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Planning Malaysia's Ageing Future: What the Life Cycle Deficit Tells Us About the Available Window for Action

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Planning Malaysia's Ageing Future: What the Life Cycle Deficit Tells Us About the Available Window for Action

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Almost every working Malaysian shoulders a double burden: supporting children who cannot yet earn a living and ageing parents who no longer can. This is not a metaphor, but a tangible and measurable economic reality. The newly released National Transfer Accounts (NTA) report puts a definitive number on this crisis, signalling an urgent window for policymakers to intervene.

Today, one in every fifteen working Malaysians support one elderly citizen, but this support ratio is projected to shrink to five to one by 2043 (DOSM, 2026). While Malaysia's population reached 34.4 million in early 2026, annual growth slowed to 0.5%, with working-age individuals (ages 15 to 64) making up 70.4% of the population. Although this demographic situation is frequently presented as an advantage, it is only temporary. The nation faces two critical hurdles: a shifting economic cycle and a redefinition of how public resources, markets, and families interact. Unlike the Gross Domestic Product (GDP), which assesses macroeconomic performance, the National Transfer Account (NTA) shows how the economic cycle functions within demographic groups.

The timing of the release of Malaysia's National Transfer Accounts report could not be more timely. As Malaysia prepares for an ageing future the report provides a critical analytical lens for understanding how demographic affects public finance, household welfare, the adequacy of retirement provisions and intergenerational equity. The NTA report crucially provides a clear evidence-based view of exactly how much time remains to plan ahead of this shift, rather than simply responding to it.

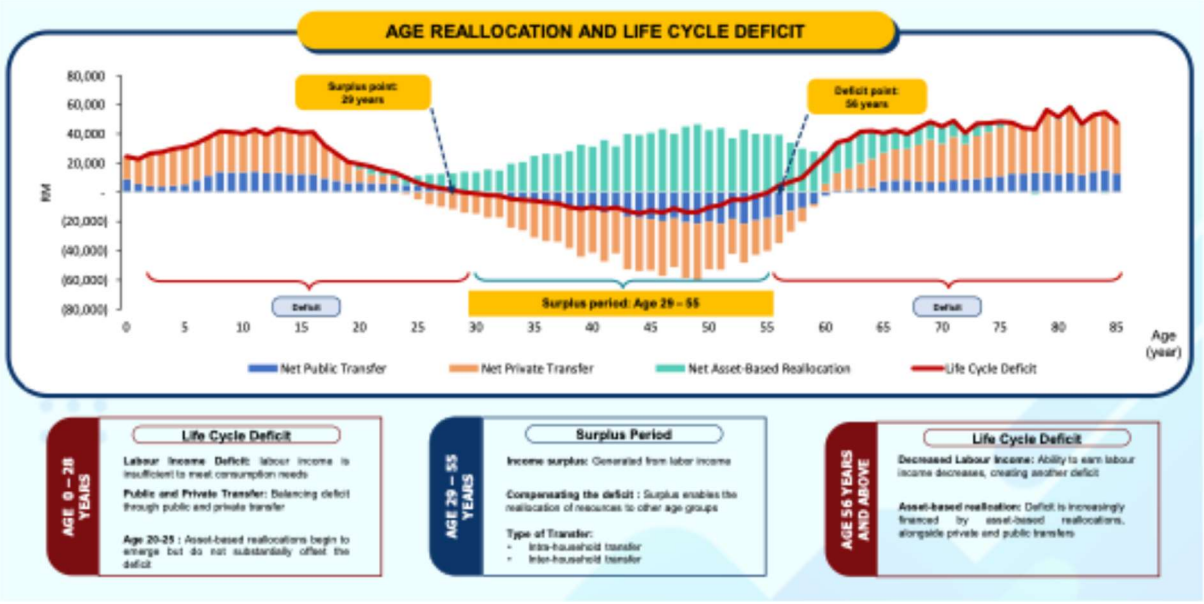
Economic Life Cycle: Surplus and Deficit

This analytical depth is necessary because economic roles shift naturally throughout the life cycle. Children and youth mainly rely on family support and public spending. Working-age adults generate the economic surplus that supports everyone else. As they age, individuals depend more on savings, pensions, and family transfers as their labour income declines. Understanding these changes is important because population ageing disrupts the balance between surplus producers and dependents. Although Gross Domestic Product (GDP) shows Malaysia's total economic output, it reveals little about who produces wealth, who consumes it, and where structural gaps emerge.

