by RICHARD JACKSON
and TOBIAS PETER

From Challenge to Opportunity

THE FUTURE OF RETIREMENT IN **Malaysia**

Global Aging Institute

eastspring investments

About the East Asia Retirement Survey

The East Asia Retirement Survey is part of the multiyear Global Aging Preparedness Project, which was launched in 2010 by the Center for Strategic and International Studies (CSIS) with the publication of *The Global Aging Preparedness Index*, a unique new tool for assessing the fiscal sustainability and income adequacy of retirement systems around the world. When project director Richard Jackson left CSIS early in 2014 to found the Global Aging Institute (GAI), the project moved with him and since then has continued under the auspices of GAI. Prudential plc has collaborated with Richard Jackson on the project since 2010 and continues to support the ongoing work on the project being carried out by GAI.

As the world's societies age, governments and businesses are trying to look ahead and anticipate the needs of tomorrow's growing elderly populations. Nowhere is this more difficult than in emerging East Asia, where rapid development is transforming traditional retirement attitudes and expectations. The role of the family in retirement security is receding, while the importance of pensions and personal savings is growing. How well are retirees in East Asia coping with the changes? How prepared are workers for their own future retirement? And what type of retirement system would people actually prefer, if given the choice?

The purpose of the East Asia Retirement Survey, now in its second wave, is to help answer these questions. The first wave of the survey, conducted in the summer of 2011, was administered to representative samples of workers and retirees in China, Hong Kong SAR, Malaysia, Singapore, South Korea, and Taiwan. The second wave, conducted in the summer of 2014, was administered to representative samples of workers and retirees in the six first-wave countries plus Indonesia, the Philippines, Thailand, and Vietnam.* While the survey finds that there are many important differences across the region, it also reveals that citizens throughout East Asia have at least two important things in common. They are anxious about their retirement prospects and they are eager to improve them.

The results of the first wave of the survey were published in *Balancing Tradition and Modernity: The Future of Retirement in East Asia* (Washington, DC: CSIS, 2012). The results of the second wave of the survey are published in *From Challenge to Opportunity: Wave 2 of the East Asia Retirement Survey,* the overall project report, as well as in a series of ten shorter country reports, of which this is one. All of the reports, together with supplemental data, are available on GAI's dedicated project website at **gap.globalaginginstitute.org.** The results of the second wave of the survey are also featured on Prudential's dedicated project website at **www.prudentialcorporation-asia.com/eastasia-retirement-2015/.**

**For convenience, the term "country" is sometimes used in this report to refer to all ten distinct territorial and economic entities where the survey was conducted. Use of the term is not meant to imply any judgment about the sovereignty or status of any of the ten entities in international law or practice.*

The Global Aging Institute does not take specific policy positions; accordingly, all views expressed herein should be understood to be solely those of the author(s).

ISBN 978-1-943884-06-3

Findings from Wave 2 of the East Asia Retirement Survey

Malaysia

With fewer than one out of ten Malaysians believing that the family should be mostly responsible for financially supporting retirees, traditional attitudes and expectations are changing. As the role of the family in retirement security recedes, pensions and personal savings are becoming all the more important. At first glance, Malaysia seems well prepared for the new retirement realities. Rates of state pension receipt are already high among today's retirees and are expected to rise further when today's workers retire. Meanwhile, a larger share of workers expect to receive income from financial assets when they retire than anywhere else surveyed except Hong Kong, Singapore, and Taiwan. Yet the closer one looks, the less certain the outlook becomes. Although the great majority of today's workers expect to receive benefits from the Employees Provident Fund, for most workers the benefits will be far too small to maintain their preretirement living standard. Many workers who say that they expect to receive income from financial assets in retirement have not actually purchased those assets, suggesting that their expectations may be little more than aspirations. Meanwhile, Malaysia's early retirement ages greatly complicate the challenge of ensuring an adequate retirement income.

Malaysia certainly enjoys some important advantages that should help it meet its retirement challenge. Although Malaysia is an aging society, it is not aging as rapidly as many of the other countries surveyed. While the elderly share of Malaysia's population is projected to double from 9 to 17 percent by 2040, the elderly share of the population will approach 30 percent in China and will exceed 30 percent in Hong Kong, Singapore, South Korea, Taiwan, and Thailand. Malaysians are not only highly market-oriented, but are also highly engaged with the financial services industry. At the same time, the country's savings-based retirement system, though less than generous, will spare future workers the rising tax burden faced

