SPECIAL FEATURE 1

ISSUES AND CHALLENGES OF AGEING TO CAPITAL MARKET

Overview – Ageing, a Demographic Shift that Demands Attention

The world is facing a demographic shift from ageing, and Malaysia is no exception. Malaysia is currently undergoing this shift more rapidly than expected, driven by declining birth rates and rising life expectancy (Chart 1).

An ageing population refers to a demographic shift where older individuals make up a larger share of the total population.[1] In 2022, 7.2%[2] of Malaysians had surpassed the age of 65, placing Malaysia within the United Nations (UN)-defined parameters of an 'ageing nation.' In 2024, this proportion inched higher to 7.7%,[3] signalling a steady and irreversible trend that is reshaping not only Malaysia's social structure but also its economic and financial landscape. Updated projections from the Department of Statistics Malaysia (DOSM) indicates that Malaysia will transition to an 'aged nation' by 2040, with 17.3%[4] of Malaysians being 60 years or older, significantly sooner than previous estimates in 2016 of 14.5%[5]. Looking further ahead, the *UN World Population Prospects 2024* projects that 16.8%[6] of Malaysians will be aged 65 and above in 2050[7] (Chart 2).

This accelerated trajectory represents a critical challenge that demands immediate attention. The impact of an ageing population extends significantly not only to economic activity but also to the capital market. Rising healthcare and pension costs are straining public finances, while the reducing size of the workforce affects economic productivity. At the same time, the capital market needs to adjust to the changing savings and investment habits of an ageing population. Without timely and targeted measures, these trends could affect both economic growth and societal well-being. Recognising the challenges ahead, the government is developing a national ageing blueprint. While the details of the blueprint are yet to be published, it reflects the government's commitment to proactively planning for the implications of an ageing population. The blueprint is expected to outline policy planning, frameworks, and action plans across various aspects, including the macroeconomy, fiscal management, employment, skills and education, social security, and lifelong health aimed at addressing economic growth, workforce adjustments, social protection, and healthcare for the elderly. Importantly, the capital market has a critical role to play in ensuring some of these needs are met.

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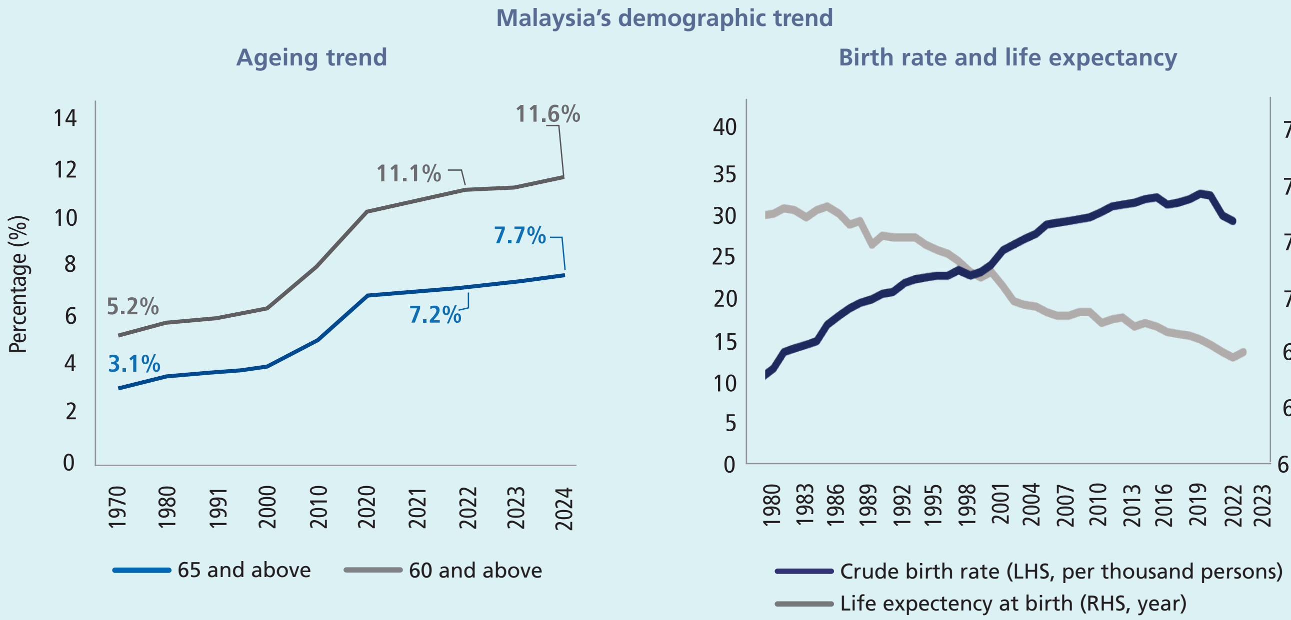
1 *Ageing in the Twenty-First Century: A Celebration and a Challenge*. (United Nations Population Fund, 2012).
2 DOSM. (31 July 2023). *Current Population Estimates, Malaysia, 2023*. Retrieved October 2024.
3 DOSM. (31 December 2024). *Current Population Estimates, Malaysia, 2024.* My Ageing Dashboard Portal. Retrieved January 2025.
4 'Elderly population to hit 17% by 2040, says Stats Dept' *The Star*, 7 September 2024. https://www.thestar.com.my/news/nation/2024/09/06/elderly-population-to-hit-17-by-2040-says-stats-dept#close.
5 DOSM. (4 November 2016). *Malaysia population projection 2010-2040*. Retrieved October 2024.
6 *My Ageing Dashboard Portal*, DOSM. Retrieved October 2024. https://www.dosm.gov.my/MyAgeing.
7 *Ibid.*