This age-sensitive perspective is captured by the life-cycle deficit (LCD), a core metric within the NTA framework. The LCD tracks the difference between consumption and labour income every stage of life. In childhood and in old age, spending exceeds earnings, resulting in a deficit that must be met by public transfers, support from family members, or personal savings. On the other hand, adults who are of working age generally produce a surplus, which is used to support both younger and older generations. For Malaysia, it is important to calculate the LCD since it shows how long the working group adults can sustain this surplus, indicates when deficits between generations appear, and demonstrates how an ageing society alters the distribution of responsibility between households, the market, and the government.

The pattern in Malaysia is clearly illustrated by the NTA data in Figure 1. Children and older people generally spend more than they earn, while working-age adults generate the surplus, that support both the younger and the older dependents. This reallocation occurs through three main channels. First, the market redistributes resources through wages, savings, investment income, and asset accumulation. Second, the government redistributes resources via taxation, education, healthcare, pensions, and social protection schemes. Third, households carry out resource reallocations through private transfers, such as parents supporting children and adult children supporting ageing parents. These three channels form the foundation of Malaysia's intergenerational economy.

Figure 1: Age Reallocation and Life Cycle Deficit



Source: *National Transfer Accounts Malaysia, 2022, Department of Statistics Malaysia (DOSM)*

The surplus phase begins around the age of 29 when labour income exceeds consumption. It rises and peaks near age 44, with an annual surplus per person estimated at RM14,523. At this stage, most adults are at their earning peak, have stable careers, and a stronger financial position, enabling them to pay taxes, save, and provide for their families. However, the surplus does not last indefinitely. After about age 56, labour income declines even though consumption needs, especially for healthcare and retirement, remain high or will increase.

This makes the quality of the working-age surplus especially important: If wage growth is weak or household responsibilities too heavy, the surplus may not translate into sufficient asset accumulation, retirement savings, or long-term financial security. Malaysia has a defined surplus window, roughly from the ages of 29 to 56, in which each working adult generates enough surplus to support a child, assist ageing parents, and plan for their own retirement. However, this window is not permanent. Understanding its shape now gives policymakers an advantage. The earlier this information is used in planning, the more options are available. The surplus size also depends on whether wage growth keeps pace with productivity. Productivity in Malaysia rose 7.4% between 2022 and 2025, yet real wages declined about 1.9% over the same period. Currently, wages account for only about 33% of GDP, compared with 50% to 60% in more developed economies. Thus, the surplus window depends not only on age but also on how much economic growth benefits working adults (The Edge Malaysia, 2026).

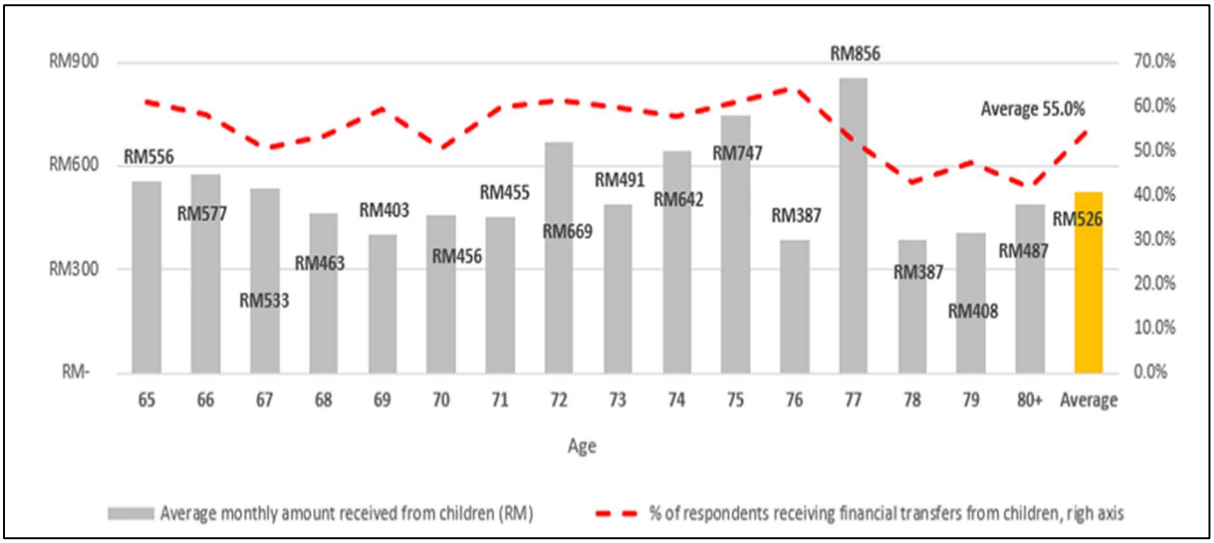
Where the Surplus Is Already Being Channelled

