

SPECIAL FEATURE 3

BEHAVIOURAL INSIGHTS TO ADDRESS RETIREMENT SAVINGS INADEQUACY

Overview – Retirement Issue in Malaysia

Malaysia is expected to become an aged nation by 2030, with 15% of the population aged 60 and above¹. This poses a demographic challenge as well as an investment challenge for the Malaysian retirement savings landscape to finance old-age consumption that will increase continuously.

Malaysia has adopted a holistic and multi-faceted pension ecosystem that is equipped to mobilise savings and facilitate the *rakyat's* retirement planning needs. This is anchored on a multi-pillar pension framework² and includes mandated public pension plans as well as voluntary private pension schemes through PRS that are regulated by the SC. There has been growing acceptance of PRS as an alternative vehicle to supplement and complement the mandatory public pension system. This is evidenced by an increase in the number of PRS contributors by 7.5% per annum from 416,913 members in 2018 to 557,000 members in 2022.

Despite the private and public avenues available for Malaysians to save and invest for their retirement, there are still gaps in the levels of savings most have available for retirement. The formal retirement system only covers approximately 60% of the labour workforce – most of which have insufficient retirement savings. This problem has been worsened by the recent early withdrawals of retirement savings to tide over cashflow needs through the pandemic. Meanwhile, the remaining 40% of the workforce are yet to be covered by mandatory savings – this could potentially grow as more workers enter self-employment and the gig economy.

The SC recognises that moving the needle on retirement security with respect to private sector solutions requires partnership and collaboration between retirement stakeholders on multiple fronts – including policy development, product innovation and investor education. The SC is also continuously in search of novel ways to address the adequacy of retirement savings. One such means involves approaching the problem through a behavioural lens and applying behavioural insights to encourage greater retirement planning among Malaysians.

Behavioural Insights to Encourage Retirement Planning

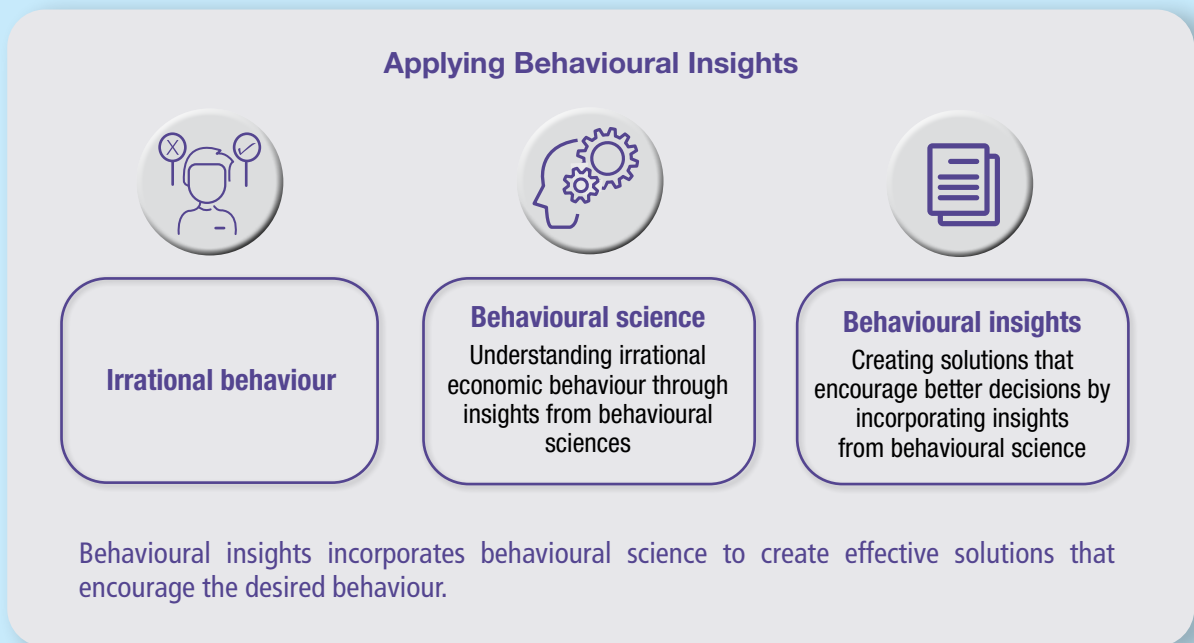
‘Behavioural insights’ is an approach to policymaking that incorporates behavioural sciences to understand how people make choices and subsequently, create effective solutions to encourage desired behaviour.