CHART 1

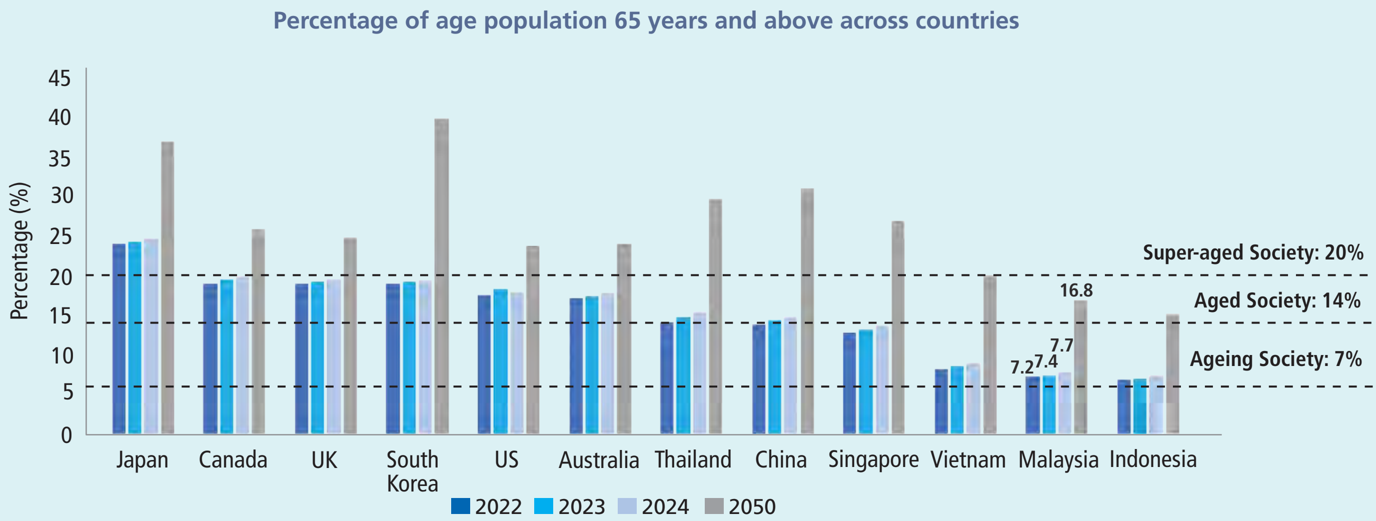
Malaysia's ageing population is on the rise, driven by declining birth rates and increasing life expectancy



Source: DOSM.

CHART 2

Malaysia is anticipated to transition to an 'Aged Society' sooner than expected



Note:

* Under UN guidelines, a country is classified as an ageing society when over 7% of its population is 65 years or older. An aged society is reached when more than 14% are 65 and above, and a super-aged society occurs when over 20% of the population is above 65.

Source: UN World Population Prospects 2024, DOSM.

As Malaysia faces the challenges posed by an ageing population, two critical issues emerge as particularly pressing: retirement savings inadequacy and suboptimal allocation of savings.

