ways to help the affected Keluarga Malaysia rebuild their retirement funds.”

https://www.theedgemarkets.com/article/state-nation-putting-oldage-security-within-reach-malaysians-without-public-pension-rm1-mil