



From the Desk
of the
Chief Economist

BANK ISLAM

RETIREMENT SAVINGS ARE DEPLETING: WHAT CAN WE DO?

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ECONOMIC RESEARCH

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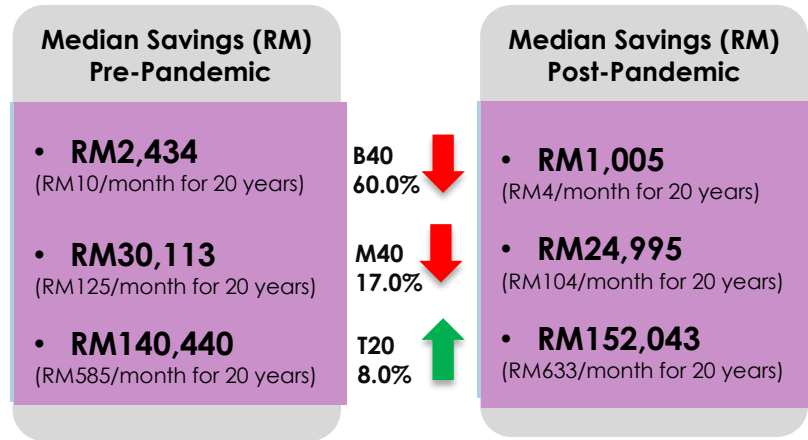
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MALAYSIANS ARE AT RISK TO BE POOR DURING RETIREMENT – EVIDENCE FROM EPF

Key highlights to take note:

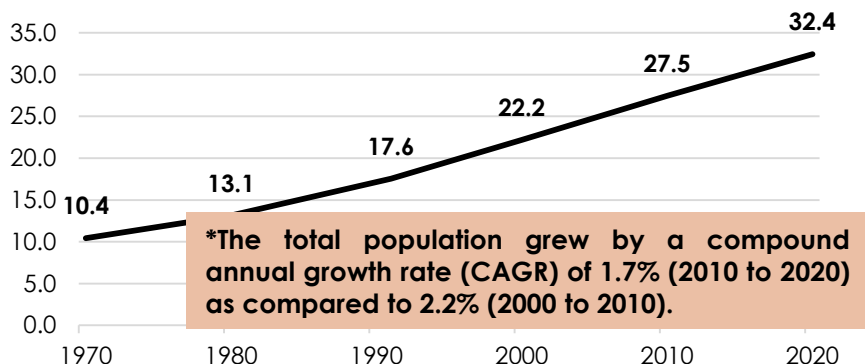
- ✓ A total of RM101.0 billion has been disbursed for i-Lestari, i-Sinar & i-Citra withdrawals.
- ✓ 6.1 million EPF members have less than RM10k in their account, of which 3.6 million have less than RM1k.
- ✓ Emergency withdrawals were mostly made by Bumiputera members of which 4.4 million (55.0%) have less than RM10k while 2.0 million (25.0%) have less than RM1k.

- ✓ The role of Employees Provident Fund (EPF) has been instrumental in stabilising the economic livelihood for those who are negatively affected by the Covid-19 pandemic through the unconventional withdrawal scheme.
- ✓ In total, an estimated of **RM110.0 billion*** has been disbursed via i-Lestari (RM20.8 billion) and i-Sinar (RM58.7 billion) in 2020, followed by i-Citra (RM21.4 billion) in 2021. The amount also included RM9.0 billion saving losses when some of EPF members have opted to reduce from a set 11.0% contribution of their monthly contributions.
- ✓ While the move has been lauded, it certainly comes with a price. Should a member withdrew RM21k under the i-Lestari (RM6,000), i-Sinar (RM10,000) and i-Citra (RM5,000), it would require **four to six of continuous working years** to recoup the loss of savings based on the median EPF's members income of RM2,066 and the minimum wage of RM1,200.
- ✓ Moreover, the EPF reported that majority of its members, which are in the low and middle income groups have a higher possibility to live in poverty during their old age if no immediate action is taken.
- ✓ It is also disturbing to learn that the percentage who can meet the basic savings threshold of RM240k at the age of 55 has declined (**2021: 27.0% vs. 2020: 36.0%**).