ISSUE 1 Retirement Savings Inadequacy

Income security at old age is a growing concern as the capacity to work and earn income diminishes post-retirement. Among the growing issues that contribute to income security are discussed below.

1 Retirement Savings

Statistics from the Employees Provident Fund (EPF) show that most Malaysians approaching retirement age have median savings below RM240,000 (Chart 3),[8] a Basic Savings benchmark set by the EPF since 2019. However, as announced in **December 2024, the EPF now recommends members aim for at least RM390,000, a new Basic Savings benchmark to better reflect the rising costs of living and retirement needs**.

Previously, the RM240,000 benchmark assumed retirees would withdraw RM1,000 monthly over 20 years, aligned with Malaysia's average life expectancy. This assumption has become outdated due to escalating living and healthcare costs, prompting the EPF to highlight a minimum of RM600,000[9] as adequate in 2022, based on revised estimates of a monthly expenditure of RM2,450[10] for basic necessities. This amount was intended to provide a more comfortable retirement, especially for those in urban areas.

The World Bank (2020) estimates that nearly 75% of workers who have reached the age of 54 have less than RM250,000 in their EPF accounts. This means about 75% of workers will have a monthly benefit of less than RM1,050, only slightly above the poverty line income (PLI) of RM980[10] per month (before its revision in 2022 to RM2,589[11]). This supports the growing recognition that the previous basic savings threshold of RM240,000 no longer reflect the financial realities of retirement in Malaysia.

In response to the inadequate retirement savings of many of its members, the EPF introduced a new Retirement Income Adequacy (RIA) framework, which takes effect in 2028. This framework outlines a three-tiered savings structure:

Savings Tier	Amount (RM)	Objective	Assumptions
Adequate	650,000	To provide a reasonable standard of living during retirement	Estimated monthly expenditure for single elderly living in Klang Valley (RM2,690 per month)
Basic	390,000	To cover essential retirement needs	60% of Adequate savings amount
Enhanced	1,300,000	To support greater financial security and independence for a higher quality of life	2x of Adequate savings amount

Notably, the new Basic Savings level of RM390,000, which set to take effect in 2028, represents a significant increase from the previous benchmark of RM240,000. To ensure a smooth transition for members, the EPF will implement a gradual transition. The Basic Savings benchmark will increase by RM50,000 annually over the next three years, reaching RM290,000 by January 2026 and RM340,000 by January 2027. This phased approach provides members with ample time to meet the new target of RM390,000 by 2028.

8 EPF Website (2024, August 12). https://www.kwsp.gov.my/en/w/article/how-to-open-an-epf-account.
9 'RM600,000 needed to retire comfortably: EPF' *The Sun*, October 19, 2022. https://thesun.my/malaysia-news/rm600000-needed-to-retire-comfortably-epf-MB10%60004019.
10 *The Edge* (2020, July 10) https://theedgemalaysia.com/article/malaysias-poverty-rate-rises-56-%E2%80%94-chief-statistician.
11 *Report of Poverty in Malaysia*, 2022. DOSM.

A closer look at the EPF's new tiered savings benchmarks:

(1) **Adequate Savings (RM650,000):** This level supports monthly withdrawals of RM2,708 in the first year, which will gradually increase to RM7,389 by the 20th year, providing a reasonable standard of living during retirement. This is based on updated estimates of the minimum monthly expenditure of RM2,690 (*Belanjawanku* 2024/2025) for a single senior citizen in Klang Valley.

At the start of retirement, a balance of RM650,000 is expected to support monthly withdrawals over a 20-year period, reflecting the average life expectancy of Malaysians. Assuming an annual return of 4% on the balance, retirees can begin withdrawing RM2,708 in the first month. The remaining principal, benefiting from the 4% annual return, allows for gradual growth in withdrawals, reaching RM7,389 per month by the 20th year. Notably, the initial monthly withdrawal of RM2,708 exceeds the upper bracket median income of the B40 group (B4) (RM2,382 per person)[12] and the revised national average PLI of RM2,589 as of 2022.

(2) **Basic Savings (RM390,000):** This represents 60% of the Adequate Savings target of RM650,000, drawn from the civil service pension system, where retirees receive 60% of their last drawn salary. The EPF has adopted this figure to suggest a savings level that, although lower than the adequate savings benchmark, should still suffice to cover essential living expenses in retirement. This supports monthly withdrawals for RM1,625 in year one, eventually growing to RM4,434 by year 20. With RM390,000, retirees can withdraw RM1,625 per month, which is above the lower part of B40 group (B2) RM1,517 per person[13] (based on 2022) but below the national average PLI of RM2,589 as of 2022.

