

MERCER

18 November 2006

Financial Adequacy and Coverage of Current Schemes of Old Age

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Coverage of Social Security Benefits in Malaysia

Contingent	Civil Servant	Private Sector Employee in Socso	Private Sector Employee not in Socso	Self Employed
Before Age 55				
Death	Dependent's Pension	Dependents Pension EPF lump sum	EPF lump sum	×
Partial Disability	Covered	Only if work related	×	×
Permanent Disability	Pension for life	Pension for life EPF Lump sum	EPF Lump sum	×
After Age 55				
Retirement at 55	Pension	EPF Lump Sum	EPF Lump Sum	×
Permanent Disability	Pension for life	×	×	×
Death	Survivors pension	×	×	×

Socso

- Community Rated
- Covers employees earning RM3,000 or less only. Does not cover the self employed or the unemployed.
- Consist of two programmes
 - Invalidity and survivors benefits (1.2% contribution)
 - Employment Injury benefits (1% contribution)

The Employees Provident Fund

- Covers the Employed in the Private Sector
- Employers contribute 12% of salaries
- Employees contribute 11% of salaries
- Maintains three accounts. Account I only for retirement lump sum. Account III for Medical needs. Account II for education loans and housing.
 - Only 13.8% of salaries are specially earmarked for retirement
- Provides the accumulated lump sum in Accounts 1, 2 and 3 for full withdrawal at age 55. No annuity available.

Old Age Provision for the Private Sector Employees

- Account 1 in the Employees Provident Fund
- Balance of Accounts 2 and 3 in the EPF
- Employer sponsored retirement schemes



Employer Sponsored Retirement Schemes

- Provides a lump sum at retirement
 - Usually Defined Benefit in nature
 - Example
 - $1.0 \times \text{Last Drawn Salary} \times \text{Years of Service}$
 - Can be Defined Contribution
 - Example
 - 4% of salaries accumulated in a private provident fund
 - Benefits payable only at retirement. Some schemes provide for benefit to be also payable on death or on permanent disability in service. There are also schemes which provide for resignation benefits with certain condition attached.

Funded or not funded

- Section 150 of the Income Tax Act provides for the set up of funded, tax approved retirement schemes. Estimated total amount in such schemes range from RM1 to 2 billion.
- Many retirement schemes established under Collective Agreements are not funded.

How much do you need to retire?

- Would you have you paid off your mortgage by your planned retirement age?
- Would all your children have started working then?
- How much are you earning?
- Where do you live?
- What are your medical needs?



Hardcore poor

	2004	
	Hardcore Poverty Gross Food PLI (RM)	Overall Poverty Gross PLI (RM)
Peninsular Malaysia	398	661
Sabah	503	888
Sarawak	482	765
Malaysia	415	691
Incidence Rate	1.20%	5.70%

Source: 9th Malaysia Plan

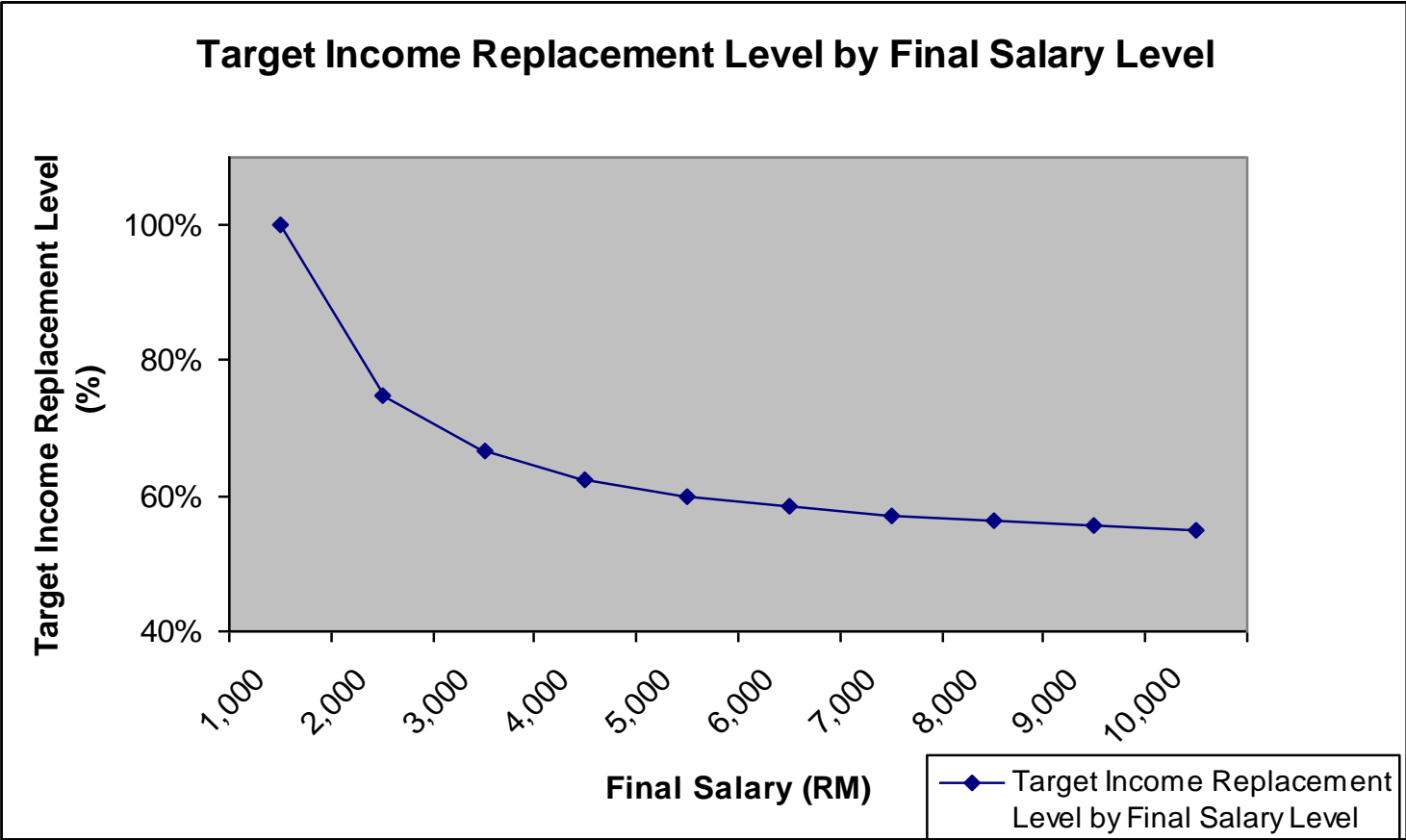
2004 Mean Monthly Gross Household Income

