



The Awareness of Private Retirement Scheme and the Retirement Planning Practices among Private Sector Employees in Malaysia

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ABSTRACT

Private retirement scheme (PRS) was first introduced in 2012 in supporting the private sector employees to prepare for their retirement. The main purpose of this exploratory study is to unveil the level of awareness of PRS and investigating factors influencing the retirement planning practices. This study applies quantitative approach with the use of survey questionnaires as the main instrument of data collection. Private sector employees from five private companies in Malacca was selected as respondents of this study. Data collected was analysed using descriptive analysis. In general, findings of this study shows that relatively, the level of awareness towards PRS is still low. In addition to that, only 77% of those that aware about this scheme have an interest to invest. Various factors were found to have an influence on the retirement planning practices private sector employees in Malaysia. Overall, this study shed some information on the awareness towards PRS among private sector employees in Malaysia and also factors influencing their current state of retirement planning practices.

Keywords: Awareness, Private Retirement Scheme, Retirement Planning Practices, Private Sector Employees

JEL Classifications: J26, J23, J38

1. INTRODUCTION

Retirement, defined as the act of ending one's working career or the period after he/she have permanently stopped a job or profession (Merriam-Webster Inc., 2014). Malaysian Labour Law enforced that the age of retirement is at 60 years. However, the issue arises upon retirement is when the support provided by either the government or private institutions/companies are both insufficient for retirees to face their retirement days. According to the statistics provided by the Financial Planning Association of Malaysia via Mercer, the life expectancy of an average male stands at 73 years whereas for females at 78 years. Generally, a Malaysian has a life expectancy of 75 years in which the lengthening of life expectancy has call for additional funds to be accumulated to finance their old age (Othman, 2010). A survey conducted by HSBC shows that 43% of respondents are inadequately prepared, and 1 in 10 peoples

is not prepared at all for their retirement with the ability of the available retirement funds to sustain only 12-17 years of their expected living after retirement (Lee, 2013).

Retirement has brought issues related to insufficient funds in funding the expenses of fellow retirees upon retirement. Assumptions or factors was made leading to the necessity of retirement plans. These assumptions includes financial needs after retirement, desire to assist adult children or grandchildren financially, the unpredictable economic forces, the early retirement ages, the extended life expectancy and retaining funds for lifetime gifts. These increases the need for funds in funding their retirement (Rosenbloom et al., 2009). At present, the retirement plans available such as employee provident fund (EPF) and pension scheme is not sufficient in funding the retirees. Studies have shown that the pre-planned accumulated fund by the governing

body of the provident funds is insufficient to fund them till death. The evolving economy causes a significant drop in the value of money and the inevitable severity in physical decline of health conditions (Lock, 2001).

Private pension fund with the approval of the Malaysian government, in subduing the issue in hand, has introduced private retirement scheme (PRS). This scheme is needed as it was proven that forced savings which accumulations are insufficient despite the contribution by both the employer and employee plus the minimum yearly dividend of 2.5% (Private Pension Administrator, 2014).

Pensioners are facing insufficient funds or rather unprepared to face retirement and are at the risk of lower standard of living during retirement if they rely solely on EPF (Lian, 2012). A study by Yin-Fah et al. (2010) revealed that retirement is a period of bereavement for those who take work as their life which last for at least another 20 years, and that the living standard of these retirees decreases upon retirement. According to Mohd (2013), if this issue is not dealt with, Malaysia will face poverty among the elderly and shortage in the labour market with the increasing of elderly population. This is worsened by the fact that many Malaysians are financially illiterate and generally with no proper retirement savings planning (Moorthy et al., 2012). The availability of income sources and potential resources after retirement are important considerations. Financial education and retirement planning provides the an important basis for the development of new human resource policies in higher education and the importance of proper retirement planning, prior to retirement (Lai et al., 2009).

These issues raised several questions on the level of awareness of PRS among the private sector employees in Malaysia and factors influencing the current state of retirement planning among the private sector employees in Malaysia.