(3) **Enhanced Savings (RM1,300,000):** Twice the amount of Adequate Savings, enabling retirees to start with monthly withdrawals of RM5,417 in the first year, growing to RM14,779 by the 20th year.

Alarmingly, the EPF's 2023 annual report revealed that the median savings for members aged 54 is only 154,000, significantly short of the RM650,000 adequate savings required by the EPF. The replacement rate is a key measure that shows how much of a person's pre-retirement income is replaced by pensions or post-retirement income. The OECD recommends a replacement rate of 70% to 80% to maintain a comfortable living standard after retirement. Malaysia lags behind global standards with the World Bank (2012) estimating Malaysia's replacement rate at just 31.2%,[14] while the OECD (2012)[15] reported a lower rate of 30%. Although, these studies are over a decade old, they remain some of the most reliable references available, given the lack of more recent assessments. This means that retirees in Malaysia only have around 30%[16] of their income for the last drawn salary as post-retirement income. This indicates that most retirees will experience significant financial strain during retirement, further emphasising the importance of adequate planning and saving for old age.

2 Rising Gig Economy Workforce

The rise of the gig economy and its related employment makes retirement planning more challenging. Many gig workers do not have access to formal retirement benefits, affecting their financial security. Contrary to some public perceptions, the rate of informal employment in Malaysia for all groups of workers has declined over time and stood at 26.8% in 2022[17] (Chart 4). However, among all informally employed workers, the subset of gig workers, particularly location-based gig workers, has been increasing in number.[18]

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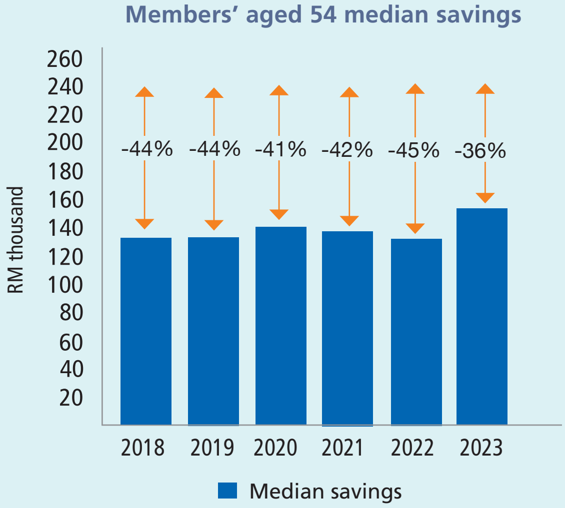
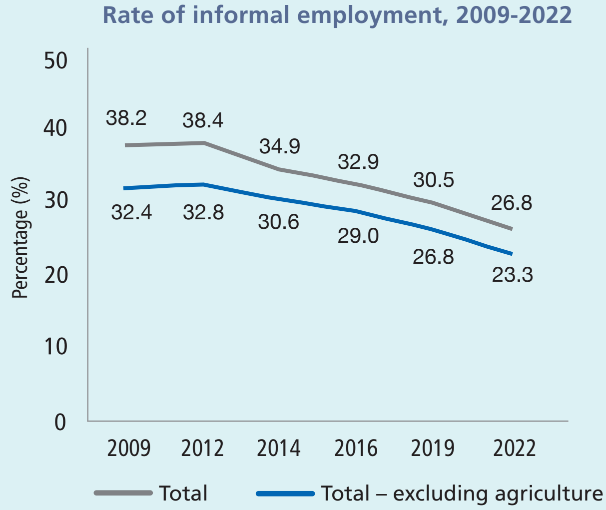
12 Assumption; in calculating per-person income for B40 households, an average of at least two persons per household is assumed. This is a simplification to provide a baseline estimate for income per person.
13 *Ibid.*
14 Adequacy Pension entitlements, replacement rates and pension wealth, World Bank Pension Indicators and Database (2012).
15 Pensions at a Glance Asia Pacific, OECD, 2012.
16 EPF's Social Protection Insights Volume 1, 2016.
17 *Informal Employment in Malaysia: Trends, Challenges and Opportunities for Reform* (World Bank, February 2024).
18 MDEC, *Informal Employment in Malaysia* (World Bank, February 2024).

