



## **The Awareness of Retirement Planning: A Case with International Islamic University Malaysia Employees**

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### **Abstract**

Retirement is a major concern among employees in Malaysia. Planning for retirement is important to ensure a comfortable life during retirement. Employees who do not plan for retirement early enough may find that they may not achieve their retirement objective if they start planning later in their life. This study was carried out to identify the level of awareness of retirement planning among International Islamic University Malaysia employees. The methodology of this study was conducted online through the use of questionnaires distributed to the respondents to gain primary data about their awareness on retirement planning. A total of 107 employees responded to the online survey through Google form and WhatsApp. The overall findings of the study indicate that most of the respondents have good level of awareness of retirement planning but their laid back attitude kept them from starting to save and invest for retirement. Also, the demographic factors which are age and gender have a significant impact towards retirement planning. Apart from that, some implications have been made for pre-retirees in order to increase their awareness of retirement planning.

**Keyword:** Retirement planning, IIUM, survey, awareness

### **Abstrak**

Persaraan merupakan kebimbangan utama di kalangan pekerja di Malaysia. Perancangan untuk persaraan adalah penting untuk memastikan kehidupan yang selesa semasa persaraan. Pekerja yang tidak merancang lebih awal sebelum bersara mungkin mendapati tidak dapat mencapai matlamat persaraan jika mereka lewat merancang dalam kehidupan mereka. Kajian ini dijalankan untuk mengenal pasti tahap kesedaran perancangan persaraan di kalangan pekerja Universiti Islam Antarabangsa Malaysia. Metodologi kajian ini dijalankan secara dalam talian melalui penggunaan soal selidik yang diedarkan kepada responden untuk mendapatkan data primer tentang kesedaran mengenai perancangan persaraan. Sebanyak 107 pekerja memberi maklum balas kepada kaji selidik dalam talian melalui borang Google dan WhatsApp. Penemuan secara keseluruhan kajian menunjukkan bahawa kebanyakan responden mempunyai tahap kesedaran yang baik terhadap perancangan persaraan tetapi sikap lalai membuat mereka tidak dapat menyimpan dan melabur lebih awal sebelum bersara. Selain itu, faktor demografi seperti umur dan jantina mempunyai kesan yang signifikan ke arah perancangan persaraan. Selain itu, beberapa implikasi telah dibuat untuk pra-pesara bagi meningkatkan kesedaran mereka mengenai perancangan persaraan

### **Introduction**

“Retirement is the stage of life where involvement in certain social activities and desirable conducts

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become less or narrow” Mansor, Hong, Abu & Shaari (2015). The Dictionary.com defines retirement as the act of leaving one’s job, career or occupation permanently. Retirement planning is necessary because people are living longer. For example, the life expectancy of Malaysians has increased to 75 years old (The Malay Mail, 2016). People start working after school as early as 17 years of age. Those who continue to pursue education at higher or tertiary level will start to work at about the age of 24 years old or older. Employability problem might cause people to

secure appropriate jobs probably several years later. Those who have a stable career might work through until the mandatory retirement age (60 years in Malaysia). Whereas there are those who opt for or are forced into retirement because of illnesses or accident injuries. The awareness and planning for retirement is therefore important to ensure a comfortable life during retirement.

### **1. Social security in Malaysia**

In Malaysia, employee social security is covered under the government pension scheme or the Employees Provident Fund (EPF). While government employees may opt for either the government pension scheme or EPF, many choose the government pension. The government pension plan provides defined benefit which can be up to 60% of the last drawn salary for the whole life. Many who are contented to live a lower but stable and worry free lifestyle during retirement preferred the government pension. Preference for the government pension scheme among Malaysian workers is supported by Tolos findings that a statistically significant difference in satisfaction between the EPF and Government pension scheme has been found with higher satisfaction being recorded within the pension group (Tolos, 2012).

Those in the private sectors are mandated to save in the Employee Provident Fund (EPF). Private sector employees who are EPF members, will have the amount of 20% of their monthly income credited into their EPF accounts. For this amount, the employer contributes 12% and the employee contributes 8%. The contribution rates would change from time to time. Most employees will feel that their retirement future is safeguarded just by looking at the figure (i.e. 1/5 of the salary), but fail to see beyond the figure depicted to them. The big question is whether the amount saved in the EPF account will be sufficient to cushion the pensioners throughout their golden years. This study looks into the awareness of retirement planning among the employees, specifically from the International Islamic University Malaysia who are generally covered under the EPF scheme.