2. LITERATURE REVIEW

2.1. EPF

The EPF is a social security institution that was established under the Employees Provident Fund Act 1991 (Act 452). This scheme benefits the members via efficient and reliable management of their savings and open to private and non-pensionable public sector employees. According to Mohd (2013), the provident fund in Malaysia was introduced in 1951 and was defined as contribution scheme funded via the contribution of both employee and employer with the aim to provide non-labour income to the elderly upon retirement. This is a necessary mechanism in providing a continuous income to the elderly in financing their retirement expenses. The results of this research was that the accumulated fund was insufficient in providing a continuous income for the elderly for their retirement period and is further aggravated by the low returns on investment of the fund and the nature of the fund which do not encourage a stable savings fund after retirement. Narayanan (2002) argues that the EPF is insufficient or inadequate to support the old age in which this qualitative study has concluded that the funds were indeed unable to provide the sufficient protection to most of the contributors.

2.2. Pension Scheme

The pension scheme, a financial security mainly offered to retired employees working under the Government. Upon opting this scheme, they will be granted a fixed monthly income, a service gratuity payment and additional benefits such as free medical treatment at government hospitals (Jabatan Perkhidmatan Awam, Pecen, 2014). There are three types of pension benefits offered by the Public Service Department (JPA) which are service pension (monthly payment), service gratuity (lump sum payment) and cash award in lieu of leave, when applicable (lump sum payment) in which the rate of gratuity to be paid depends on the period of reckonable service and salary, substantive by the officer (Jabatan Perkhidmatan Awam, Pecen, 2014).

2.3. PRS

The PRS, a retirement scheme introduced by the Private Pension Administrator (PPA) in addressing the inadequacy of retiree's savings in meeting their retirement needs to accommodate the increasing life expectancy and rising living standards. This scheme was launched in Malaysia on the 18th of July 2012 with an aim of aiding the adequacy enhancement and the coverage expansion of retirement benefit to the general public as a whole. PRS functions and operates similarly to EPF with a slight difference in benefits and returns. The contributors account, PPA Account is split into accounts Sub a/c A; comprises of 70% of the contributed amount and can be withdrawn upon reaching retirement age where as Sub a/c B; 30% of the amount and can be withdrawn once a year. Contributors are given the options which are catered for different age groups which are Growth Fund, Moderate Fund and Conservative Fund which differs in risk levels and investment arenas (Securities Commission Malaysia, 2012).

2.4. Retirement Planning

A study conducted by Moorthy et al. (2012) to established the relationship between the retirement planning behaviour and the various factors affecting the retirement planning practices. The results shows that age, education level, income level, goal clarity, attitude towards retirement and potential conflict in retirement are among factors influencing the retirement planning practices. Another study by Lai et al. (2009) examining the money attitudes and associated retirement issues among academicians in higher education in Malaysia. This study found that in general, academicians held positive attitudes towards money and income appears to be the prime motivator indicating that female academicians and those from public universities had more positive attitudes towards retirement. On retirement planning practices, availability of income were found as the most important factor and payment for children's education was the key potential conflict area.

The general idea of most companies and the government believes that the retirement plan provided is sufficient to cover for the golden years expenses. However, this is somehow untrue as there are many studies proves the inadequacy of the sole dependency of companies and government pension plans for future consumption. For example, a study conducted by Ibrahim, Isa & Ali in 2012 revealed the results of lower level of awareness on the importance of retirement savings which shows that this issue was taken for granted by Malaysian employees.

2.5. Factors Influencing the Retirement Planning Practices

2.5.1. Goal clarity

Goal clarity has affected the retirement planning behaviour of working individuals. It was found that working individuals should hold a clear goal for retirement planning which is both achievable and attainable (Moorthy et al., 2012).

2.5.2. Potential conflict in retirement planning

The potential conflict in retirement planning in this context refers to situation which influenced significantly to the individual to have a retirement planning. Previous research revealed that children's education was reflected as the decisive factor for the working individual's retirement (Lai et al., 2009).

2.5.3. Attitude towards retirement

Retirement planning was evaluated by the agreement to the assumed statements with regards to attitude towards retirement. The overall results for this segment were that the respondents had positive attitudes towards retirement (Lai et al., 2009).