CHART 3
Malaysia's ageing population is on the rise, driven by declining birth rates and increasing life expectancy



Source: EPF Annual Report 2023.

CHART 4
Informal employment in Malaysia has been declining over time

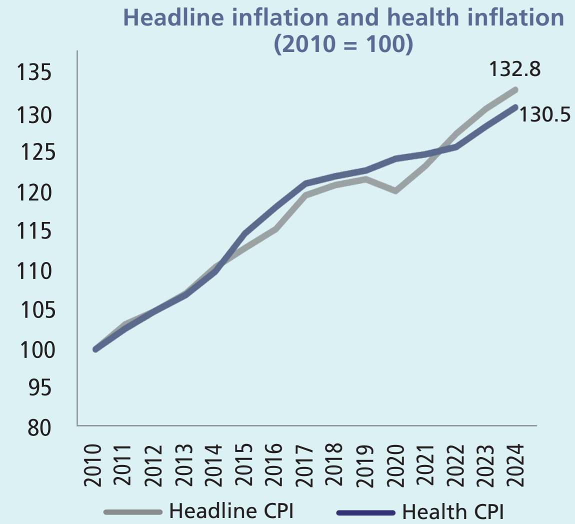


Source: World Bank, DOSM.

3 Rising Healthcare Costs

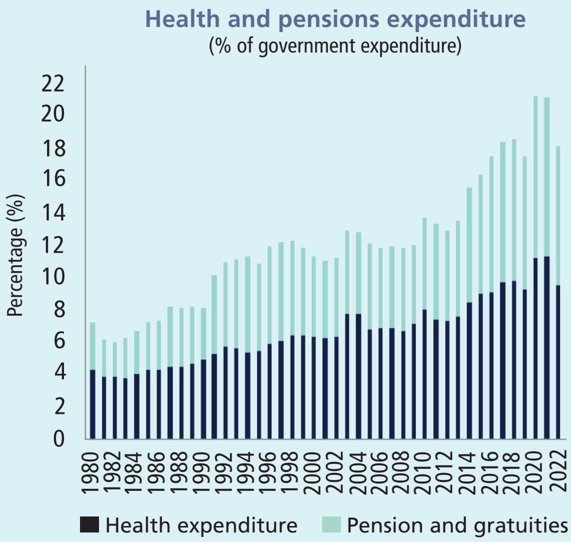
Healthcare is crucial for an ageing society, and Malaysia currently faces one of the highest healthcare inflation rates[19] globally at 12.6%, far above the global average of 5.6%[20]. This rise in medical costs reduces retirees' purchasing power, worsening the retirement income gap. It also puts financial strain on the government, with rising healthcare and pension costs as more elderly citizens depend on public healthcare after retirement (Chart 6).

CHART 5
Rising trend on healthcare cost are putting financial pressure, especially on retirees



Source: DOSM, CEIC.

CHART 6
Financial strains to the government through additional pension and health expenditure



Source: World Bank, DOSM.

19 Policy Document on Medical and Health Insurance/*Takaful* Business. Medical inflation refers to the year-on-year increase in the average treatment cost as billed by hospitals for surgical treatments and/or non-surgical treatments covered under the medical reimbursement insurance/*takaful* product, BNM.

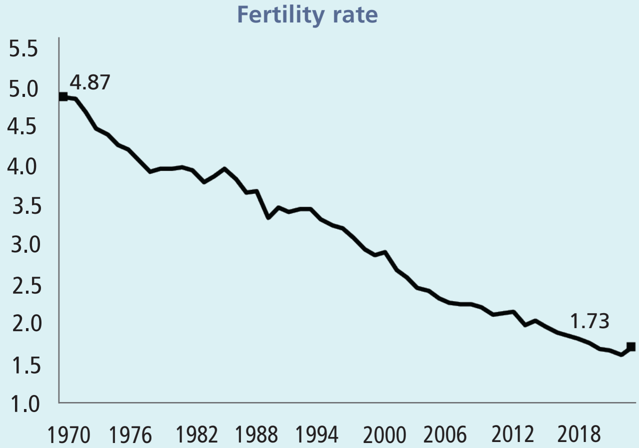
20 Implementation of Co-Payment Requirements for Medical and Health Insurance and *Takaful* Products, BNM, 6 July 2024.