### **2. Retirement Planning**

The historical to disaster. Awareness in retirement planning is still a vague issue among society in

Malaysia (Ibrahim, 2012). Most Malaysians tend to put retirement planning at the bottom of the list (Lai, M. M., Lai, M. L., & Lau, 2009). Many would blame the EPF for not giving higher returns for the past few years. A few years since its inception, EPF has put in a lot of effort to ascertain that their members will have better returns and enough savings for retirement. They have introduced various schemes which include pre-retirement benefits such as the death benefit scheme introduced in 1977 to the incapacitation benefit scheme, mortgage housing withdrawal and contributions withdrawal for unit trust investment being the most recent schemes introduced the last few years. EPF hopes its members are able to make sound investment decisions in getting more returns for their EPF contributions. However, with the attractiveness of the refined scheme on withdrawals for investment, the percentage of members who have taken this opportunity is still not encouraging (Ibrahim, Isa, & Ali, 2012). Most members are still fearful of losing their EPF contributions if they were to divert to unit trust investment.

### **3. Attitudes toward Investment**

The According to Ibrahim et al. (2012) most EPF members prefer to let EPF solely to decide on what and where to invest the fund. This prevailing default behaviour on investment decisions is partly due factors such members unwilling to make complex and difficult investment choices, members who are passive in making investment decisions, or members who simply delay and procrastinate decisions. And there are those who do not have a clear sense of time by looking that retirement is a long way to go, and issues related to ageing, retirement and aging is not of immediate concern. By neglecting the importance of making good investment choices, the members are actually getting relatively low investment returns since EPF mostly invests in low or middle risk investment options. Introspectively, their contributions at the point of retirement may not be enough to cover their living maintenance in the golden years. According to The Star in an article "Saving Early for Retirement" (Loh, 2009), it has been reported that "70% of contributors who withdraw their entire EPF savings at age 55 deplete all their EPF savings in just three years post-retirement." This has become an increasing concern to policy makers. Due to this fact alone, the policy makers made a few adjustments on the EPF scheme

(mentioned earlier) as to enable the members to make a good investment decision and to avoid being in a negative situation. Hence, there is a need to look at the savings behaviour towards retirement savings among the employees.

#### **4. Savings behaviour on Retirement**

Retirement savings is one of the issues of growing concern everywhere. Retirement needs proper planning to ensure that retirees have enough to support themselves. Some of the basic needs of retirees will include a place to live, money to cater for day-to-day expenses, medical bills and emergencies. Having outstanding loans during retirement will rapidly diminish their savings. This is another reason why employees need to plan early for their retirement. According to Lusardi (2003), in the U.S. a huge percentage (around 30%) of households nearing retirement had little or no wealth. As can be seen in Malaysia, there is little individual involvement in the process of savings for the old age or retirement when members depend only on EPF for their retirement. Public policies should encourage people to save more in order to accumulate savings for their retirement. For their retirement, there are people who save based on their expected lifetime income. Ignorant in retirement decision can lead to individuals having difficulty to understand why planning for retirement is important. Those who did plan for their retirement are normally from the highly educated and having high income bracket. The majority of households, however, do not save enough for retirement to maintain their pre-retirement standard of living. Having knowledge on retirement planning and taking actions to save and invest for retirement is of utmost importance to ensure a comfortable retirement.

#### **5. Issues**

Unlike the government pensioners, most private sector workers depend on the EPF for retirement. The growing concern is for the majority of Malaysian workers who are covered under the EPF scheme. An individual who has a stable career works for approximately 30 to 35 years, and with that would have to save enough money for retirement life which could be for another 15 to 18 years, as the expected life expectancy in Malaysia depending on savings solely to cater for the retirement years looks impossible. It is known that many workers do not have a straight forward career path. The retirement saving issues have become a growing concern among Malaysians. Understanding the need to provide better returns on savings. Many financial institutions offer various products as an encouragement for the society to save for their retirement. Nonetheless, there are still

a majority of the population who are not responding positively to the efforts of the policy makers and financial institutions. Consequently, this procrastinating attitude may lead to socioeconomic problems in Malaysia such as homelessness and a higher crime rate. The consequences to these problems can be manifold. According to Malroutu and Xiao (1995) "having adequate income is the key to minimising some of the problems during retirement". Therefore, retirement savings must be given top priority before the consequence of not having adequate retirement saving affects Malaysians with other persistent problems in the future. Malaysian employees should be educated on the importance of retirement savings to avoid them from running out of money in a couple of years once the lump sum amount is received upon retirement.

#### **6. The Theoretical Framework**

The theoretical framework of this study is to illustrate the awareness of retirement planning related to demographic variables i.e. age, gender and educational level.

Saving awareness and behaviour of an individual changes greatly with demographic circumstances such as age, marital status, income, wealth, and other socio-economic conditions during various stages of the individual life. In addition, women tend to have smaller accumulation in their basic and supplemental retirement plans due to the tendency of having lower annual earning.