A key principle to behavioural insights is that people are influenced by subconscious factors (formally referred to as behavioural biases), when making decisions – this may result in decisions that are not in their best interests.

¹ Department of Statistics Malaysia. (2016, November 4). Malaysia population projection 2010-2040. Department of Statistics Malaysia Official Portal. Retrieved December 15, 2022.

² As an example, the World Bank has outlined a 5-pillar pension framework covering universal social pension, mandated public or occupational pension and a voluntary pension scheme.

³ Estimates based on SC internal calculations. Similar analysis can also be found in work done by EPF (2021), World Bank (2020), and Khazanah Research Institute (2020).



This is especially relevant in the context of retirement. Globally, an increasing number of studies in behavioural economics show that financial and savings behaviour relates to psychological factors. For example, the OECD highlighted that while a certain percentage of people are dedicated savers who take responsibility for their retirement, a much larger percentage prefer to spend money than to save it, or would like to save more but lack the willpower or are overwhelmed by too much choice.

While there are structural factors behind Malaysians' retirement savings inadequacy, there are also behavioural barriers that need to be overcome to encourage better retirement planning among the broader population.

By incorporating behavioural insights into policymaking and product design, Malaysians can be nudged into making better decisions to prepare for their retirement.

Retirement Workshop: Exploring the Application of Behavioural Insights

Recognising the need for a collaborative approach and the potential behavioural insights offers to address Malaysia's retirement savings adequacy issues, the SC hosted a retirement workshop in August 2022 to explore potential applications of behavioural insights to enable the retirement agenda in Malaysia.

The workshop was attended by key stakeholders in the retirement ecosystem including fund managers, employers, digital services, and various agencies, and was jointly facilitated by the Behavioural Insights Team (Singapore), a social purpose company that generates and applies behavioural insights to inform policy and improve public services.

Workshop participants set out to determine actionable projects that could address behavioural biases and encourage greater retirement planning and saving among five different personas that represented the typical individuals within the Malaysian workforce – youth, middle-income, to-be retirees, gig workers and other small-to-medium sized business owners or freelancers who are self-employed.

At the workshop, participants were placed in breakout sessions to identify behavioural barriers and drive solutioning based on the above target segments. Among the behavioural barriers identified were:

- **Present bias:** Tendency to focus on what is needed to get through the present day and less emphasis on future payoffs such as ensuring a comfortable retirement.
- **Overconfidence:** An overestimation of one's knowledge, ability and preparedness when it comes to retirement planning and saving.
- **Social norms:** Unspoken set of rules and expectations from people around us that influence our decision-making. For example, the need to focus on immediate gratification at the expense of retirement planning if others are also doing so.
- **Limited cognitive bandwidth:** Limited cognitive capacity which is often taken up by decisions that demand our on a day-to-day basis, resulting in the deprioritisation of less immediate matters such as retirement.

These key behavioural insights, as they relate to each specific target segment, are being utilised to design pilot projects with the intention of nudging people to plan and save more for retirement.

The SC, together with relevant retirement stakeholders, are prioritising and will explore implementation based on outcomes evidenced at the pilot stage. Further to this, the SC has also published an in-depth discussion paper to share insights gained through the workshop and external research on behavioural applications to encourage retirement savings.

Read the discussion paper on the SC website.