2.5.4. Attitude towards money

Attitude towards money in a previous research was calculated from three bases which are sense of accomplishments, sense of respect and budget factor. Research conducted by Lai et al. (2009), it was found that money gives the respondents a sense of accomplishment and respect.

2.5.5. Important considerations

Previous studies have revealed that availability of income sources and potential resources after retiring are important considerations in retirement planning amongst Malaysian academicians (Lai et al., 2009).

3. RESEARCH METHODOLOGY

3.1. Sampling Frame and Response Rate

The sample frame refers to the list or other device used to define the population in interest and defines a set of elements from which a researcher can select a sample of the target population (Curran, 2004). The samples were identified via a stratified random sampling. This technique involves the division of the target population into different subgroups, or strata, and then randomly selects the final subjects proportional to the different strata involved (Crossman, 2014). A total of 5 private companies was selected in this study with a total population of 653 employees. Based on Krejcie and Morgan's (1970), a total of 242 employees were drawn from the total population, stratified based on the percentage of number of employees from each company. A total of 155 usable questionnaires were used for the analysis of this study with a response rate of 64%.

4. DATA ANALYSIS AND RESULTS

4.1. Introduction

The data collected from the distribution of questionnaire were analyzed using the Statistical Package for Social Science software

version 20 and presented using descriptive analysis method via the measures of central tendency (mode, mean and median). This method involves describing a set of data collected but it does not draw conclusions of which data has relationship to one another (Hale, 2014).

4.2. Results

The results of the analysis on the awareness of PRS were presented in the following Tables 1 and 2. Based on the overall survey, the results shows that the awareness level of the product is relatively low as only 69 out of the total aware about PRS, making it only 44.52% with mainly friends (recording 26 respondents) as the source of information. Even upon knowing the existence of PRS, only 28 respondents invested in the scheme. After exposing the product details to the respondents via a pictorial description table about PRS, only 77 respondents were interested to invest in the PRS scheme.

The following Table 3 present the descriptive statistics of factors influencing the retirement planning practice among respondents of this study.

The overall responses from the respondents shows that in goal clarity, most people thinks a great deal about the quality for life in retirement. The potential conflict which is most apparent to these respondents is the living expenses after retirement. Furthermore, the respondents' attitude towards retirement shows that nearly all of respondents are worried of their life after retirement. The responses for attitude towards money, on the other hand is measured in three sub factors which shows that majority respondents believes that a person's pay is related to his or her ability in the sense of accomplishment, that money allows one to access many luxuries in the sense of respect and are proud of their ability to save money in terms of budget factor.

In important considerations, the availability of other jobs after retirement accumulated the highest score thus indicating it as the most important considerations above all next to the

Table 1: Awareness of product existence

Response	Frequency (N)	Percentage
Valid		
Yes	69	44.5
No	86	55.5
Total	155	100.0

Table 2: Investment in PRS and knowledge on advantages of PRS over EPF

Response	Frequency (N) ¹	%	Frequency (N) ²	(%)
Valid				
Yes	28	18.1	32	20.6
No	41	26.5	36	23.2
Total	69	44.5	68	43.9
Missing				
System	86	55.5	87	56.1
Total	155	100.0	155	100.0

¹Investment in PRS. ²Knowledge on advantages of PRS over EPF. PRS: Private retirement scheme, EPF: Employee provident fund

Table 3: Descriptive statistics of factors influencing retirement planning practices