Financial education programmes also contribute to individual's commitment in planning for their retirement. Insufficient knowledge concerning the retirement savings process, could lead to the inability to make optimal retirement saving decision. Now, there are organizations or other associations providing programmes on financial education for their workers to increase their awareness as well as contribution for their retirement. This is due to the fact that financial information played a significant role in increasing contribution rate.

People can obtain information and make planning decision through socializing with others. There are researchers who believed that highly social people may be more likely to invest for their future saving. A study by Duflo & Saez (2002) suggested that peer effects may be an important determinant of savings decisions. Their papers showed that peer effects are another source of extra-economic influence on people's decisions.

#### **Methodology**

The methodology used in this survey is quantitative method based on random sampling technique. The study was conducted online through the use of questionnaires distributed to the respondents to gain primary data about their awareness on retirement planning. Respondents are IIUM employees from various departments. A total of 107 employees responded to the online survey through Google form and WhatsApp. Findings were tabulated and analysed using Excel spreadsheet with results tabulated in charts.

### Findings

The findings of this study will be discussed based on the theoretical framework set out in this study as mentioned above. A general awareness level based on claimed response will then be expanded further to provide further justification on the awareness level.

#### 1. General Awareness of Retirement Planning

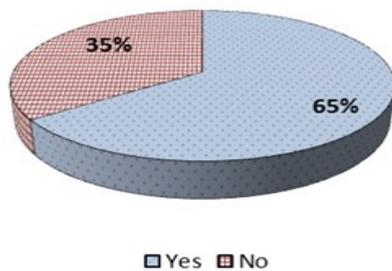


Fig. 1

A general question was asked to assess respondent’s opinion of whether they believe they are aware of retirement planning or otherwise. The responses given by respondents were very encouraging where 65% claimed that they were aware of retirement planning. However, this finding contradicts with Ibrahim (2012) which found that retirement planning awareness is still a vague issue in the Malaysian society.

To gain more depth on retirement awareness, some demographics factors are used to further explain the results on awareness. The general awareness is then further assessed as to the source of information that they acquire the information on retirement planning.

#### 2. Awareness Level of Retirement Planning Based on Age

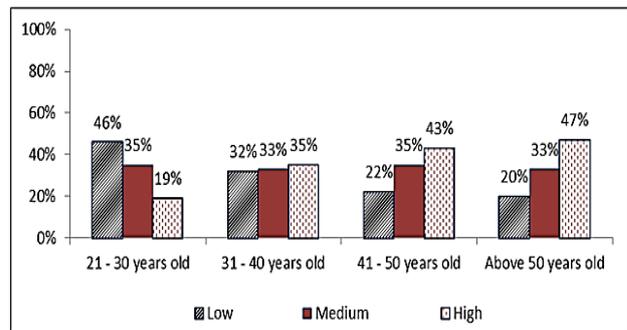


Fig. 2

The chart above depicts the relationship between age range and awareness of retirement planning. The chart shows that as the age bracket increases, the awareness level of retirement planning increases. Those past 40 years old age bracket show higher percentage of “high” awareness level as compared to those in the age range of 40 years and below. However, a study by Shanmugam & Zainal-Abidin (2015) suggested that the younger generation age 25-39 years old are better prepared and have a better understanding and preparedness towards retirement planning.

#### 3. Awareness Level of Retirement Planning Based on Gender

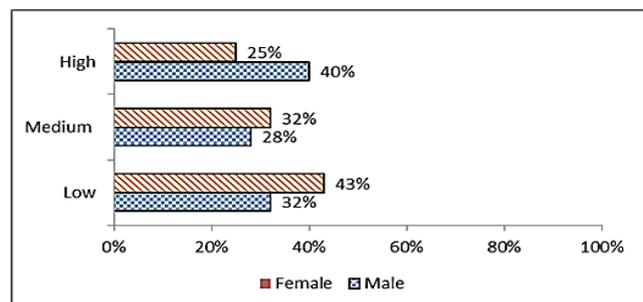


Fig. 3

According to Lusardi and Mitchell (2008), women are found to be less prepared and less ready for retirement planning compared to men. They also pointed out that women are less financially literate to retirement compared to men. The result, as in the above chart, shows similar trend on retirement planning awareness on gender as that found by Lusardi and Mitchell (2008). Higher awareness on retirement planning came from men. However, according to Lusardi (2008), women are more likely to seek professional advice on financial planning as compared to men. Lusardi added that women who have better financial planning knowledge tend to be more successful in retirement planning.

