

Pension Policies for the People

EPF Malaysia

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Life expectancy is rising – good news

- Longer healthier lives
- Huge medical advances give years of extra life
- Life expectancy from birth risen by 12 years since 1950
- Age 60 life expectancy 17 years men/20 years women
- Opportunity for better quality of later life
- BUT...

Aging population requires changes

- Fertility rate falling from 3.0 in 2000 to <2.1 in 2013
- Rising proportion of older people in future
- Requires adjustment in pension thinking
- Malaysia has been ahead of other Asian countries
- EPF started for private sector pensions in 1951
- Mandatory retirement age increased to 60
- Pension contributions have gradually increased

Meeting demographic challenges

- Have pensions adjusted enough to demographic change?
- Retirement lasting longer, can DC pensions deliver?
- Life expectancy has risen faster than extra working years
- Investment returns from bonds may not be enough
- Diversification – equity, infrastructure, property, international

1970

2020

Birth

Birth

Education

Education

40 years working

44 years working

11 years retired

18 years retired

15

16

55

60

66

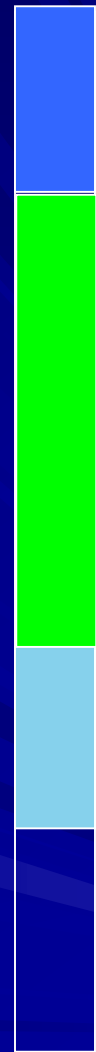
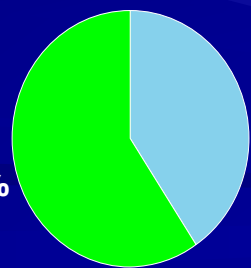
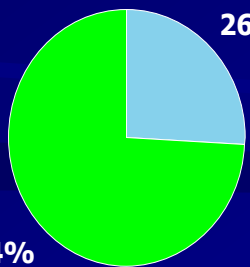
78

26%

41%

74%

59%



What is a pension...

1. Social welfare: income stream
2. Long-term savings: fund of assets

- Public sector Defined Benefit schemes help with both
- Defined Contribution schemes share costs between employers and workers
- DC risks mainly borne by private sector workers
- Investment, longevity, inflation risks
- Inequalities

DC pension funds are not pensions

- DC pension members build up a fund
- Challenge to deliver retirement income to support people
- As life expectancy rises, pensions must last more years
- Can investment returns match rising longevity?
- What about inflation risks and dependent pensions?

Pensions don't grow on magic trees

- Pension funds can't just keep lasting longer and longer
- Understanding pension costs and risk
- Either funds must be larger, or pension income smaller
- Higher contributions while working
- Smaller or later withdrawals

Aging population is risk to growth

- One third of population not covered by pensions
- Self-employed have less chance of 'employer' help
- Women more at risk of later life poverty and live longer
- Demographics imply higher proportion of population not working and have less money to spend
- Will reduce economic activity
- All developed countries grappling with this

Policy options

- Increase contributions while working
- Encourage more women and self-employed into EPF
- Increase pension age further
- Expand social insurance to cover inflation, survivors
- End full withdrawals and facilitate regular income payout
- Diversify EPF into higher expected return assets

Pensions to fit people's lives

- Withdrawing annual sums to live on as fund grows
- Lump sum at age 55 can mean nothing for later years
- People underestimate their own longevity
- 'U' shaped income needs in retirement
- Flexibility and ongoing planning of financial resources

Encourage people to plan

- Just changing pensions may not be enough
- Changing retirement too
- Individuals to take responsibility for financial planning
- Individual balance of extra work and extra contributions
- More flexibility

New phase of life

1-Education 2-full time work 3-retirement

1-Education 2-full time work 3-parttime work 4-retirement

- Cut down gradually, work part time
 - 2-3 days work, 4-5 days off, more money
- Social revolution with 'Bonus Years'

Other countries

- Singapore introduced part-time concept for age 62 – 67
- UK abolished mandatory retirement age
- Policy to encourage fuller working lives
- Employers to assess individuals fairly
- 2-3 days a week work, 4-5 days free
- 'Bonus years'

2020

Future

Education

Education

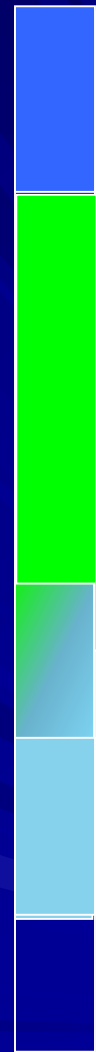
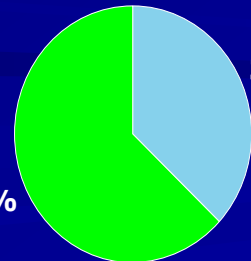
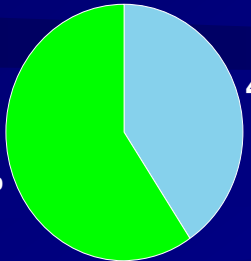
44 years working

42 years working

18 years retired

18 years retired

7 years part-tirement



Win-win-win

- Working part-time to later ages has many benefits
- Businesses benefit by retaining experience, firm-specific skills, older workers can be good mentors
- People gain from increased income and pensions
- Society benefits from better social and inter-generational cohesion
- Economy produces higher output, growth, wellbeing

But inequalities remain

- Multiple facets of inequality
- DC relative to DB
- One third of workforce may not be covered by EPF
- Self-employed don't have separate 'employer' contribution
- Women lose out in pensions – lower lifetime earnings
- Poor health or disability increases risks

How can EPF help

- Increase contributions, longer pay-in, better coverage
- Deter full withdrawals unless for health reasons
- Educate members maybe through workplace
- Guided withdrawal pathways e.g. 5% a year
- Improve risk-adjusted investment returns
- Diversification into growth projects that benefit local and global economic future
- Make people proud of their pension investment power

Changing the narrative

- Less about challenges, more about opportunities
- Better pensions, better growth, more money to spend on leisure
- Broader use of investment opportunities
- Changing attitudes to people's lives
- Social revolution for a richer later life

Conclusions

- Can't rely on pension funds lasting longer
- No guarantees so help individuals plan for their future
- Address inequalities
- Flexibility to allow for individual differences
- More pensions and savings are part of the solution
- Rethinking retirement also a great opportunity