THE PACE OF BECOMING AN AGEING NATION IS FAST, BUT ARE WE READY FOR IT?

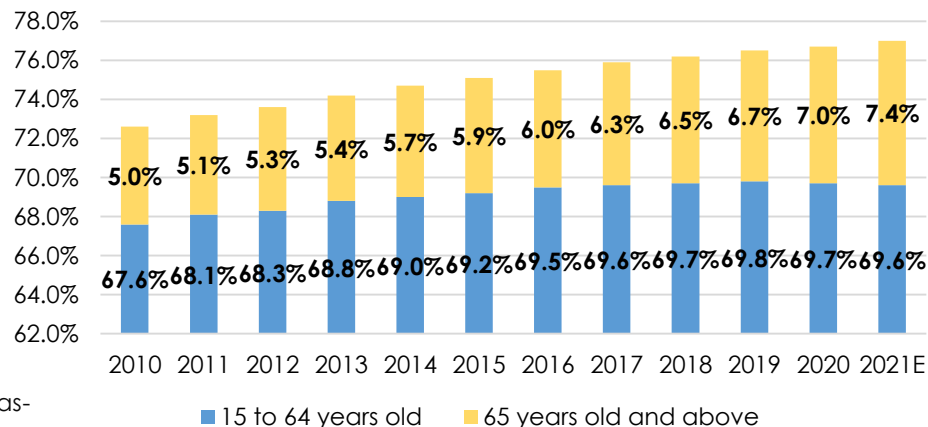
Based on the 2020 Population and Housing Census (PHC), Malaysia's population stood at 32.4 million in 2020 and it has been growing at a slower pace



Sources: CEIC, DOSM, *<https://themalaysianreserve.com/2022/02/14/malaysias-population-stands-at-32-4m/>

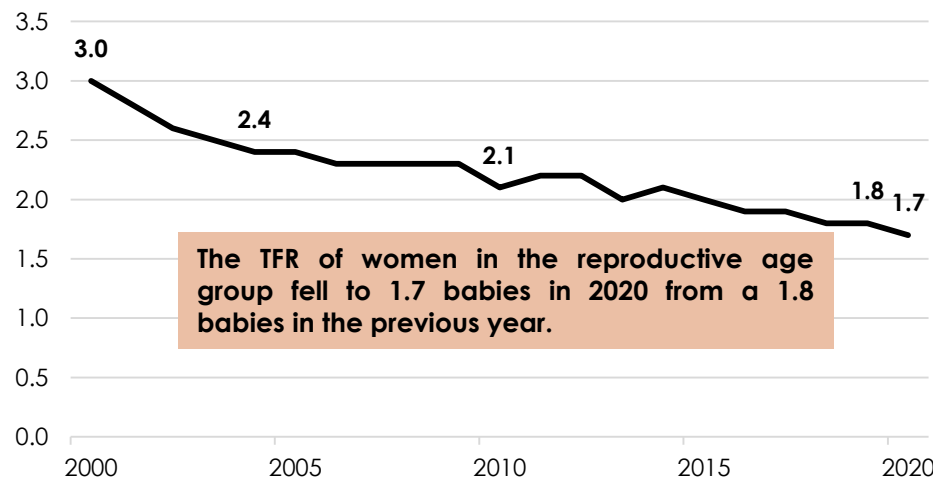
- ✓ With the EPF data showing a bleak picture, the country is also facing a growing ageing population. Essentially, **Malaysia will be an ageing nation by 2030 with 15.0% of the population will be classified as senior citizens whose age are 60 years old and above.**
- ✓ In fact, up to last year, it is estimated that more than 7.0% of Malaysia's population were 65 years old and above, making the country an ageing nation already.
- ✓ The rate is anticipated to increase in the coming years, **projected to double by 14.0% in 2044 and to reach 20.0% in 2056**, according to the World Bank.