The surplus produced during these working years flows through three channels: the market, the government, and households. A key point from the NTA report is how much already passes through households, often quietly and without formal recognition. Market and government processes, namely wages, savings, taxation, pensions, and public healthcare spending, are well recorded in national accounts. However, the household channel, involving direct money and care transfers between family members, which plays a significant role in how Malaysian families experience ageing has been historically harder to measure.

The NTA Data highlights the strain on Malaysia's Sandwich Generation

While the "sandwich generation" has long been seen as an emotional and personal crisis, the NTA report reveals how it strains Malaysia's hidden intergenerational economy and quantifies it as a looming structural economic crisis. With an ageing population, more working-age adults must support both children and ageing parents while preparing for their own retirement. Formal retirement plans fail to support seniors past age 65, so the financial burden falls entirely on families, not corporations or government. A study by the Social Wellbeing and Research Centre (SWRC) shows over half of elderly Malaysians rely entirely on cash from adult children, averaging RM526 monthly. At the same time, very few seniors have EPF savings past age 65, as shown in Figure 2. This proves family financial support is the main safety net when formal savings run out, trapping the next generation in the same cycle of retirement insecurity.

Figure 2: Average monthly amount of financial transfers received from children and percentage of respondents with EPF savings (right axis) 2022



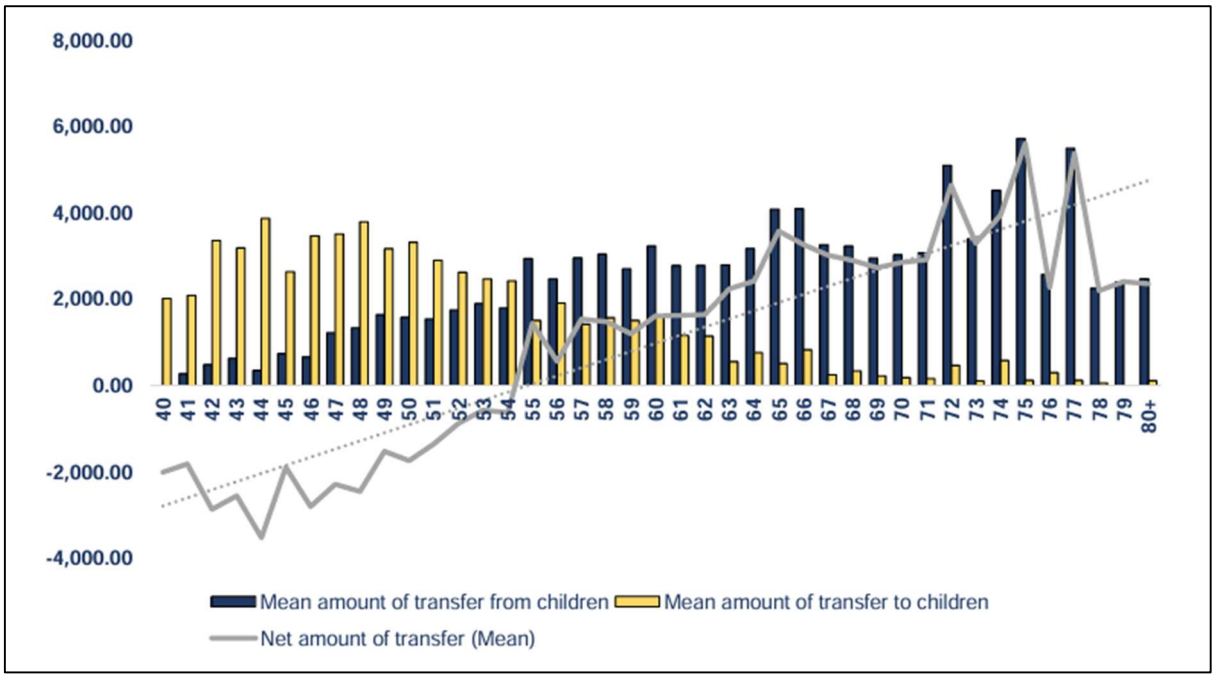
Source: based on data from Social Wellbeing Research Centre (SWRC) 2023