Statements	Mean±SD
Statement ¹	
I set specific goals for how much will I need to save for retirement	3.38±1.144
I think a great deal about quality for life in retirement	3.48±1.046
I have a clear vision of how life will be in retirement	3.39±0.992
I set clear goals for gaining information about retirement	3.36±0.920
I discussed retirement plans with spouse, friend or significant other	3.29±1.067
Statement ²	
Payment for children's higher education	3.78±1.114
Living expenses after retirement	3.82±1.083
Keeping up to current standard of living	3.58±0.959
Cost of financial obligations	3.65±1.024
Travelling/holiday/vacation	3.38±0.985
Capital/resource needed for a new career	3.33±1.066
Statement ³	
Retirement makes me feel useless	2.38±1.175
I look forward to retirement	2.99±1.095
I am worried about my life after retirement	3.05±1.167
Retirement enables me to pursue my unfulfilled dreams	3.00±1.102
Statement ⁴	
I am proud of my financial victories	2.95±3.667
I believe that a person's salary reveals the IQ	2.65±1.031
I believe that a person's pay is related to his/her ability	3.35±1.004
Statement ⁴	
Money allows one to access many luxuries	3.39±1.001
The more money I have, the easier for me to get along	3.23±1.046
Money makes people respect you	2.94±1.110
Statements ⁴	
Money allows me to buy certain things to impress people	3.09±3.586
I bargain about the cost of almost everything I buy	3.06±1.001
I prefer not to lend money to people	3.21±1.096
I often have difficulty making decisions about spending	3.01±1.017
I pay my bills on time to avoid penalty	3.72±1.019
I am proud of my ability to save money	3.37±0.905
Statement ⁵	
Availability of other income	3.38±0.987
Availability of other jobs after retirement	3.43±0.862
Possibility to be re-employed after retirement	3.35±0.947
Desire to change career	3.16±0.987
Potential of receiving an inheritance after retirement	3.04±1.051
Availability of other investments	3.26±0.920
The ease of getting information of the available investment instruments	3.22±0.895

¹Goal clarity, ²Potential conflicts in retirement, ³Attitude towards retirement, ⁴Attitude towards money-sense of accomplishments, sense of respect, budget factor, ⁵Important considerations. SD: Standard deviation

availability of other incomes. Besides that, majority of the respondents are prepared to face retirement as they are aware of the aids provided by both private and public agencies from the responses of them investing in insurance, government and private investments besides having forecasts saving such as having made preparations for their retirement and to continue working even after retirement.

5. DISCUSSION AND CONCLUSION

The findings of this study indicate that the respondents rather invest in EPF as it is a mandatory contribution for the employees in Malaysia. Other reasons for not investing in PRS include the lack of confidence in the scheme, insufficient funds, still looking for the best option to invest in, have no interest in it and the lack of information about the scheme. The lack of confidence may be due to the fact that EPF has been implemented since 1991 where the functionality of the funds has been proven to secure the retirement expenses. The lack of information indicated that the promotion and marketing activities via various media from television advertisements to radio stations and newspapers is not efficient enough as the awareness of the scheme has not completely reached the targeted audience.

In addition, findings also revealed that for goal clarity, most respondents think a great deal on the quality of life after retirement whereas for potential conflict, most responses recorded a great deal on the living expenses after retirement. In the fourth factor, attitudes towards retirement, most respondents are worried of their lives after retirement. In attitude towards money, most respondent shows significant interest in terms of budget factor as paying bills on time to avoid from being penalized recorded the highest level of agreement. In the sixth and final factor, important considerations, respondent's response on the availability of other jobs after retirement has recorded the highest level of importance.

Additional information on the retirement planning practices also indicated that 60.6% of respondents have made preparations for their retirement age and that 53.5% has intentions to continue being employed after retirement. Only 17.4% of the total respondents has health issues with 70.3% of them own health insurance, 65.8% has medical insurance, 18.1% has insurance-linked unit trust and only 0.6% has other forms of insurance which are mostly involved due to self initiative (40.0%). Furthermore, 54.8% of them are involved in other forms of investments with most respondents being involved in unit trusts (31.9%) followed by shares (15.5%), property (14.2%), bank deposits (13.5%), other forms (6.5%), foreign currency (4.5%) and bonds (3.2%). The respondents also indicated that most of them do seek for advice prior to investing (68.4%) while 81.9% of the total respondents contribute to EPF.

To conclude, the findings of this study revealed that the level of the awareness of PRS among employees in the private sector is still low. Besides having the PPA to deal with the promotions and marketing to further enhance the awareness, participating providers can play their roles in escalating the information on PRS. On the factors influencing the retirement planning practice, potential conflicts in retirement especially on the living expenses after retirement has been proven to be a decisive factor. The ever changing economic of the nation, surrounding factors pertaining to health issues and life expectancy has made it unpredictable for individuals to predict the sufficient accumulated sum for their retirement age. What they can do is to emphasize more on actions towards enhancing their own preparation towards retirement.

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