SURVEY Overview

Malaysia

TODAY'S RETIREMENT Realities	**Share of Today's Retirees Who...**	
	Retired before Age 60	92
	Live with Their Grown Children[1]	48
	Depend Financially on Their Grown Children[2]	20
	Receive Income from the State Pension System[3]	79
	Receive Income from Financial Assets[4]	42
	Receive Income from a Job or Business	42
	Have Received Professional Financial Advice	24
	Have a Lot Less Income Now Than When Working	29
	Worry More About Exhausting Their Savings Than 3 Years Ago	24
TOMORROW'S RETIREMENT Expectations	**Share of Today's Workers Who...**	
	Expect to Retire before Age 60	60
	Expect to Live with Their Grown Children[5]	58
	Expect to Depend Financially on Their Grown Children[2]	14
	Expect Income from the State Pension System[3]	89
	Expect Income from Financial Assets[4]	68
	Expect Income from a Job or Business	72
	Have Received Professional Financial Advice	41
	Expect to Have a Lot Less Income When Retired	16
	Are Saving More for Retirement Than 3 Years Ago	34

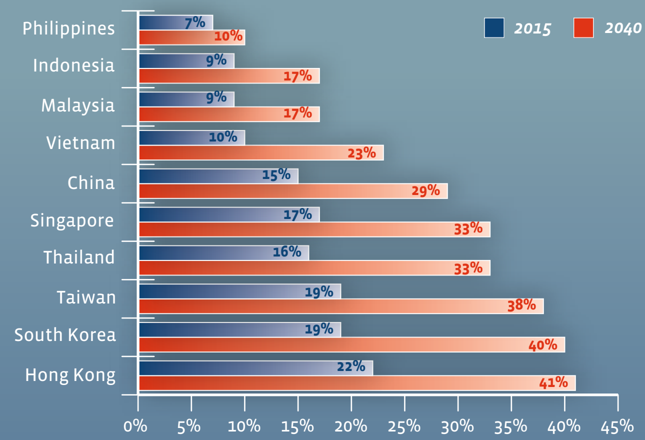
		+	−
VIEWS ABOUT THE RETIREMENT Challenge	**Share of Respondents Agreeing (+) and Disagreeing (−) That...**	+	−
	Supporting the Growing Number of Elderly Will Be a Large Burden for...		
	Tomorrow's Workers and Taxpayers	27	51
	Tomorrow's Families	26	56
	People Can Trust Financial Services Companies to Help Them Prepare for Retirement	50	29
	Government Is Doing Enough to Help Workers Prepare for Retirement	51	30

VIEWS ABOUT RETIREMENT Reform	**Share of Respondents Saying Government Should...**	
	Increase Taxes to Provide a Basic Pension Benefit to Those Elderly Who Are in Financial Need	61
	Increase Worker Contributions to Government Pension Programs	68
	Raise the Retirement Age	53
	Require Workers to Save More for Their Own Retirement	90

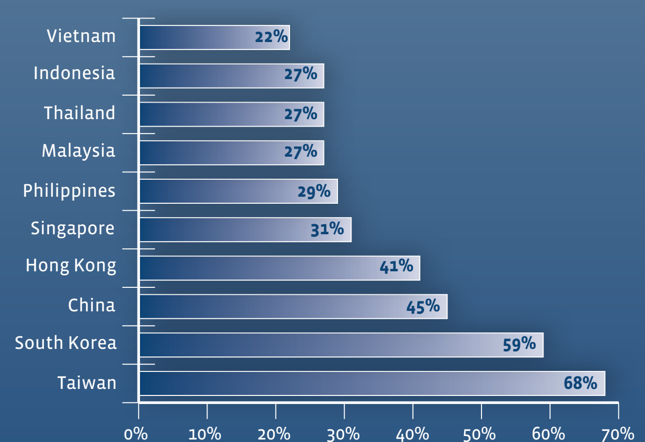
[1] Refers to elderly aged 60 and over who have grown children.
[2] "Depend" means net recipient of income from children.
[3] State pension system includes the Employees Provident Fund and civil service and military pensions.
[4] Financial assets include insurance and annuity products and stocks, bonds, and mutual funds, but exclude bank deposits.
[5] Refers to workers who have or expect to have children.

Notes: All data are from Wave 2 of the East Asia Retirement Survey, except for demographic data, which are from *World Population Prospects: The 2012 Revision* (UN Population Division: New York, 2013). Questions in the "Views about the Retirement Challenge" section used a five-point scale, with 1 being strongly disagree and 5 being strongly agree. "Agree" = 4 + 5 and "Disagree" = 1 + 2.

Share of the Population Aged 60 & Over



"Both parents and children are generally happier when they are more independent and self-sufficient."



"Who, ideally, should be mostly responsible for providing income to retired people?"

% Response by Country	Government	Retirees Themselves	Grown Children	Former Employers
China	63	9	11	16
Hong Kong	41	44	6	8
Indonesia	45	18	11	25
Malaysia	43	34	8	10
Philippines	66	10	8	17
Singapore	30	48	13	2
South Korea	23	61	10	2
Taiwan	36	40	6	16
Thailand	66	18	10	4
Vietnam	62	22	10	5

by workers in East Asian countries with pay-as-you-go state pension systems.