4 Rising social contract expectations, straining society

The rise in ageing populations driven by longer life expectancy and lower birth rates, is creating pressure on Malaysia's traditional norms of elder care. Historically, the responsibility for caring and financially supporting the elderly parents rested largely on children, reflecting a deeply rooted cultural norm that formed an implicit 'social contract', a concept which embodies mutual expectations between individuals and society.

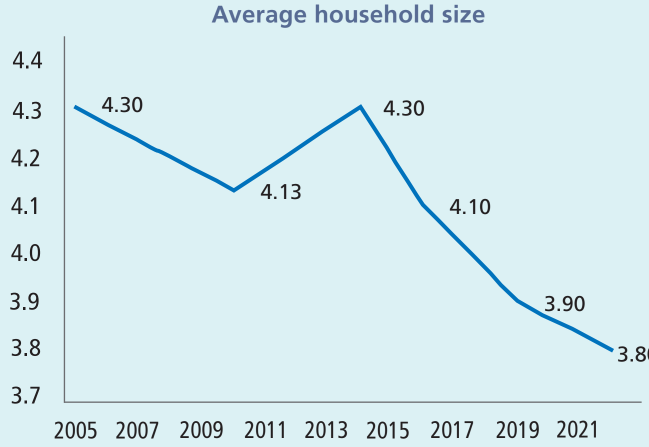
However, Malaysia's fertility rate has significantly declined over the years. From around 4.9 children per woman in 1970, it has decreased to 1.7 in 2022 (Chart 7), well below the replacement-level fertility rate of 2.1[21] children per woman. This decrease in fertility means fewer children are being born to replace the ageing population, resulting in a shrinking younger population and smaller households. The average household size has also steadily decreased, from 4.9 persons in 2014 to 3.8 in 2022 (Chart 8), limiting the pool of people who can share the burden of elder care.

CHART 7
Malaysia's fertility rate is steadily declining over the years



Source: DOSM.

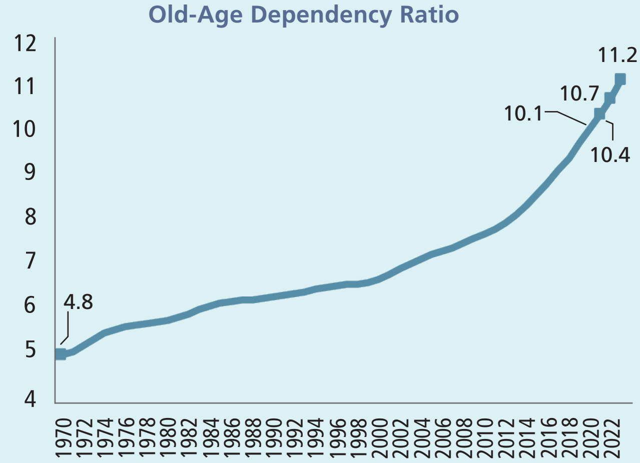
CHART 8
The average household size has been shrinking, reflecting smaller families and fewer children to care for ageing parents



Source: DOSM.

The rise of the elderly dependency ratio[22], in line with the ageing population (Chart 9), reflects an unsustainable shift, with an increasing number of elderly individuals relying on a smaller working-age population. The traditional intergenerational contract, where multiple children share the responsibility for elder care, is becoming increasingly unsustainable. These situations cause additional strain on society, as fewer people are available to fulfil these expectations set by the traditional social contract.

CHART 9
The elderly dependency ratio has risen from 4.9 in 1970 to 11.2 in 2023



Source: DOSM.

21 Replacement-level fertility refers to the total fertility levels of about 2.1 children per woman. This value represents the average number of children a woman would need to have to reproduce herself by bearing a daughter who survives to childbearing age. – United Nations World Population Prospects 2024. https://population.un.org/wpp/assets/Files/WPP2024_Summary-of-Results.pdf

22 Age dependency ratio, old, is the ratio of older dependents--people older than 64--to the working-age population--those ages 15-64. Data are shown as the proportion of dependents per 100 working-age population. World Bank World Development Indicator.

Consequently, the traditional social contract, wherein multiple children were expected to care for elderly parents, no longer applies to the same extent, with this responsibility now being more broadly distributed across society. The rising expectation of the 'social contract' now extends beyond familial support, encompassing greater reliance on both government and the private sector to provide sustainable retirement solutions. Public systems, including healthcare and social safety nets, are increasingly absorbing the financial responsibilities of supporting ageing parents, while capital market solutions, such as retirement funds and eldercare financing products, are anticipated to become the vital parts of the societal framework moving forward.