The Malaysia Ageing & Retirement Survey (MARS Wave 2) shows adults in the sandwich generation still carry a heavy burden. They must support their parents' financial needs while meeting daily expenses like childcare, education, housing, and healthcare. Economically, this is significant because wealth transfer between generations involves real household expenses that reduce personal savings, lower daily spending power, and harm overall well-being. As Malaysia's population ages,

relying too much on families will strain working adults unless retirement savings, healthcare financing, and social safeguards for the elderly improve.

Behind Malaysia's vibrant culture of tight-knit families lies an invisible, growing burden. The same survey highlights that 85% of us live in multigenerational homes, with 35% of adult children directly paying for the care of a parent or parent-in-law care. This family lifeline becomes more critical every year as elderly parents lose their financial independence. However, we cannot mistake family duty for a proper retirement plan. It is time for policymakers to champion real retirement reforms, rather than leaving the entire burden on the shoulders of the next generation.

Figure 3: Yearly mean amount of transfers from children and to children



Source: Malaysia Ageing & Retirement Survey (MARS Wave 2) Social Well-being Research Centre

Relying indefinitely on family support poses a great risk to Malaysia's future. Driven by shrinking family sizes, large-scale migration, rising living costs, and longer lifespans mean domestic households can no longer independently absorb the financial pressures of an ageing population. By turning to the National Transfer Accounts (NTA), policymakers gain a precise framework showing exactly when individuals exhaust their own resources and need to depend on others. The NTA reveals the harsh reality of Malaysia's generational economy; that dependence on informal family support has

reached a severe economic limit. Public spending should expand strategically to cover this growing gap before households face financial collapse. (UN DESA, 2013).

Together, these figures add more depth to the LCD narrative rather than standing apart from it. They show that a meaningful share of the working-age surplus is already being directed toward family support, often filling gaps left by retirement savings or healthcare coverage. This is not a criticism of the current system. Family support has long been and remains a genuine strength of Malaysian society. The opportunity now is to build formal systems that complement this strength, so families are supported rather than bearing the burden alone as the population ages.

Why Earlier Action Can Serve Malaysia Well

The financial surplus generated by Malaysians between the ages of 29 and 56 is a finite, highly valuable resource. The more of this surplus that is systematically allocated to retirement savings, asset accumulation for healthcare financing, and long-term financial security now will shield the nation against a shifting dependency ratio. Taking proactive steps allows families, employers, and the government to transition smoothly rather than face sudden, destabilizing economic shocks. Four considerations to make earlier action particularly worthwhile:

1. **The effect of retirement adequacy increases with time**. A surplus directed toward child benefits and social pensions earlier in the working years grow considerably more than the same amount injected later in life. While existing demographic data highlights an urgent window for early-stage savings, timing is only half the equation; the threshold of initial income is equally critical. A recent projection published in *The Edge Malaysia* illustrates this dynamic through a baseline scenario of a 35-year career, standard statutory Employees Provident Fund (EPF) contribution rates, and average long-term investment returns. A worker entering the market with a starting salary of RM1,700 can expect to accumulate an estimated RM750,000 in retirement savings. Whereas an individual starting at the national median wage of RM3,167 can expect to accumulate closer to RM1.4 million. Every additional RM100 in starting salary increases lifetime retirement accumulation by an extra RM50,000 to RM70,000. This proves how closely initial wages and compounding outcomes are linked together. If starting salaries remain too low to trigger meaningful equity

accumulation during a worker's early years, the next generation may not be able to build sufficient wealth early on.