The trend shows that the working age of older population is increasing whereas the young population is declining



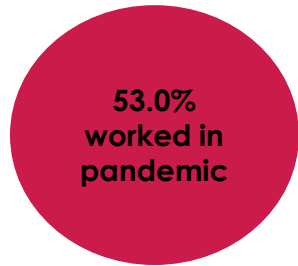
Source: DOSM

Total Fertility Rate (TFR): Per Woman

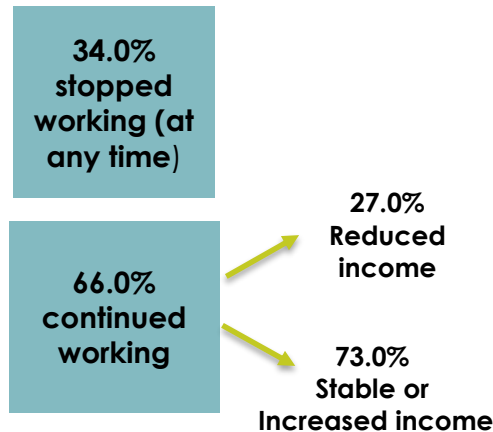


THE ARE NO QUICK FIX - SAVE AND INVEST AS WELL AS TO BE FINANCIALLY LITERATE

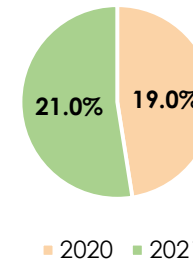
Before March 2020



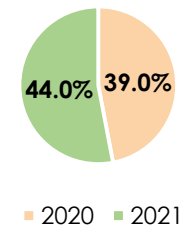
March 2020 and June 2021



Saving has been more difficult than ever following the pandemic and economic condition



The rate of Malaysians who have yet started planning for their retirement increased by 5.0% in 2021



Source: World's Bank Covid-19 High Frequency (HiFy) Household Monitoring Survey (Between 18 May to 16 June 2021)

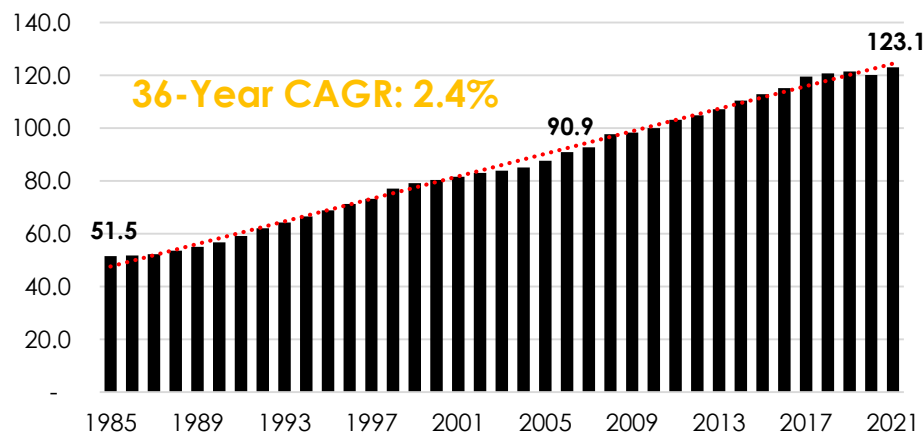
Source: RMFLS Reports

- ✓ The Covid-19 shocks have taken a serious toll on household finances. Salaried workers are either lost their job or forced to take pay cut as businesses revenue streams were badly affected.
- ✓ Hence, the unconventional withdrawal schemes are supposed to provide the stopgap measures for the lost of income.
- ✓ The Malaysian Institute of Economic Research (MIER) has aptly described that the **EPF is not designed for calamities and pandemics but to provide a comfortable post-retirement for the members.**