Yet these advantages alone will not be enough to ensure future retirement security. To improve their retirement prospects, Malaysians will need to save more and retire later. The government recently took an important step in the right direction by raising the minimum mandatory retirement age from 55 to 60. Meanwhile, the survey indicates that overwhelming majorities of Malaysians would support new government initiatives that encourage or require workers to save more for retirement. The willingness of Malaysians to embrace retirement reform is certainly good news, since without it the retirement expectations of many of today's workers are bound to be disappointed.

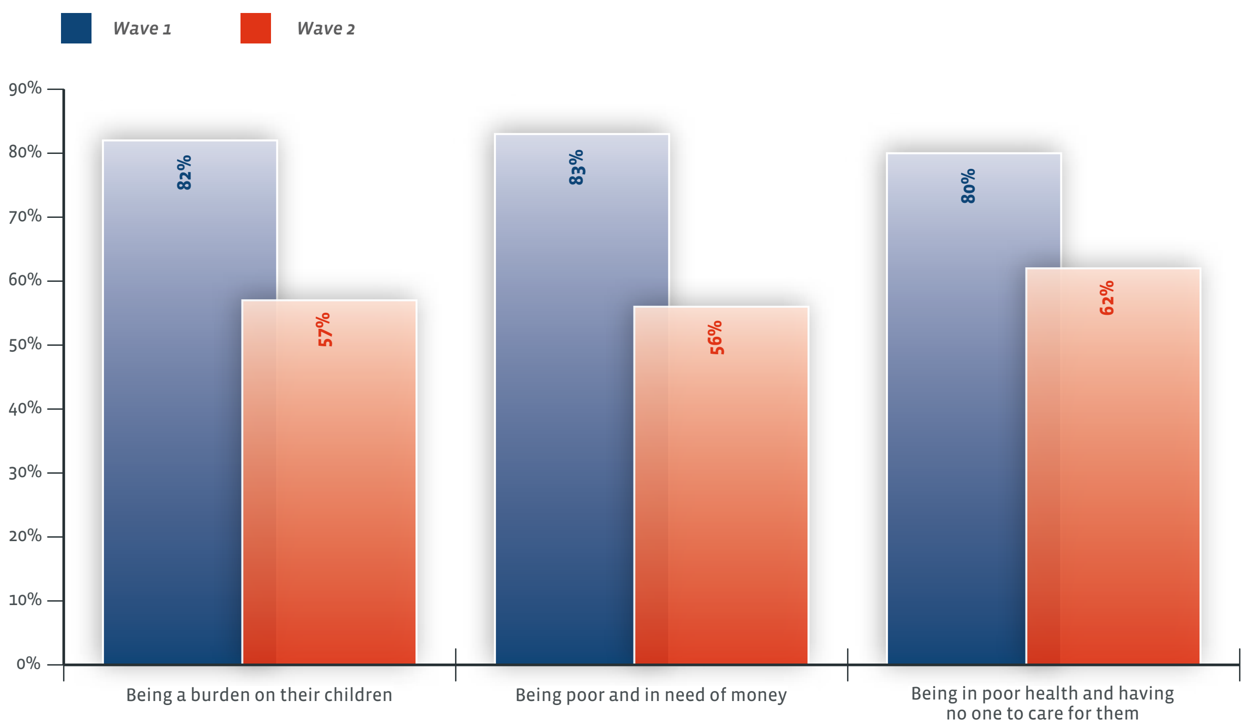
Today's Retirement Realities

The economic circumstances of today's retirees are far from secure. To be sure, 79 percent report receiving at least some income from the Employees Provident Fund or a civil service or military pension, a higher rate of state pension receipt than in any other country surveyed except China. Forty-two percent also report receiving at least some income from insurance or annuity products and/or stocks, bonds, or mutual funds. Although the share of Malaysian retirees with asset income is smaller than the share of retirees with asset income in Singapore, Taiwan, and Thailand, it is roughly equal to the share in China and Hong Kong and is twice the share in South Korea, four times the share in Indonesia and Vietnam, and fifteen times the share in the Philippines. Yet none of this is sufficient to close the enormous gap in living standards between the retired elderly and more affluent rising generations. Overall, the median income of elderly households in Malaysia is just 50 percent of the median for all households, a relative living standard that is lower than that in any other country surveyed except South Korea.

The good news is that the economic circumstances of today's retirees appear to be improving. When asked to compare their circumstances now with three years ago, 18 percent of today's retirees reported having more income, a larger share than in any other country except China. The shares of Malaysian retirees who say that they worry about "becoming a burden on their children," "being poor and in need of money," and "being in poor health and having no one to care for them" have also fallen dramatically since the first wave of the survey was conducted in 2011. The explanation may lie in the large increase in the share of retirees who report receiving means-tested old-age assistance. In the first wave of the survey, just 5 percent of retirees reported receiving such assistance, while in the second wave 24 percent did.

