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Retirement Planning by Civil Servants

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Introduction

As Malaysia prepares itself to be an ageing society, many of its citizens are entering into life after retirement. Malaysians aged 60 and above comprised only 4.6% in 1957 and after over six decades, this has increased to 10.6%. With increasing life expectancy from 58 years in 1957 to 75 in 2018, the older generation is now living longer. The increase in retirement age, unfortunately, does not commensurate the rise in life expectancy. While life after retirement on average was only about two years in 1957, this gap has increased to 15 years by 2018 given 60 years being the current retirement age. This leaves a long period of time where useful manpower goes untapped nor put to optimal use. In this phase of life, the retirees from both public and private sectors alike risk deterioration of health and their maintenance, which show they require more social supports and adequate healthcare. Dependency ratio keeps rising, partly due to the increase in the proportion of those who are over 60 years in age.

Those aged 65 years and above was 2.23 million in 2018. As people reach the age of 60, the demand to re-employ them is reasonably very low. They will also be incompetent to meet the demands of IR 4.0. Furthermore, the Employee Provident Fund (EPF) stated that most retirees usually run out of life long savings in EPF within five years after their retirement. In addition, many low income retirees are said to have less than RM50,000 when they retire. Many studies abroad have shown that lower income employees are often financially affected after their retirement. As a result, many retirees continue to search for opportunities to earn more income to sustain themselves and their families, despite receiving monthly pension payments.

Civil servants are able to earn monthly pension and they are paid gratuity in a lump sum upon their retirement. As such, being able to earn a pension at the end of their service often becomes the main reason why they are employed with the government. It thus becomes a time after retirement when civil servants share their life long lump sum savings with their children and spouse while others spend most often on purchasing properties, mortgage settlements, or on their children's weddings. As a result, many civil servants eventually run out of funds and depend on their monthly pension for a living.

A majority of the civil servants occupy lower position in the public sector and earn low income, tend to believe that their monthly pension income will be high enough to sustain them. Generally, this group have low level of financial literacy, leading them into poor savings, instable mortgage payments, poor retirement planning, and other decisions. Bank Negara Malaysia uncovered that about half of lower income civil servants' salaries are spent on financing debts, leaving them with little to weather unexpected situations. They spend 47% on personal financing, motor vehicles, credit cards and others – much higher than the national average of 35%. According to the same source, major debts for civil servants are on personal financing (34%), and housing commitments (49%). Thus, poor retirement planning will cause adverse effects on their well-being after their retirement.

The study was undertaken especially to identify the extent of retirement plans by lower income civil servants in preparing them for life after retirement; determine the proportion of civil servants who have plans to continue working after retirement; analyse their expected level of financial stability in their post-retirement period; and determine their extent of preparedness to cope with post-retirement life.

Methodology

The study undertook a quantitative approach using a questionnaire designed to capture the information needed from the respondents who are support staff of the civil service aged 45 years and above. Although initially planned to cover only a small sample of 505 respondents, this increased to 1598 valid responses with the cooperation of CUEPACS Malaysia and the assistance of the State Government of Selangor. The study was extended to cover four categories of civil servants, i.e. those serving at the Federal Ministries at Putrajaya, State Government and agencies in Selangor, local authorities in Selangor, and also Federal Statutory Bodies with the latter mainly representing public universities. Sampling employed a stratified random method based on the four types of target organizations, size and urban-rural representations.

Respondents from the ministries were met after obtaining permission from their respective superiors. Respondents were briefed in groups about the study by way of seminars held in halls or at meeting rooms. All respondents were verbally informed to participate voluntarily in the study. The survey was conducted between August 2018 and January 2019.

Background of Respondents

1) Scheme of Service: 97.9% are pensionable, and the remaining 2.1% are those under EPF.
2) Current retirement age chosen: 60 years (64%), 58 years (18%), 56 years (13%), and the rest remained at 55 years.
3) Source of data: federal ministries (39%), state government and agencies (20%), local authorities (19%), and federal statutory bodies (22%).
4) Grade of employment: 19 and below (34%); 20 to 29 (42%), and 30 to 40 (24%).
5) Current average household income: RM5,698 per month.

Key Findings

1) Given a choice, pension scheme was chosen to secure stable monthly income, job security and to enjoy benefits after retirement.
2) Those under EPF scheme – no other options were given, and is better for investment.
3) Almost half (46%) at least have the intention to continue working after retirement. About 6 in 10 planned to work up to 5 years after official retirement. They cite inadequacy of savings, the need to support children's education, possess good health, and still keen to work as the key reasons.
4) Expected income after retirement is found to be insufficient to cover their perceived expenditure (mostly spent on food and loan repayments). They however believe their pension would suffice to cover their expenses. Worse, they are unsure of the amount of pension they would be receiving monthly, and have no knowledge about estimating its amount.
5) 21% feel their savings would only last a year. 63% claim they would have enough savings for 5 years.
6) Majority of the respondents were unaware of the idea of Private Retirement Schemes, and they would like to contribute in it given a chance. Most respondents queried as to why they are not allowed to continue contributing into EPF or KWAP after being moved into the pension scheme.
7) 60% currently have one to three types of health problems. This is likely to worsen after they retire.
8) Most vulnerable group among the four categories of respondents is employees of local authorities.
9) In sum, only 8% had good retirement planning and our assessment showed less than 1% are well prepared for life after retirement. These rates are worrisome. Lack of support for them would move them into poverty or difficult life after their retirement.

Policy Directions

There is a need to strengthen the social protection and well-being of the civil servants. These can be done through the following mechanisms:

1) Allow employees to continue contributing into EPF or KWAP even when they are moved into the pension scheme. Suggested voluntary contribution by employee is to be around 6%. This is to be implemented immediately to existing civil servants.
2) Need to raise financial literacy and awareness:
    i) Promote staggered withdrawal of savings in EPF after retirement;
    ii) Encourage participation of civil servants in annuity scheme;
    iii) Emphasize that their EPF savings is meant only to sustain the retiree's life after retirement, not for other purposes;
    iv) Guide employees on computing expected pension;
    v) Plan well for better health and medical protection.
3) May recommend raising retirement age to 62 and as usual employees should be given opportunity to opt or decline it. An extension of the retirement age would assist them with added financial support in life after their retirement.

Recommendations

1) The Public Service Department (JPA) to provide a '*Guidebook to Prepare for Effective Retirement*' on financial planning from the beginning of service and have refresher courses every 10 years.
2) Human resource departments in respective organizations to conduct integrated training programmes to implement the initiatives above.
3) Conduct a detailed study on retirement planning and preparedness to retire especially on state and local authority employees across the country.