2. **Healthcare and long-term care benefit from lead time.** The LCD shows consumption needs start to exceed income around the age of 56. Systems established ahead of time are more sustainable than those created in response to rising demand. Healthcare systems and saving habits put in place before reaching the age of 56 are more beneficial than solutions introduced later. If state support is insufficient at 56, the financial burden falls on adult children. Expanding government funding for healthcare and senior care ensures ageing parents receive the needed medical care without forcing working adults to empty their pockets. Increasing investment in public healthcare is vital. It protects peak earning years and prevents medical bills from breaking the backs of the next generation.
3. **Each working generation shapes the one behind it.** Strengthening the surplus window now through investments, savings, and financial literacy helps ensure the next generation inherits a stronger starting point. Financial literacy is a clear lever because it determines how effectively surplus money is turned into real savings, investments, or long-term security. Early exposure to budgeting, saving, and basic financial planning shapes financial behaviour well into adulthood. Introducing financial literacy earlier, ideally before individuals enter their peak surplus window at age 29, means that by the time wages rise and surplus accumulates, the habits and knowledge to convert money into long-term security are already in place.
4. **The adequacy of wages is at the heart of the surplus itself.** Much discussion about retirement adequacy focuses on whether Malaysians save enough, if contribution rates are sufficient, or if investment returns are strong enough. While important, these come after a more basic question: whether Malaysians earn enough during the years they generate the surplus. However, a well-designed retirement system can only disburse what workers are able to accumulate during their working lives. Promoting wage growth between ages 29 and 56 is not separate from retirement reform but should be an essential part of it.

Insights from the NTA and LCD Data

The NTA framework not only presents the present situation but also provides a helpful indication of where focused and timely policy intervention could have the most significant impact.

1. **Reinforcing the surplus window.** Retirement adequacy is stronger when supported by shared mechanisms rather than resting solely on individual savings discipline. Adhering closely to EPF's minimum savings targets, making it mandatory for Malaysians, contribution flexibility for gig and informal workers, and considering auto enrolment mechanisms are all areas where earlier movement, while the surplus window is still relatively wide, would likely yield the most benefit.
2. **Building healthcare and long-term care financing ahead of need.** The LCD data offers a useful early signal of when consumption needs begin to rise. Using this lead time to plan financing mechanisms, rather than responding once pressure has already built, would position Malaysia well relative to comparable ageing economies in the region.
3. **Widening the surplus window itself.** Two levers already present in Malaysia's own data could help extend the productive years. Encouraging silver economy participation, supporting flexible, part-time, advisory or age-friendly work for those above 60, could extend meaningful economic contribution well past age 56. Similarly, supporting higher female labour force participation, particularly for women who stepped back from work for caregiving, could bring an underutilised potential segment of the population more fully into the surplus generating years.
4. **Making family contributions visible in national data.** Household transfers, informal caregiving, and family-based old age support occur at meaningful scale, as the MARS and SWRC data suggest, yet are not yet captured systematically in ongoing national statistics. Building this into regular data collection would give policymakers a fuller, more accurate picture of where support is already happening, and where formal systems could complement it most effectively.

Looking Ahead

The figures in the National Transfer Accounts (NTA) framework add important depth to the LCD narrative rather than remaining separate. This data highlights a unique window of opportunity, driven by a full working generation aged 29 to 56, to proactively finance Malaysia's ageing transition. By mapping lifecycle surpluses and resources flows between generations, the NTA shows what GDP alone cannot: who produces, who consumes, and who supports whom. By illustrating these dynamics, the ageing demographic challenge becomes a strategic opportunity, enabling Malaysia to create a more sustainable and equitable social protection system.

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