Tomorrow's Retirement Expectations

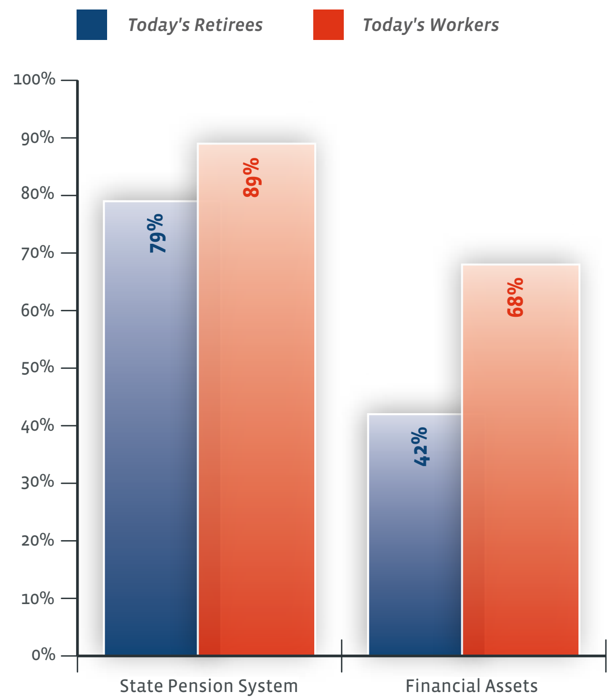
Today's workers are clearly optimistic about their retirement prospects. Thirty-two percent expect that they will have more income when retired than they do today, a larger share than in any other country except China, while just 16 percent expect that they will have a lot less income, a smaller share than in any other country except Indonesia, the Philippines, and Vietnam. The growing market-orientation of current working generations may account for some of the optimism. While 42 percent of today's retirees report receiving income from insurance or annuity products and/or stocks, bonds, or mutual funds, 68 percent of today's workers expect to receive income from these



Although retirement insecurity is widespread in Malaysia, the outlook is improving.

Share of Malaysian Retirees Who Worry about Each of the Following Things Happening during Retirement: Wave 1 versus Wave 2 financial assets when they retire. So may rising rates of state pension receipt. While 79 percent of today's retirees report receiving income from the Employees Provident Fund or a civil service or military pension, 89 percent of today's workers expect to do so when retired.

What is much less clear is whether this optimism is realistic. The great majority of today's workers may expect to receive benefits from the Employees Provident Fund, but the benefits that they receive will in most cases be far too small to maintain their preretirement living standard. Indeed, the system's lump-sum payouts are often exhausted within just the first few years of a retirement that may last a quarter century or more.[1] As for asset income, it turns out that the expectations of many of today's workers are merely aspirations. Among workers aged 20-39, only 59 percent of those who say that they expect to receive asset income in retirement have actually purchased financial assets. Even among workers aged 40-59, the share is only 75 percent. Tellingly, an enormous 55 percent of today's workers expect to receive means-tested old-age assistance when they are retired. While this assistance may help to boost their retirement income, it is difficult to say whether such an outcome should be considered a success or a failure of the retirement system.



Rates of pension and asset income receipt are high and rising.

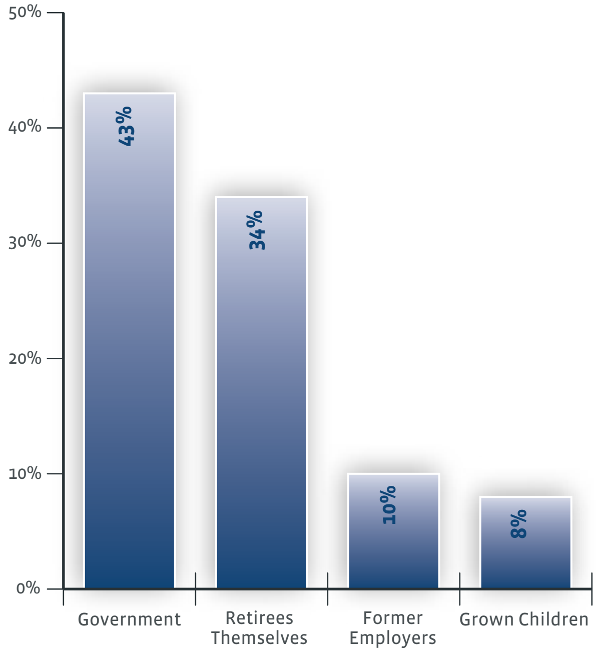
Shares of Today's Retirees Receiving Income and Shares of Today's Workers Expecting to Receive Income from the State Pension System and Financial Assets in Malaysia

The Changing Role of the Family

Although the family continues to play an important role in retirement security in Malaysia, that role is receding. Just 48 percent of the elderly live with their grown children, fewer than in any other country surveyed except China and South Korea. Meanwhile, just 20 percent of today's retirees report that they are net recipients of income from their grown children, fewer than in any other country except China, South Korea, and Taiwan.

