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Cover Story: Is A retirement crisis brewing?

The sharp fall in gross domestic savings in recent years, coupled with an ageing population, is seen as a sign that Malaysia may well be facing a brewing retirement crisis. Last year, the nation's gross domestic savings as a share of GDP was at 26.12% — the lowest since 1975 on an annual basis. It has steadily fallen from its peak of 48.67% in 1998, exacerbated by the Covid-19 pandemic.

In contrast, Singapore's gross domestic savings rose to 54.08% last year from 51.05% in 1998, while Thailand's slipped slightly to 29.43% from 35.26% during the same period.

"The fall in savings in Malaysia is apparent," says Danny Chang, head of managed investments and products management at Standard Chartered Malaysia.

Industry experts, including Chang and several economists, opine that the falling national savings underlines the country's heavy reliance on consumer spending to boost economic growth and its failure to transform into a high-income nation.

The low interest rate environment is another crucial factor contributing to the country's low savings rate, says Chang.

The overnight policy rate (OPR) — the interest rate banks charge each other for lending money overnight — was kept at 1.75% after Bank Negara Malaysia's monetary policy committee met last week. The record low OPR has been maintained since July 7 last year.

As a result, fixed deposit rates have been kept low for the past 14 months. A glance at the RinggitPlus website shows that the rates have ranged from 1.3% to 2.2% per annum, depending on the various tenures.

"The falling fixed deposit rate is most likely another key factor that has contributed to decreased savings. Deposit rates were at around 7.7% in the 1980s, 6.9% in the 1990s and 3.6% from 2000 to 2010. In the last decade, it was at 3.2%. In this decade, it will likely be below 3%," says Chang.

Such low rates are likely to have resulted in funds being shifted out of banks, as savers seek alternatives for higher returns. Data provided by the Securities Commission Malaysia show that the assets under management of the fund management sector rose 27.39% to RM947.25 billion in July from RM743.58 billion in 2018.

"We also saw retail participation in the local stock market shoot up last year. Such a phenomenon may be related to the low deposit rates as well [as retail investors seek higher returns elsewhere]," says Chang.

Another contributing factor is the excessive spending behaviour and a relatively low level of financial literacy among households and individuals.

Compounding the savings conundrum are the withdrawals from the Employees Provident Fund (EPF) by many Malaysians who have been hard hit by the pandemic. They will likely struggle to replenish their retirement funds moving forward.

The upshot is that many Malaysians will be left with insufficient funds during their retirement age in the decades to come. “Based on various numbers announced by EPF, if a retirement crisis is not already here in your face, it is brewing. The noise is getting louder than ever on the back of the pandemic,” warns Chang.

Over-reliance on consumer spending

Retired economist Peck Boon Soon also believes the falling savings rate is partly due to the country’s over-reliance on consumer spending to boost economic growth.

For instance, the nation’s consumption growth as a share of GDP was about 60% last year, a marked increase from 45% before the 1997/98 Asian financial crisis (AFC). While Malaysia is not the only country to spur economic growth through consumer spending, it has relied on it for too long, says Peck.

“Meanwhile, private investment growth has not caught up [to spur economic growth and future income]. We have failed to move up the value chain and transform into a high-income nation in the past decades,” he adds.

As a result, people are spending more while their income has not risen in tandem. The nation’s household debt increased to 93.3% as a share of GDP last year from 66.4% in 2005. Last year, household debt soared about 9% on the back of the pandemic.

Meanwhile, private investments, which play an essential role in helping various industries move up the value chain and increasing the nation’s future income, have been faltering.

According to Peck, private investments were about 20% of our GDP last year — a drastic fall from about 48% in 1996, before the AFC. Malaysia’s share of foreign direct investments that flowed into Southeast Asia was only 0.5% last year compared with between 11% and 18% in the 1990s (based on data provided by the United Nations Conference on Trade and Development).

“The rate has been falling for many years, and it is very substantial. You have falling domestic savings and investments not increasing,” he says.

“The country can’t generate future income if investments cannot catch up. The people are feeling the impact as their salaries are not increasing [at a faster rate than the rise in the cost of living]. They have to dip into their savings for increasing expenses [and fall into debt]. This ties back to the increasing household debt of the nation.

"In the case of Taiwan, its national savings has been falling too. But its investments have been maintained, which has allowed its GDP to continue growing healthily and spur [future] income growth.

"The situation that Malaysia is in is not sustainable. It is a concern."

Dipping into retirement savings

Covid-19 has exacerbated the trend of falling national savings. Last year, Malaysia's gross domestic savings fell 2.33% as a share of GDP — the biggest year-on-year decline since the global financial crisis when it fell 5.68% from 2008 to 2009.