- ✓ Therefore, It should be noted that any further EPF withdrawal will only exert more pressure on the **future cost of healthcare, income security and post-retirement income stream.**
- ✓ Worse, **the number of Malaysians who are yet to start planning for their retirement has increased by 44.0% in 2021 as compared to 39.0% in 2020**, according to RinggitPlus Malaysian Financial Literacy Survey (RMFLS).
- ✓ As such, it is **important to advocate financial literacy among Malaysians** to help them better in understanding the purpose of the EPF fund for their retirement, as well as the urgency to go for saving to withstand any future financial shocks.

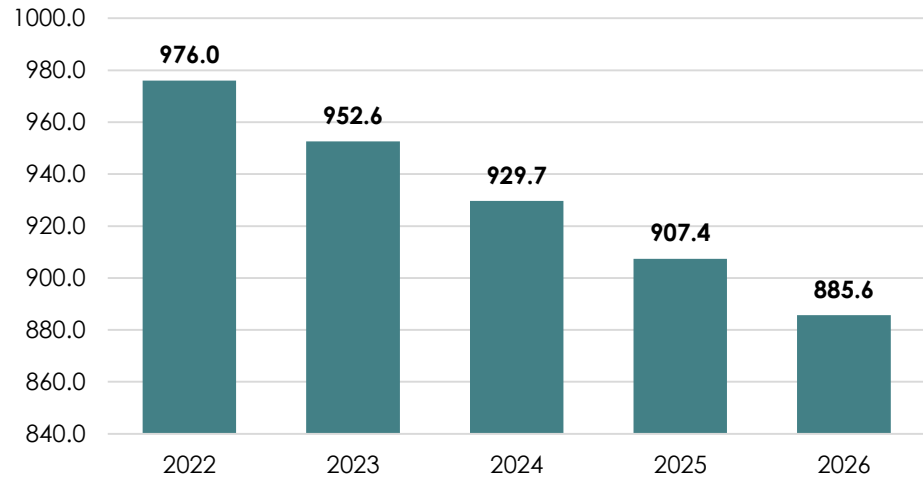
- ✓ As the economic recovery continues to regain its momentum, the immediate strategy is to rebuild savings.
- ✓ However, savings alone may not do the trick as it will be eroded by inflation.
- ✓ From 1985 to 2021, inflation rate has been averaging at 2.4% per annum.
- ✓ To put this into perspective, if a person has RM1000.0 at the beginning of the year of 2022, the value will decline to RM976.0 by end of that year, assuming the rate of inflation is 2.4% per annum.