When asked, "who, ideally, should be mostly responsible for providing income to retired people," just 8 percent of Malaysians answered "grown children or other family members," a share that has fallen from 14 percent in the first wave of the survey. Even as attitudes toward the family's role in retirement security are changing, so are attitudes toward the social role of the elderly. When asked whether the elderly "make important contributions to society and should be valued for their wisdom and experience" or whether the elderly "have little to contribute to society and are mostly a burden," just 4 percent of respondents in the first wave of the survey expressed the second negative view. In the second wave of the survey, 15 percent did, more than in any other country surveyed. Sadly, it is the elderly themselves who are

[1] See Mukul G. Asher, "Malaysia: Pension System Overview and Reform Directions," in *Pension Systems and Old-Age Income Support in East and South¬east Asia: Overview and Reform Directions*, ed. Donghyun Park (Manila: Asian Development Bank, 2011).



Malaysians are divided about who should be responsible for retirement income.

"Who, ideally, should be mostly responsible for providing income to retired people?" Share of Malaysian Respondents Saying…

most likely to believe that they have little to contribute and are mostly a burden. Among adults aged 60-69, 19 percent expressed this view and among adults aged 70 and over 23 percent did.

Responsibility for Retirement Provision

If not the family, then who, ideally, should be mostly responsible for providing income to retired people? Malaysians are divided in their views about the relative importance of the individual and the state in responsibility for retirement income. Overall, the share of Malaysians who believe that government should have primary responsibility outweighs the share who believe that retirees themselves should by 43 to 34 percent. Behind these figures, however, there are large differences in opinion between key segments of the population. Support for individual, savings-based responsibility for retirement income is much higher among private-sector workers than public-sector ones, much higher among higher-income respondents than lower-income ones, and much higher among better-educated respondents than less-educated ones. Whether the overall balance of opinion shifts over time will thus depend on broader developments in Malaysian society.

Attitudes toward Financial Markets and Services

Malaysians are not only highly market-oriented, but also have positive attitudes toward financial markets and the financial services industry. When respondents were asked whether "investing savings in stocks, bonds, and mutual funds is a good way for people to prepare for retirement," 60 percent agreed or strongly agreed while just 22 percent disagreed or strongly disagreed, a three-to-one margin that is wider than anywhere else surveyed except the Philippines and Thailand. By a margin of nearly two-to-one, Malaysians also agree that "people can trust financial services companies to help them prepare for retirement." Thirty percent of Malaysians believe that investment professionals, rather than individuals themselves, should be primarily responsible for making decisions about how retirement savings are invested, more than in any other country surveyed. Meanwhile, 41 percent of today's workers report having received professional financial advice about how to invest their retirement savings, a share only exceeded in Singapore. All of this will stand Malaysia in good stead as it confronts its retirement challenge.