#### 4. Awareness Level of Retirement Planning Based on Education Level

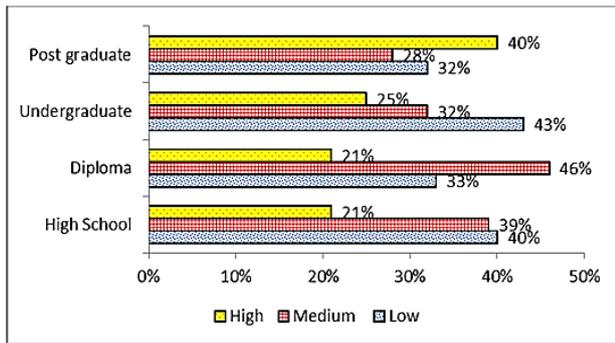


Fig. 4

As mentioned by DeVaney (1995) to start retirement planning preparation, educational levels serve as a motivator and guidance for individuals. The above chart illustrates result from the survey which confirms DeVaney’s findings. Those with post graduate qualifications register a higher percentage with high awareness level on retirement planning followed by those with undergraduate qualifications. As suggested by Hogarth (1985) and Joo, & Pauwels (2002), education play a role in inducing individuals to explore information on retirement planning and this influence their attitude, intentions and decisions to retirement planning.

### 5. Sources of Information on Retirement Planning

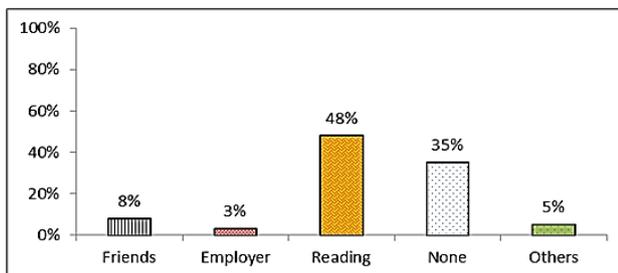


Fig. 5

Financial educational programs can work as a corrective measure in enhancing attitude, knowledge and action towards retirement financial planning. As mentioned by Holland, Goodman and Stich (2008) by introducing financial education in the workplace, it will provide workers with the empowerment on decision making behavioural process concerning their financial situation and retirement. The study indicated that the participants who are less stressed are more satisfied with their financial situation. They are less worried about monthly living expenses and more confident about overcoming financial emergencies.

The above chart shows that the majority of the respondents acquire information on retirement planning from reading, which is through their own accord. However, a high percentage that did not get any information on retirement planning were most

probably due to having no retirement planning. Employers and friends do not play an active role in providing the necessary information. While it is acceptable that friends might be in the same shoes as the respondent himself, as suggested by Holland et al., employer, however, should be the one to play an important role in enhancing awareness and providing education on retirement planning.

### 6. To Start Retirement Planning

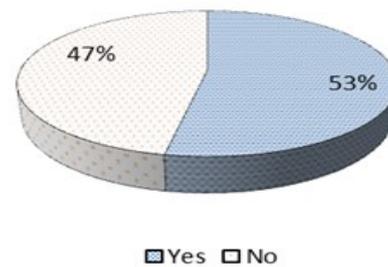


Fig. 6

Planning for retirement is a conscious behaviour. One needs to be conscious and think ahead in order to realise that retirement will come sooner or later and therefore put aside some money consistently for retirement. However, people are either not thinking ahead or they do not have enough money to put aside for savings while they are in employment.

In terms of starting to plan for retirement, the findings show an almost equal split between those who have started to plan and those who have not. When linked to the earlier results on awareness on retirement planning, there exists an inconsistent behaviour where awareness is high but it did not translate into action to start planning.

### Conclusion

Awareness is the ability to perceive, to feel and to be conscious about something. Awareness on the importance of retirement savings is about understanding the importance of retirement savings itself (Ibrahim et al., 2012). When looking at the issues on retirement financial planning, in general, employees are relatively aware of retirement planning. Nonetheless, this awareness did not translate into action. Thus, this contradictory behaviour leads to procrastination in retirement planning. People only realised the need to save for retirement when they are approaching retirement and when they begin to have insufficient money to finance their future expenses during retirement. This laid back

behaviour is one of the reasons most retirees to re-enter the job market to cover their retirement living expenses as reported by Maestas (2010).

Hence, awareness on retirement savings among the employees is of utmost important regardless of whether they work for the government, private sector or self-employed. In planning for retirement, employees have to know their lifetime path, rates of return on various types of investments, age of retirement etc. They should look into gaining information on retirement planning and financial education programs extensively. By having more knowledge, it will inculcate positive awareness and behaviour among employees to further plan and start for retirement savings. Positive retirement awareness and savings behaviour is important as this will facilitate employees to start saving and investing for their retirement. The employer can also play a role to increase the awareness and knowledge on retirement savings among employees. They can provide assistance to their employees on retirement by organizing retirement seminars or perhaps set up a voluntary fund for retirement savings as an extra coverage for retirement.

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