

## Impact of an ageing society

Having insufficient savings is a big worry but taking monies out prematurely will only compound matters of the inescapable ageing society Malaysia will have to face in the decades ahead.

In October 2021, the country's **chief statistician Datuk Seri Dr Mohd Uzir Mahidin** pointed out that Malaysia is forecast to shift to an ageing nation earlier than previously projected, with the elderly population aged 60 years and above expected to reach 15.3% by 2030.

A World Bank report in 2018, had noted that the low retirement age in Malaysia and high life expectancy will lead to a life expectancy-pension gap – which is at 19.2 years in Malaysia, higher than other countries in the region.

"Lack of pension coverage as only half of those in the labor force are contributing to EPF, leaving the other half without old-age pension coverage. Financial awareness for retirement in Malaysia is low," said the World Bank report.

Datametrics Research and Information Centre Sdn Bhd managing director Pankaj C. Kumar said the tipping point where EPF's net fund inflows are smaller than net outflows, due to a shrinking working age population, will take a long time to happen.

"Salaries do increase over time, which means that net inflows can be higher overall. The other function is the rate of contribution," he said.

Pankaj noted that excluding the one-off pandemic related withdrawals, EPF is still very healthy in terms of net inflows every year.

He added that to improve post-retirement income security, the government could look into extending the retirement age of the workforce to beyond 60 years, as well as more efforts to promote financial literacy and planning.

"Many countries have gone in that direction (extending the retirement age). Also, financial planning requires a lot of education and understanding. Money which is set aside today, but withdrawn for short-term gratification, will compromise long term objectives," said Pankaj.

Bank Islam Malaysia Bhd (BIMB) chief economist Dr Mohd Afzanizam Abdul Rashid said going forward, among the issues is to rebuild the EPF savings that were used following the Covid-19 economic disruptions.

"In the past two years or so, there were a lot of special EPF withdrawals to meet current liquidity demands. With the shift towards an ageing nation, the country needs to create more jobs that will allow income growth to accelerate. Then again, this is easier said than done, obviously," he said.

Mohd Afzanizam added that improving financial literacy among Malaysians is sorely needed, as it is crucial that people gain a better understanding of the "risk return trade-off" in investments especially as nowadays, it is much easier to gain access to platforms that provide access to digital asset trading.

He noted that more should be done to promote the tax relief incentive for private retirement schemes (PRS).

Under Budget 2021, the government had extended the PRS personal tax relief of up to RM3,000 per year until assessment year 2025.

Regarding the aging nation factor, an asset fund manager said he is "quite sure the EPF is well aware of this, and its fund size would be able to handle increasing total withdrawal amounts by a higher number of retirees in the future."

He pointed out that in the coming years, while the number of retirees will be bigger as a proportion of the country's population, the population would continue to grow and therefore, the number of people who are of working age would also grow.

"Also, there is already talk of increasing the retirement age, which is another measure that can improve retirement savings and income," said the fund manager.

Dr Yeah Kim Leng, professor of economics at Sunway University, also explained that when the "population twist" occurs over the next 10 to 15 years, that is when the dependency ratio starts to rise, and the EPF will begin to face higher level of withdrawals compared to new contributions from the working age population.

"EPF's asset allocation will have to shift more toward liquid and fixed income assets rather than longer term, higher yielding but riskier assets," said Yeah.

He added that it would be more challenging for EPF to sustain high returns from domestic and overseas markets as economies facing ageing population problems tend to be less dynamic and face stagnation or grow more slowly.

"Younger EPF members will need to diversify their savings to include private retirement savings customised to individual needs in order to meet their expected lifestyle or maintain the desired living standard when they reach retirement age. If faced with inadequate retirement savings, they will need to extend their working life or find supplement income sources to retire comfortably," Yeah pointed out.

UOB Kay Hian Malaysia head of research Vincent Khoo said an ageing workforce combined with the growing tendencies of the young population joining the gig economy will eventually result in the pension fund's shrinkage.

However, Khoo pointed out that the ageing population, in theory, should have no significant bearing on the pension fund's performance, as the fund's investment allocations should not be significantly swayed by ageing contributors, although unusually large withdrawals in short periods could disrupt investment allocations and render investment returns to be sub-optimal.

He said existing contributors should look forward to EPF's consistently impressive investment performance.

"Hopefully, the young working population would become more active in their financial retirement planning, which is absolutely essential given this phase of high inflationary period," said Khoo.

Centre for Market Education research fellow Dr Liew Chee Yoong also said the EPF will need to ensure that it has sufficient funds for contributors to withdraw, in tandem with an ageing nation.

"Unless the EPF can continuously maintain its excellent investment performance domestically or overseas to grow the fund, the fund size will gradually reduce due to higher demand for withdrawals. The government may need to intervene financially if this problem arises," said Liew.

Meanwhile, Malaysia University of Science and Technology economist Dr Geoffrey Williams said an ageing nation profile is often associated with slower growth and higher welfare costs, and for EPF, this may mean that it will need to continue and extend overseas investments or move more assertively into venture capital or other investment types.

"For members with balances and good contributions, the EPF will remain the best option for pensions. But, for those without balances or who cannot maintain regular contributions, the EPF needs to offer new products to broaden its support for people in this group such as health insurance, or other savings options," he said.

Williams added that the biggest risk is that withdrawals will become more common and EPF will be seen as the solution by politicians for financing shortcomings.

"This is very dangerous and risky for EPF members," he said.

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