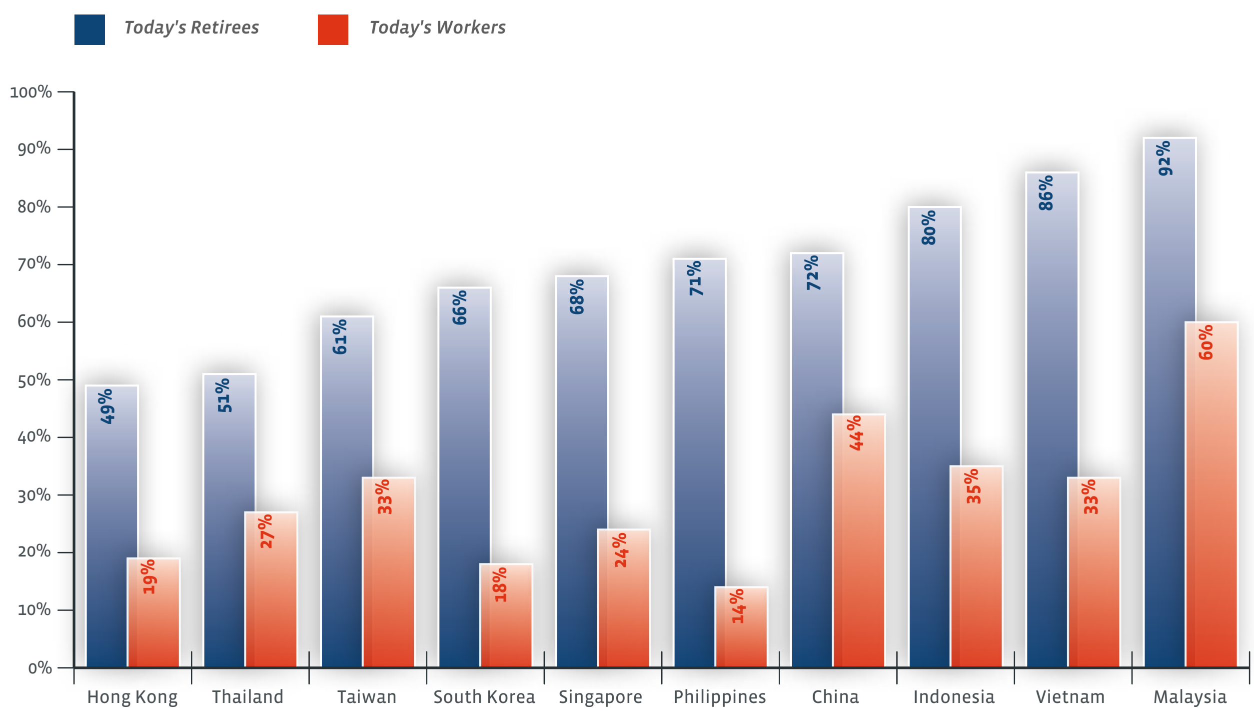
Attitudes toward Work and Retirement

While Malaysia's high degree of market-orientation constitutes a major advantage, its early retirement ages constitute a major handicap. An incredible

92 percent of today's retirees report that they retired before celebrating their sixtieth birthday, more than in any other country surveyed. Roughly three-quarters, moreover, cite having reached the mandatory retirement age as a reason for retiring. Despite the recent increase in Malaysia's minimum mandatory retirement age from 55 to 60, the survey suggests that this pattern of premature retirement may persist in the future. To be sure, 31 percent of today's workers report that they now plan to retire later than they did three years ago, more than anywhere else except Indonesia, South Korea, and Thailand. Still, looking to the future, 60 percent of today's workers say that they expect to retire before age 60, a far larger share than in any other country. One reason may be that the new law rules out mandatory retirement before age 60, but does not rule out voluntary retirement. Another is surely that the Employees Provident Fund still allows workers to cash out their retirement savings at age 55.

