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Cover Story: Addressing a rising pension bill

WITH medical advancements and rising wealth, life expectancy has continued to increase in most parts of the world, resulting in a growing ageing population.

While that may be good news for some, public pension systems have long felt the stress of supporting an increasingly larger ageing population that is also living longer. Malaysia is no stranger to this issue and the reform of the pension system was discussed during the Pakatan Harapan (PH) government's short administration.

Former Prime Minister Tun Dr Mahathir Mohamad said in parliament in October 2019: "...The government faces challenges to pay for retirement benefits as their numbers increase. For example, retirement benefit expenditure in 2018 increased to RM23.87 billion compared with RM5.86 billion in 2006. This amount is expected to increase every year. Furthermore, the previous government has repeatedly raised the salaries at a relatively high percentage, thus increasing the pension liability."

"To address the issue of [the] rising public pension burden, the government is studying several new mechanisms, which is hoped to not burden the government and also not short-change civil servants who have completed their service -(retired)," Mahathir said then.

Earlier, it had been reported that new appointments in the public service would no longer be made under the permanent and pension schemes and that an improved contractual scheme would be introduced. This was aimed at trimming the public service in order to reduce the pension burden.

However, the PH government collapsed in February 2020.

Based on data by the Department of Statistics Malaysia, the average life expectancy of Malaysians is 75 years old. Females outlive males, with an average age of 77 years.

Greater longevity means that the government's pension payment liability continues to increase as pension payments are made for life.

In 2013, the government introduced a 2% annual automatic increment for pension payments, which further increased its pension burden.

Many say that such moves are made by the government to win the hearts of civil servants, just like the significant rise in salaries and bonuses whenever an election is around the corner. After all, civil servants are seen as a significant voting block.

Indeed, under the 2018 Budget, dubbed the "Mother of all Budgets" by then Prime Minister Datuk Seri Najib Razak, goodies for civil servants and pensioners were aplenty. A minimum pension of RM1,000 per month was proposed for pensioners with 25 years of service. There was also a higher special allowance for retirees amounting to RM750.

In addition, a special payment of RM1,500 was given to all public servants. Typically, under previous budget announcements, the special payout for public servants amounted to RM500, while retirees received RM250.

The 13th and 14th general elections were held in 2013 and 2018.

Between 2008 and 2018, the government's emolument expenditure almost doubled from RM41.01 billion in 2008 to RM80 billion in 2018. Meanwhile, retirement charges also rose a whopping 151% from RM10.02 billion in 2008 to RM25.18 billion in 2018.

By 2018, the emoluments and retirement charges made up 45.5% of the federal government's total operating expenditure.

During the PH government's short 21-month tenure, the ruling coalition did try to scale down the size of the civil service. However, both emoluments and retirement charges will continue to remain a large component of capital expenditure.

Emoluments and retirement charges made up 40.7% of total operating expenditure in 2019, increased to 48.3% in 2020 and are expected to come up to 47.4% in 2021.

This is where Kumpulan Wang Persaraan (Diperbadankan), or KWAP, has stepped in to help the government reduce its pension burden.

In 2018, the government withdrew a total of RM4.5 billion from KWAP to assist with the pension bill. It was the first withdrawal made by the government since KWAP's incorporation as a statutory body on March 1, 2007.

After the withdrawal, the fund size stood at RM136 billion.

"The objective of KWAP being set up is to assist the government to pay the pension bill," says KWAP CEO Nik Amlizan Mohamed.

She emphasises that the statutory body is very clear with regards to its role, which is to help the government manage the pension fund and to be part of the long-term solution for assisting the government.

"As and when the government requires the pension fund to be utilised to pay pensions, we are ready to do so. We also want to ensure we enrich the retirement experience of pensioners," she says.

Nik Amlizan adds that the fund is fulfilling its objective and emphasises that it has to continue to garner better returns to ensure that its size continues to grow.

“From 2018, we have continued to grow in fund size to where we are today — the highest fund size to date,” she says, noting that it has exceeded RM150 billion.

When asked if she is concerned about the rising pension bill in Malaysia, the CEO appears unfazed.

“It is a global issue, given the ageing population. It is a matter that policymakers across the globe are looking at. There is no silver bullet that would have the capacity to solve this issue and it is definitely not something that can be resolved over the short term.

“We need to look at it from a long-term perspective.”

Nik Amlizan believes KWAP is part of a structure that is working well. She says the pension burden issue is being addressed but emphasises that it is an ongoing journey.

“Reforms take time. We are at an interesting point and we are always giving our feedback. It is something I hope, in years to come, we can fine-tune. I can share with you that there are multiple stakeholders looking at (the) long term on how we (can) land at something sustainable. The key solution here is sustainability.”

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