Saving For Retirement: The Covid-19 Conundrum

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Introduction

Retirement planning is not a new concept but many Malaysians are just beginning to realize that saving for retirement is an important issue. (Haron, Salihah, & Mohamad, 2019). Many Malaysians are financially stressed and the extent to which they are under -saved for retirement is staggering. According to a survey conducted by the University of Malaya Social Security Research Centre, at least two-thirds of Employees Provident Fund (EPF) members under the age of 54 have less than RM50,000 in their account, an amount which will only last for four and a half years (Kadir, Zainon, Ismail, & Aziz, 2020). What makes the situation worse is most Malaysians are solely relying on the EPF as their only saving for retirement, putting them at the risk of living below the poverty line.

The Covid-19 Conundrum

The pandemic exacerbated the situation as many Malaysians lost their jobs and were no longer able to contribute to EPF. Those who were still employed were also affected as they had to take pay cuts, limiting their ability to make EPF contributions. Due to the dire financial situation of a number of Malaysians, the government implemented various schemes allowing the withdrawal of EFP funds as a way to tide over their problems. As a consequence, EPF recently revealed the withdrawals over the past two years have had a massive impact on the savings of EPF contributors as currently, only 3% of contributors can afford their retirement. (Azman, 2021). This raises an alarming concern as financial insecurity will eventually lead to other social issues including retirement crisis as people move into different stages of life progressively.

The B40 group with a household income of below RM4,850 a month and the M40 group with a household income of between RM4,851 to RM10,970 a month have been the most impacted during this pandemic. With many of them having faced pay cuts and job loss, the various withdrawal schemes such as the *i-Sinar, i-Lestari, and i-Citra* were seen as a way to overcome their financial challenges and stay afloat. However, this will affect their retirement savings which have been depleted as a result of the withdrawals.

While the withdrawals may alleviate their financial stress somewhat, their retirement years will be affected. With insufficient EPF savings and retirement funds, people will need to work longer and delay their desired retirement age. Indeed, the COVID-19 pandemic has delayed the retirement plans of Malaysians planning their retirement as well as those who have recently retired.

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Due to the myriad effects of the COVID-19 pandemic, many Malaysians have become increasingly vulnerable as they are financially unprepared and unconfident about being able to retire as planned. The resulting financial fallout caused by the pandemic has caused considerable financial stress for many, making it difficult to decide about how and when to retire. As such, the social benefits and the healthcare system will need to be adjusted to cater to the needs of the post- pandemic population. The urgent need now is for many to strategize their retirement plans with greater flexibility.

Saving for Retirement

Retirement planning is a complex process. People in different income and age groups need different strategies to save for retirement. The B40 group have always had difficulty in saving money. They struggle with basic living expenses and have no excess money for saving. The urgent requirement for them, particularly in the wake of the pandemic, is to enhance their earning capability and financial management skills. Gaining financial knowledge and understanding investment tools will empower them to better manage their finances. Retirement planning will come in after they can pay their bills and have extra money to save.

As for the M40 and the T20 group with a household income exceeding RM10,971 a month, they might not be able to save money due to poor financial management. Many of them spend imprudently and end up living from pay cheque to pay cheque. Their impulsive spending habits end up causing them to overspend on unnecessary items. They are prone to pursuing immediate gratification while being unaware of the long-term consequences. Therefore, they must learn to resist the temptation to spend money in the short term in order to maximise their long-term financial well-being. Proper cashflow management and financial discipline are needed for these people to start saving money.

Planning for a successful retirement requires individuals to be financially literate. Retirement planning should open the door to an interconnected approach rather than product-based solutions. In order to get the best retirement planning outcomes, it is necessary to be financially literate. With financial knowledge, individuals can have a strategy that gives more choices and greater flexibility.

Financial Literacy

Previous studies showed that financial literacy is positively related to retirement planning (Park and Martin, 2021) and the development of a savings plan has been shown to boost wealth (Bandelj and Grigoryeva, 2021). Financial management is essential for societies; however, many Malaysians lack the financial literacy to manage their finances effectively. A 2014 report of the Credit Counselling and Debt Management Agency (AKPK) indicated that 50% of credit card holders under the age of 30 years were declared bankrupt because they were having trouble to pay their debt (AKPK, 2014). The AKPK report further stated 27% of the individuals faced credit card debt and 22% had poor financial management knowledge. Research shows that savings propensity and effective budget management increase individuals' financial satisfaction (Ünal and Düger, 2015). Robb and Woodyard stated that even though individuals' financial behaviour will be influenced by external forces including macro economic factors as well as policies designed by both the government and private industry, individuals will still make their own final decisions and act accordingly.

Financially literate persons tend to be more confident in their retirement planning as compared to those who are financially illiterate. A financially literate person is aware of the importance of retirement planning and will plan early for their future retirement. In contrast, a financially illiterate person tends to overestimate their financial position. They believe that they can meet their retirement needs with existing savings and pension funds. Personal retirement planning is not compulsory; it is a personal option for future preparation and management partly based on how an individual strategizes his or her income for saving, investments and spending.

Conclusion

All of us desire to live comfortably upon retirement without having to compromise on the standard of living we are used to. Unfortunately, many are unable to attain this because of either limited savings or lack of assets to generate income. The COVID-19 pandemic has exacerbated the situation, making it essential to strategize income for saving, investments and spending for retirement age ■

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