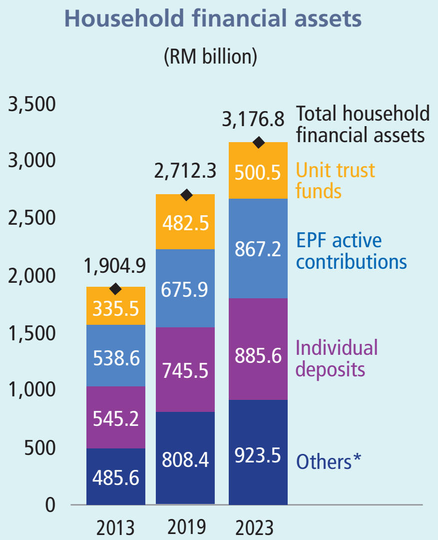
ISSUE 2 Financial literacy and suboptimal savings allocation

Amid the growing concerns over retirement inadequacy in Malaysia, awareness in savings mobilisation present a significant barrier in achieving sustainable financial security for the ageing population. Despite efforts to encourage better saving behaviour, several key challenges still hinder the optimal allocation of savings.

1 A proportion of retail savings can be channelled towards capital market

Households have ample savings that could be directed into the capital market. Currently, RM886 billion, nearly one-third of Malaysia's total RM3.2 trillion household financial assets (excluding EPF), is held in bank deposits (Chart 10). The ratio of unit trust investments to deposits has been declining, with deposit growth outpacing that of unit trusts (Chart 11), indicating a trend toward preference to hold more cash rather than investing. Individual deposits include RM569 billion in bank fixed deposits and RM317 billion in bank savings or current accounts. By redirecting a small portion of these liquid assets into higher-yielding capital market instruments, such as unit trusts or private retirement schemes (PRS), investors could potentially enhance their retirement adequacy and improve on savings mobilisation. Although the PRS, a voluntary alternative to EPF's mandatory contributions, is growing, their net asset under management remains small at RM6.5 billion compared to EPF's RM867 billion in total active EPF contributions, indicating significant potential for other instruments (Chart 12). This illustrates untapped potential for PRS and other market instruments as complementary, voluntary options for retirement planning.

CHART 10
Households do have enough savings that can be mobilised



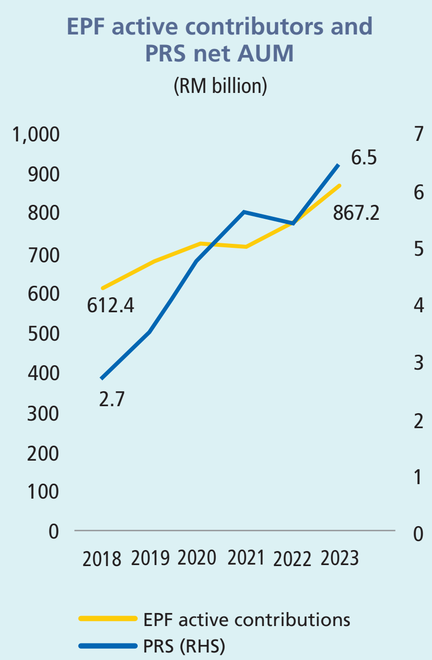
Note:
* Includes securities holdings and insurance

Source: SC, CEIC

CHART 11
Declining unit trust to deposits ratio

Source: SC, BNM

CHART 12
Capital market products such as PRS total value remains low as compared to EPF savings



