

The feasibility of Malaysia's retirement income adequacy framework

By **Joseph Cherian** - December 16, 2024 @ 7:57am



Kuala Lumpur city view. NSTP/AIZUDDIN SAAD

THE newly-launched Retirement Income Adequacy (RIA) framework by the Employees Provident Fund (EPF) aims to address retirement planning in Malaysia amid rising living costs and an aging population.

While the EPF should be commended for deriving a three-tiered savings benchmark system for achieving various target monthly expenditures in retirement, questions about its feasibility and effectiveness remain.

Are the Tiers Feasible?

Yes, the three tiers of the RIA framework are feasible.

However, achieving the desired or target income level in retirement depends on having a sufficiently long savings runway, as well as ensuring income adequacy

during one's working years in order to save in a manner that achieves one of the three RIA benchmarks.

This requires careful financial planning, disciplined savings, good and unbiased financial advice, and strategic management of financial resources over time.

The RIA framework lays the groundwork, but its success hinges on two additional issues: the ability of individuals and policymakers to foster a culture of financial literacy and proactive saving early in life, and financial professionals giving good, unbiased, and cost-effective advice – as well as suitable financial products – to achieve the individual's particular RIA target income.

Addressing the Rising Cost of Living

Does the RIA Framework fully address the rising cost of living? Ideally, retirement payouts under the framework should be indexed to inflation, cost of living, or standard of living metrics to ensure financial security.

Without such adjustments, the framework risks losing relevance – as well as purchasing power – in an inflationary and volatile economic environment.

Additionally, the government should consider incorporating a form of tail risk insurance into the framework.

For example, structuring the RIA scheme as a life annuity of payouts rather than a term annuity would ensure lifelong income security. This is especially true for individuals who outlive their planned retirement period, the average life expectancy in Malaysia notwithstanding.

To accommodate for these tweaks, the RIA savings levels table needs to be recalculated.

Moreover, a needs-based social security scheme would support those unable to meet the savings threshold, hence providing a more comprehensive approach to our social security net.

Is Malaysia Facing a Retirement Crisis?

EPF's recent data showing only 36 per cent of active formal members meet the Basic Savings level of RM240,000 by age 55 signals a looming retirement crisis. This challenge is particularly acute for those with insufficient financial capacity to save adequately.

To address this, potential solutions include:

- **Extending Work Life:** Encouraging individuals to remain in the workforce longer, with appropriate upskilling and flexible continuing education elements provided, which can help increase savings and delay retirement fund depletion.

- Increasing Savings Rates: Promoting higher contributions during working years can help offset future shortfalls.
- Monetising Assets: Homeowners can explore reverse mortgage schemes to convert home equity into retirement income.

While these solutions offer pathways forward, they must be complemented by robust policymaking and systemic reforms to ensure their effectiveness.

The Way Forward

Malaysia's retirement challenges require more than surface-level solutions.

Again, the RIA Framework is a commendable step forward, but addressing the complexities of retirement savings and adequacy over one's lifecycle demands comprehensive, data-driven strategies and active collaboration among individuals, the academy, institutions, and the government.

It also involves coming up with feasible strategies for those who will not be able to make the cut, no matter what.

By fostering financial preparedness and implementing innovative policies, Malaysia can turn its retirement challenges into opportunities for sustainable growth and social stability.

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