The nation's unemployment rate rose to about 5% recently, while average wages fell for the first time in a decade last year. Thus, it is no surprise that many Malaysians have had to withdraw money from their retirement funds to put food on the table. In the first quarter of this year, about 6.5 million people applied to withdraw money from their EPF accounts, with roughly RM58 billion expected to be disbursed.

Of EPF's 15 million members, about 6.3 million have less than RM10,000 in Account 1 and 9.3 million have less than RM10,000 in Account 2. That is a far cry from the RM240,000 that the provident fund has deemed sufficient for most people's retirement.

Lee Heng Guie, executive director of the Associated Chinese Chambers of Commerce and Industry of Malaysia's Socio-Economic Research Centre, says the EPF withdrawals are a worrisome development as it widens the gap between the rich and the poor. The latter have been forced to spend funds meant for the future on current day-to-day expenses.

Those who have withdrawn money from their EPF accounts would have to grow their income to rebuild their depleted retirement savings. A way to do so would be for them to voluntarily increase their EPF contribution rate. But this is challenging at present as the country's economy will take some time to recover from the current downturn.

"Employers could also increase the contribution rate to help employees replenish their retirement savings. But this may not be feasible at the moment as most businesses will need a longer time to recover from the pandemic. This will add to their operating cost," says Lee.

Dr Yeah Kim Leng, professor of economics at Sunway University Business School, agrees that financial inequality in the country will rise as those in the lower-income group are spending money meant for their future to put food on the table now.

In contrast, wealthier households and individuals who possess various assets can still borrow money from banks at a lower interest rate if the need arises. But those without sufficient income and who do not possess any assets are exposed to financial vulnerability, he says.

In fact, it was pointed out in EPF's 2016 annual report that one in three Malaysians do not have a savings account, while more than half of Malaysian households have no financial assets such as bank deposits, bonds and stocks.

"Allowing people to withdraw money from their EPF accounts does not solve the problem [of the nation's inadequate savings]. It merely kicks the can down the road," Yeah stresses.

Those close to retirement age, youth most impacted

From a demographic perspective, Standard Chartered Malaysia's Chang says the two most impacted segments of society are people close to their retirement age and fresh graduates.

As it is, Malaysians in general do not have enough savings for their retirement. Moreover, the country was classified as an ageing society in 2020 by the World Bank as 7% of its population are above 65 years old, with the rate expected to double to 14% by 2044 and hit 20% by 2056, making it a "super-aged" society. This means that a lot more Malaysians will need more money for a comfortable retirement in the decades to come.

The other hard-hit segment is youth aged 15 to 24 years old, including fresh graduates. According to the Department of Statistics Malaysia (DOSM), the youth unemployment rate in June was 12.7% — down slightly from 13.6% in May, with 340,900 of them without a job.

If one were to consider the potential increase in salary if the younger generation had had a stable job since 2020, and the compounding effect of the money they could save and invest over decades, the amount may be quite significant, says Hann Liew, CEO of RinggitPlus.

"The situation of our youth today is similar to those in the US who entered the job market post-global financial crisis. It is harder for them to find a job and save up early for their future," he adds.

Chang and Liew say it is essential that Malaysians rebuild their savings once the pandemic is over to prepare for future economic shocks and retirement.

Among other factors, slow rising salaries in the past decade have been seen by many as the main cause of falling personal and household savings. However, data released by DOSM in July suggests that this may not be entirely true, says Chang.

According to DOSM, the median monthly wages for Malaysians rose at an annualised rate of 4.9% to RM2,442 in 2019 from RM1,500 in 2010. Average monthly salaries also increased by an annualised rate of 5.23% to RM3,224 from RM1,936 during the same period.

It was only last year that Malaysia's median and average salaries fell by 15.56% and 9% respectively, due to the pandemic.

"So, it is not entirely true that Malaysians are not saving enough because salaries are not catching up. It has to do with their saving and consumption patterns as well," says Chang.

Liew says salaries of Malaysians have been rising faster than the inflation rate, which means the spending habits of the masses are one of several reasons that have contributed to the falling national savings rate.

While wages had risen at an annualised rate of 4.9% from 2010 to 2019, the country's inflation rate had ranged between 0.66% and 3.87% during the same period.

UOB Malaysia economist Julia Goh says the increased expenditure of local households is likely due to lifestyle choices, whereby families are spending more on dining, recreation, hotels and communication — the latter due to a higher usage of mobile and telecommunications devices. Household spending on healthcare has also increased noticeably.

"Meanwhile, expenses on housing, rents and utilities appear to have outpaced annual gains in income for certain segments of our population," she notes.

Goh adds that household expenditure rose 5.2% per annum between 1999 and 2019. For comparison, mean household incomes in urban and rural areas grew 5.3% and 5.5% respectively during the same period, she points out.

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