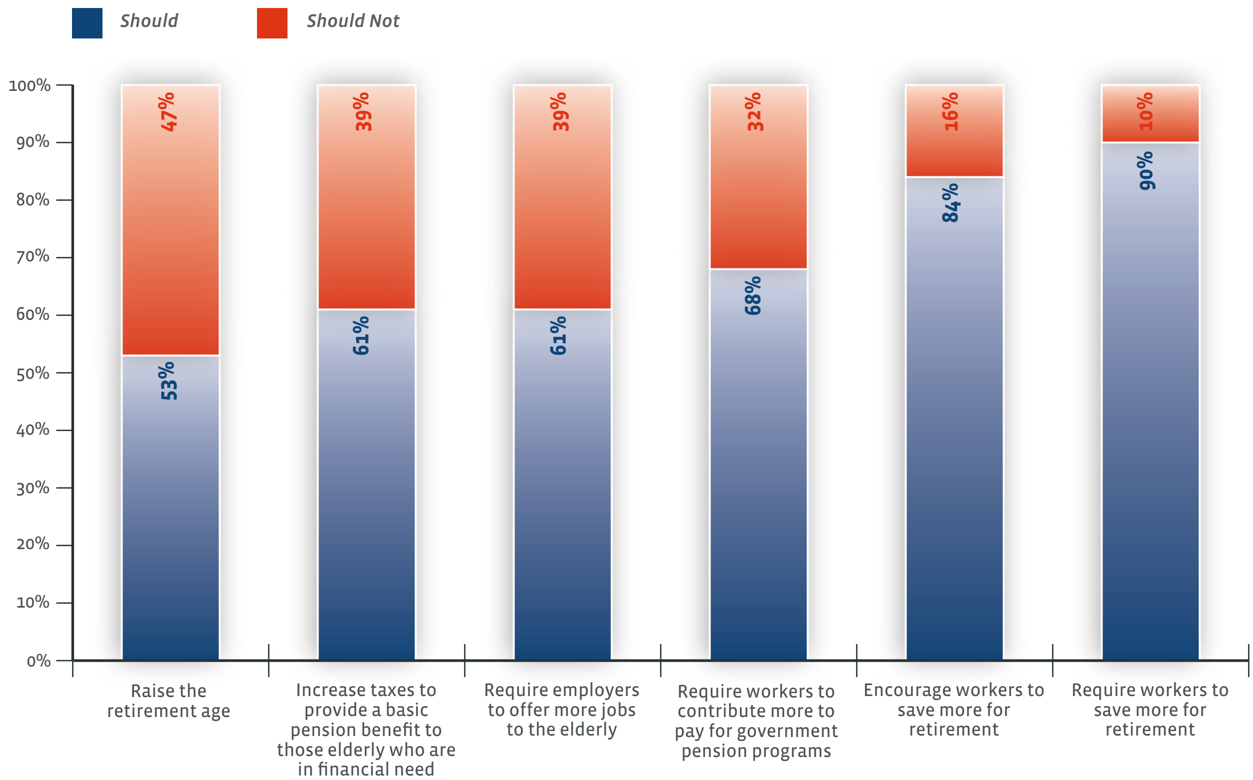
From Challenge to Opportunity

Malaysians are generally optimistic about the future. When respondents were asked whether "each new generation of workers will have a higher living standard than the previous one," 61 percent agreed or strongly agreed while just 20 percent disagreed or strongly disagreed, a margin of three-to-one. When asked "whether each new generation of retirees will have a more secure retirement than the previous one," 57 percent agreed or strongly agreed while just 20 percent disagreed or strongly disagreed, also a margin of three-to-one. Meanwhile, the aging of Malaysia's population barely registers as a concern. When asked whether "supporting the growing number of elderly will be a large burden for tomorrow's workers and taxpayers, respondents disagreed by two-to-one. When asked whether it will be "a large burden for



Malaysia's early retirement ages pose a serious economic and social challenge.

Share of Today's Retirees Who Retired before Age 60 and Share of Today's Workers Expecting to Retire before Age 60



What Malaysians Think about Retirement Reform

Share of Malaysian Respondents Saying That Government Should or Should Not…

tomorrow's families," they also disagreed by two-to-one.

Optimism about the future can sometimes become an obstacle to needed reform. Fortunately, Malaysians appear to understand the importance of addressing their country's retirement challenge. To be sure, when respondents were asked whether "the government is doing enough to help today's workers prepare for retirement," 51 percent agreed or strongly agreed while just 30 percent disagreed or strongly disagreed. Yet at the same time, when respondents were asked whether the government should or should not enact specific reforms, substantial majorities expressed support for a wide range of policy initiatives, from increasing taxes to provide a basic pension benefit to those elderly who are in financial need to encouraging or requiring workers to save more for their own retirement. In the case of a new savings mandate, the majority was an overwhelming 90 percent.

Clearly, Malaysia faces a major retirement challenge. Yet just as clearly, Malaysia is beginning to engage the challenge. Additional reforms will be needed to ensure a favorable outcome. Yet given Malaysians' high degree of market-orientation, high level of engagement with the financial services industry, and willingness to save more for retirement there is indeed reason to be optimistic about the future.

Technical Note

The second wave of the East Asia Retirement Survey was designed by the Global Aging Institute (GAI) and conducted during the summer of 2014 by Ipsos Observer, a globally prominent survey firm. The survey was conducted in China, Hong Kong SAR, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. All survey samples were randomly selected and nationally representative, except that the samples for China, Indonesia, the Philippines, Thailand, and Vietnam were limited to urban areas. The interviews were conducted by telephone, except in the Philippines, Thailand, Indonesia, and Vietnam, where they were conducted in person. The survey universe consisted of household "main earners" aged 20 or older, including both current main earners and retired main earners. GAI weighted the raw survey data by age, gender, and educational attainment using census data and other standard national and international statistical sources. The survey analysis was carried out using SPSS statistical software.

Sample Size and Margin of Error

	Sample Size	Margin of Error (+ or –)*
China	1512	2.5
Hong Kong	749	3.6
Indonesia	1023	3.1
Malaysia	990	3.1
Philippines	997	3.1
Singapore	750	3.6
South Korea	997	3.1
Taiwan	998	3.1
Thailand	1008	3.1
Vietnam	995	3.1

* Margin of error at a 95 percent confidence interval.

The sample size for seven of the ten countries ranged from 990 to 1023. In China, the sample size was 1512, and in Hong Kong and Singapore it was 749 and 750, respectively. The margin of error for the survey at a 95 percent confidence interval ranged from a low of plus or minus 2.5 percentage points in China to a high of plus or minus 3.6 percentage points in Hong Kong and Singapore.

Glossary

Elderly: The elderly in this report are defined as adults aged 60 and over.

Financial Assets: Financial assets in this report generally refer to insurance and annuity products and stocks, bonds, and mutual funds. Unless otherwise noted, they exclude bank deposits.

Funded Pension Systems: A funded pension system is a system in which the contributions of current workers are saved and invested and benefits are paid out of the accumulated assets.

Household Income: Household income refers to the income of all household members. For retirees living in multigenerational households, it thus includes the income of their grown children.