Upward trend of inflation between 1985 to 2021



Sources: CEIC, BNM

Savings will be eroded by inflation, RM

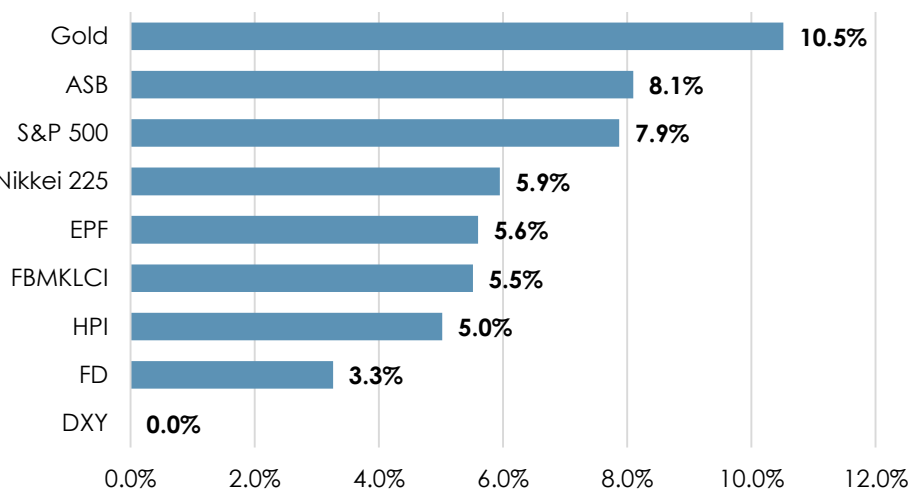


Source: Economic Research, Bank Islam Malaysia Berhad

- ✓ If that person decided to keep that money without investing until 2026, the value will drop further to RM885.6.
- ✓ Effectively, such person has lost RM114.4 for every RM1,000.0 in the next five years if he or she decided not to invest with the money.
- ✓ Bear in mind that the 2.4% inflation rate is the average figure and can be deemed conservative. **In reality, it could be higher, depending on the spending pattern for each individual.**

HOWEVER, INVESTMENT COMES WITH A RISK. ONE WOULD REALLY NEED TO UNDERSTAND THEIR RISK APPETITE

Average Returns since 2001



Asset classes compared by Coefficient of Variation (CV) or risk-to-return ratio

Asset Classes	Risk-to-Return ratio
Malaysian Government Securities (MGS) 10Y	0.12
Employee Provident Fund (EPF)	0.13
Fixed Deposit (FD)	0.18
Amanah Saham Berhad (ASB)	0.18
U.S. Treasury (UST) 10Y	0.59
House Price Index (HPI)	0.72
Gold	1.40
S&P 500	2.22
FBMKLCI	3.16
Nikkei 225	3.77
U.S. Dollar Index (DXY)	1350.85

- ✓ As the rule of thumb says **“High Risk, High Return”**. Indeed, all investment carry some degree of risk. Hence, higher return does not necessarily mean good since it will depend on how much risk will be associated with the investment committed.
- ✓ In this respect, the computation of investment risk is based on the standard deviation of investment returns distribution. In order to gain a better insights, we will look into the total risk per unit of investment return which is the Coefficient of Variation (CV) or Risk-to-Return ratio.
- ✓ From the table, we could clearly see that U.S. Dollar Index (DXY) which is a representation of forex investment command the largest risks which is for every RM1 return will corresponds of RM1,350.85 worth of risk i.e. chance that you may lose your money. This runs contrary to EPF which entails a CV of 0.13 which means for every RM1 returns, it will be associated with RM0.13 risk. So, EPF has done an excellent job in managing its members' fund.
- ✓ Meanwhile, investment in residential properties as represented by the House Price Index (HPI) may not be too bad with CV of 0.72. It is a low risk while delivering a consistent returns.
- ✓ In order to enlarge our investment returns, we may need to diversify our investment portfolio into other asset class such as equities and bonds which could offer capital appreciation and preservation.
- ✓ This is where financial literacy is extremely critical in order to ensure that each and everyone of us could really optimized their investment returns.
- ✓ In that sense, what is needed among our society is credible advice from a trusted advisors that would give them an unbiased view and insights on investment. After all, investment is about understanding your financial goal with reasonable tolerance over its risks.

CONCLUSION – SAVE AND INVEST...

- ✓ EPF saving is meant for post-retirement, not for crises purposes. Persistent withdrawal would do more harm than good as one would fall into poverty when they retire.
- ✓ We need to rebuild the savings but EPF is only one part of the solution. We need to encourage our society for a voluntary savings and subsequently be invested in accordance to their risk tolerance. Hence, the role of credible and trusted financial advisors are urgently needed.
- ✓ Promoting financial literacy should be deemed as one of the key survival skill that will help to steer our Malaysians for a financially comfortable living.

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A cityscape at sunset with a pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city buildings are silhouetted against the bright sky, and a highway with traffic is visible in the foreground. The overall mood is warm and appreciative.

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