Saving for Twilight Years
By
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With the Iraq War closing its chapter behind us and the Severe Acute Respiratory Syndrome (SARS) out of the woods for now, the Malaysian economy is also slowly picking up the pieces, making some good progress along the way. Still, as economists keep vigilance over any possible threats to the Malaysian economy, the government is kept tirelessly on its toes trying to throttle back domestic demand, culminating into a hot-off-the press stimulus package which provides the much needed antidote for all.

According to the Mid-term Review of the Seventh Malaysia Plan, Malaysia's population currently stands at approximately 23 million, of which approximately 21.5 million qualify as citizens. Falling under the World Bank 1997 classification of an upper middle income country, Malaysia's per capita income currently hovers around RM12,135. The gross domestic product (GDP) rate (at 1987 prices), according to the Department of Statistics, was –7.5 per cent in 1998 before turning around remarkably well to register a 5.4 per cent growth in 1999. Domestic demand constitutes about 90 per cent of the country's GDP, with private consumption constituting the largest share at 46 per cent of GDP. Henceforth, private spending plays a significant role in determining Malaysia's economic growth.

And because consumer spending accounts for the bulk of domestic demand, consumers, as they almost always do, will determine the degree of the economy's recovery. Thus, as long as households keep beating a steady rhythm, the economy should keep marching well ahead. Two key questions come to mind here then. One, are forecasters putting too much faith in consumers? After all, savings are relatively lower and debt is higher, despite modest income growth. The stock market is only beginning to show some life and weaker-than-expected job markets could quickly alter consumers' free-spending ways. One thing, however, is clear from past business cycles – when consumers pull back sharply, they take the rest of the economy with them. Consumers, thus, represent an important cog in the wheel.

The other question pertains to savings. Malaysia's saving rate has relatively been high and there are several factors which could explain this. For one, the mainstay of domestic savings was household savings, a greater part of which exists in the form of compulsory Employees' Provident Fund (EPF) contributions and bank deposits. Domestic banks contributed a great deal in mobilising small household savings. But, in the late 1980s as household incomes increased and consumption amalgamated, the savings rate in the private sector became less stable. The instability should be attributed mainly to the fluctuating spontaneous (or voluntary) savings, while the money allocated to pension funds or the EPF (compulsory savings) contributed to maintaining the national savings level as a built-in stabiliser for household savings.

In addition, it should be noted that the savings by the government have worked to supplement private savings in Malaysia. The nation's savings rate has long been stable at a high level. The public savings comprised primarily of the general budget surplus and the surplus from Non-financial Public Enterprises (NFPEs). From the late 1970s to the early 1980s, the prices of primary products rose, and the policy aimed at equipping the country with resource-based heavy industries, such as oil production, contributed to the surplus, resulting in increased public savings during the period. From the late 1980s to the early 1990s, however, other measures such as the privatization of public businesses and governmental restructuring also helped boost public savings temporarily.

Upon completion of these restructuring and privatisation initiatives, the public savings will shrink and cannot be expected to expand domestic savings any longer. Therefore, if neither the corporate nor the public sector is in a position to contribute positively to the rise in the national savings rate, the burden of the task will fall squarely on the household sector which, traditionally, accounts for about half of the gross national savings (GNS). Hence, one lesson we could learn from the 1998 Asian crisis is that, reliance on foreign capital flows will augment instability of the financial system. And if the Malaysian economy expects to sustain growth, mobilisation of domestic savings, especially spontaneous savings, seems a more formidable task now than before.

As mentioned earlier, the EPF poses another kind of savings deficiency. The main role of this Fund is to provide financial security to its members during their twilight years. However, the nature of the funds, reliant as they are on long-term contributions, the relatively early stage at which funds are accessible, the nature of this access and the sub-division of contributions into several specific accounts cast doubts over the EPF ability in fulfilling its objective. Not only is the framework of the fund not rigid enough, it is regularly amended and developed. The latest of this is the allocation for personal computers, a provision no longer available to members as it was scrapped recently. The decline in dividend rates over the years has also stirred public outcry and dissatisfaction among members.

Of the three dedicated accounts, each with specific withdrawal requirements, Account I raises the most concern. At present, 60 per cent of contributions are deposited into this account and cannot be withdrawn until the member reaches the retirement age of 55. Early withdrawals from individual member's account will effect negatively on the final balance and dividend yield. With Accounts II (housing) and III (healthcare) accounting for 30 and 10 per cent, respectively, of the individual member's total contribution, early withdrawals from these accounts means a possible 40 per cent reduction of all contributions and dividends. In 2001, the EPF approved about 1.7 million applications amounting to RM16.61 billion, which is 77.8 per cent more than the 976,998 applications processed in 2000. The increase in withdrawal workload was mainly caused by a rise in withdrawals for the housing and personal computer schemes as well as by pensionable employees.

At 55, this is a relatively young age at which lump sum withdrawals can be made from the EPF which raises the question as to how long the accumulated balance, possibly minus 40 per cent, could last for an individual member. This, coupled with the increasing life expectancy, could leave the elderly vulnerable to an increased risk of poverty. In this context, a greater degree of income guarantee lasting the required period is crucial if the elderly are to avoid the socially exclusive aspects of poverty, particularly in a country like Malaysia where the population is ageing.

In addition, an increased life expectancy could mean higher individual expenditure on health and social care as well. Already, many civil servants who have opted for the EPF scheme have appealed to the government to allow them to revert back to the pension scheme. This is because, under the EPF scheme, they are no longer entitled to free medical treatment at government hospitals, a privilege they once enjoyed while still in service. The pension scheme, on the other hand, provides some form of continued income for the rest of their lives, unlike the EPF scheme where all one gets is a lump sum payment. In separate studies conducted by Cuepacs and the EPF, both found that members have spent all their EPF savings within a few years after retirement, often due to circumstances beyond their control. For instance, children of those who married late are still of a dependent age, while those who are of age may still, to a certain extent, be financially dependent on their retired parents.

Women, in particular, are likely to suffer the adverse effects of poverty in old age due, in part, to earlier retirement and longer life expectancy than their male counterparts. According to the Department of Statistics, the present life expectancy for men in Malaysia is 71 years while that for women is about 76.

Indeed, demographic, social and economic changes in Malaysia will promote the need for a more dependable and workable system of savings for the elderly. Reliance on traditional means of support, combined with individual savings, may well raise the incidence of poverty and social exclusion among the elderly. Measures, therefore, need to be taken to ensure that all workers are covered by a system that offers a minimum guaranteed income through periodical payments. After all, when one retires, one deserves to enjoy the fruits of one's labour and with sufficient savings, this is not hard to do.

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