Market-Oriented: Market-oriented refers to degree of engagement in financial markets. A market-oriented country or society is one in which a large and/or rapidly growing share of the population invests in financial markets and owns financial assets.

Means-Tested Programs: Means-tested programs are social assistance programs in which eligibility for benefits is limited to persons with income or assets beneath certain thresholds.

Pay-As-You-Go Pension Systems: A pay-as-you-go pension system is a system in which the contributions of current workers are directly used to pay for the benefits of current retirees.

Replacement Rates: Replacement rate refers to the share of a worker's income that pension benefits replace. If benefits are paid as a lump sum rather than in monthly installments, it refers to the share of income they would replace if annuitized.

Retirees & Workers: The division of respondents into "today's retirees" and "today's workers" is based on self-identification by the respondents themselves. Respondents were told that retirement means "no longer working or working less than when you were younger and having no plans to work full-time again." They were then asked whether they are "currently retired."

State Pension System: The term state pension system in this report refers to all mandatory pension systems or retirement savings systems established by the government, provided that the systems are contributory and are not means-tested. In Malaysia, the state pension system includes the Employees Provident Fund and civil service and military pensions.

About the Authors

Richard Jackson is the founder and president of the Global Aging Institute (GAI), a nonprofit research and educational organization dedicated to improving understanding of the economic, social, and geopolitical challenges created by demographic change, and especially population aging, in the United States and around the world. He is also a senior associate at the Center for Strategic and International Studies (CSIS) and a senior advisor to the Concord Coalition. Richard is the author or co-author of numerous policy studies, including *Lessons from Abroad for the U.S. Entitlement Debate* (2014); *The Global Aging Preparedness Index, Second Edition* (2013); *Balancing Tradition and Modernity: The Future of Retirement in East Asia* (2012); *Global Aging and the Future of Emerging Markets* (2011); and *The Graying of the Great Powers: Demography and Geopolitics in the 21st Century* (2008). Richard regularly speaks on demographic issues and is widely quoted in the media. He holds a Ph.D. in history from Yale University and lives in Alexandria, Virginia, with his wife Perrine and their three children, Benjamin, Brian, and Penelope.

Tobias Peter is a research associate at the Global Aging Institute. Prior to beginning his graduate studies, he worked with Richard Jackson on global aging issues at the Center for Strategic and International Studies, where he was successively an intern, research assistant, and program coordinator. Tobias is the co-author of several policy studies, including *U.S. Development Policy in an Aging World: New Challenges and New Priorities for a New Demographic Era* (2013); *The Global Aging Preparedness Index, Second Edition* (2013); and *Balancing Tradition and Modernity: The Future of Retirement in East Asia* (2012). He holds a B.A. in history and applied economics from the College of St. Scholastica and a Master of Public Policy degree from Harvard's John F. Kennedy School of Government.

About the Global Aging Institute

The Global Aging Institute (GAI) is a nonprofit research and educational organization dedicated to improving our understanding of global aging, to informing policymakers and the public about the challenges it poses, and to encouraging timely and constructive policy responses. GAI's agenda is broad, encompassing everything from retirement security to national security, and its horizons are global, extending to aging societies worldwide.

GAI was founded in 2014 and is headquartered in Alexandria, Virginia. Although GAI is new, its mission is not. Before launching the institute, Richard Jackson, GAI's president, directed a research program on global aging at the Center for Strategic and International Studies which, over a span of nearly fifteen years, produced a large body of cutting-edge research and analysis that played a leading role in shaping the debate over what promises to be one of the defining challenges of the twenty-first century. GAI's Board of Directors is chaired by Thomas S. Terry, CEO of the Terry Group and immediate past president of the American Academy of Actuaries. To learn more about the Global Aging Institute, visit www.GlobalAgingInstitute.org.

About Eastspring Investments

Eastspring Investments is a leading asset manager in Asia that manages US $134 billion (as at 30 June 2015) of assets on behalf of institutional and retail clients. Operating in Asia since 1994, Eastspring Investments is the Asian asset management business of Prudential plc, one of the world's largest financial services companies.

We have one of the widest footprints in Asia, with on-the-ground teams of 2,500 employees and more than 250 investment professionals located in 10 major Asian markets as well as offices in the US, Europe, and the United Arab Emirates. Our unparalleled knowledge and local insights allow us to deliver unique and tailored opportunities to our clients. We provide investment solutions across a broad range of asset classes including: equities, fixed income, global asset allocation, mezzanine debt, private equity, and infrastructure.

Eastspring Investments was Asia's largest retail fund manager in 2014 according to an annual survey by Asia Asset Management, and was named the Best Asset Management House in Asia in Asia Asset Management's Best of the Best Awards in 2014.

Prudential plc is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.

Global Aging Institute

www.GlobalAgingInstitute.org

eastspring investments

www.eastspring.com