Source: SC, EPF

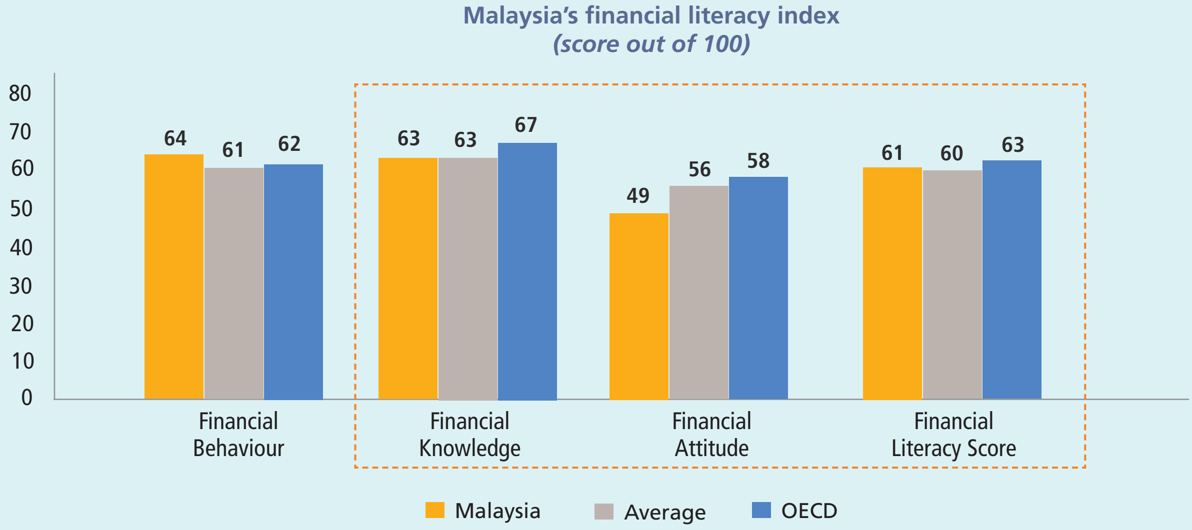
2 Low financial literacy hinders investments in the capital market

Low financial literacy limits household participation in the capital market. According to the OECD Survey of Adult Financial Literacy, while many Malaysians are good at managing money, such as budgeting and paying bills on time, their financial knowledge in some other aspects remain limited (Chart 13). Key gaps include:

- Over half of the respondents are unfamiliar with the time value of money.
- 44% lack long-term financial goals.
- Nearly 50% do not understand the concept of risk diversification.

Addressing low financial literacy is key to securing a stable future, especially for those nearing retirement.

CHART 13
Malaysians exhibit healthy money management, but lack knowledge in numeracy and planning for long-term goals



Source: OECD/INFE 2023 Survey of Adult Financial Literacy.

How Does Ageing Affect the Capital Market?

As the population ages, the capital market may experience structural shifts to better meet the evolving financial needs of older investors. The ageing population reshapes the structure of the capital market, requiring changes to meet their financial needs. Key shifts include:

1. **Reducing breadth of the retail market participants:** In 2020, 75% of retail investors were aged 40 or older, and half of the retail trade volume came from those aged 40 to 60.[23] As these investors age, the number of active retail participants will shrink, affecting market diversity.

2. **Increased risk aversion:** Older investors prefer less risky assets, shifting focus from high-risk, high-reward opportunities to capital preservation, which could reduce market volatility and liquidity.[24]

3. **Retiring remisiers:** The exit of experienced brokers (remisiers), combined with the rise of robo-advisors, could lead to less personalised advice for retail investors.

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[23] SC Annual Report 2020.
[24] 'Differences in Risk Aversion between Young and Older Adults', *Neuroscience and Neuroeconomics 2012*. S. M. Albert and J. Duffy, (2012).

4. **Secular stagnation – lower labour productivity and investment rates:**[25] Studies indicate that as the workforce ages, investment rates typically decline because older individuals may be less inclined to invest in growth-oriented assets due to decreasing income and lower productivity levels.

Conclusion

Malaysia's ageing population presents significant challenges for both individuals and the economy, particularly retirement inadequacy and the concentration of household savings in bank deposits as opposed to investment in the capital market. Alarmingly low retirement savings and soaring healthcare costs threaten the financial security of retirees, while the rise of the gig economy complicates access to essential benefits. Expanding the range of investment options for household savings, including capital market avenues alongside boosting financial literacy, can help improve retirement preparedness and support economic growth. By redirecting liquid assets toward higher-yielding investments and educating individuals on financial planning, retirement preparedness can be improved.

As the capital market adapts to changing demographics, it must also recognise shifts in investor behaviour and preferences. With proactive measures, innovative financial products, and targeted policies, Malaysia can bolster the financial security of its ageing citizens while ensuring the sustainability of its capital market.

Perhaps it is timely to relook and address these challenges holistically and work together to create a more resilient financial landscape. Doing so would not only support the elderly but could also improve economic stability by reducing future dependency on government-funded social welfare systems. Ultimately, enhanced financial resilience benefits both individuals and the broader economy in an increasingly complex economic environment.

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[25] *Finance & Development* (International Monetary Fund), The Impact of Ageing on Economic Growth. March 2017, https://www.imf.org/en/Publications/fandd/issues/2017/03.