(in current prices)

	1999	2004	Annual Growth (%p.a.)	% of Population
Urban	3,103	3,956	5.0	64
Rural	1,718	1,875	1.8	36
All	2,472	3,249	5.6	

Source: 9th Malaysia Plan

Target Income Replacement Level by Final Salary Level

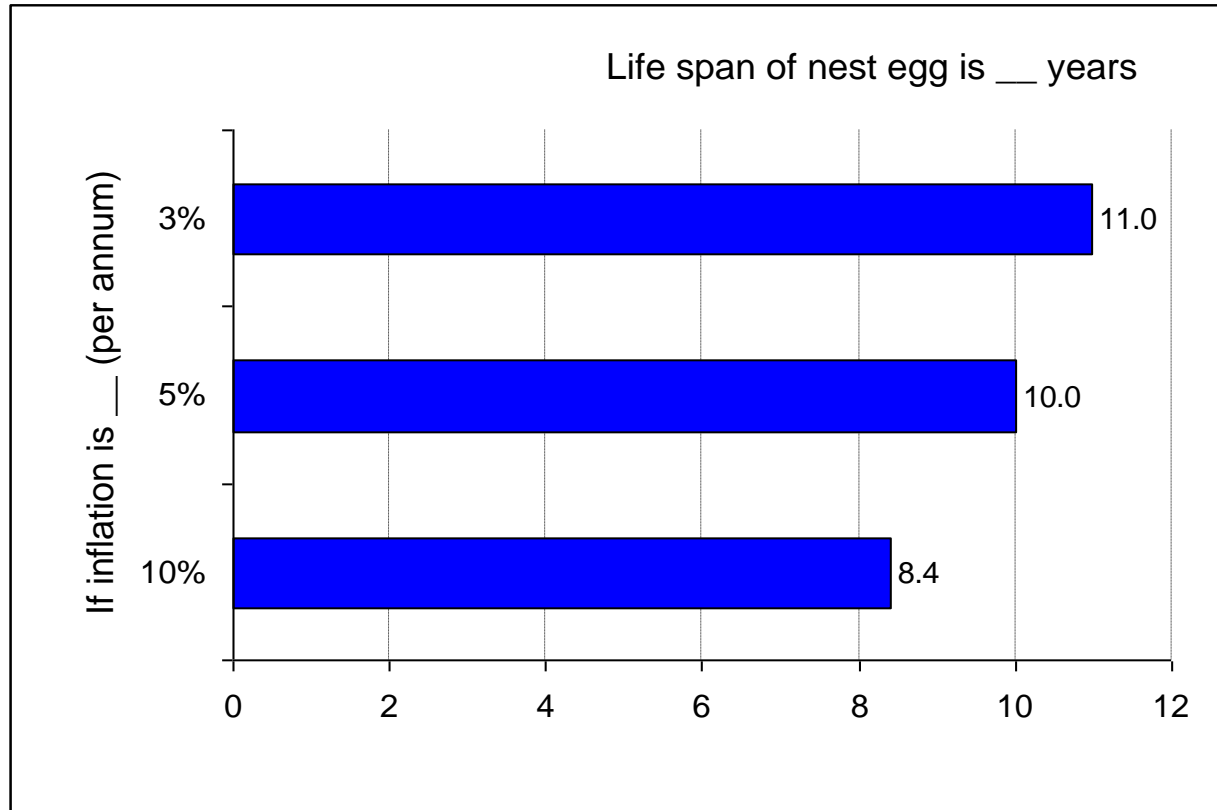


Are your EPF savings sufficient?

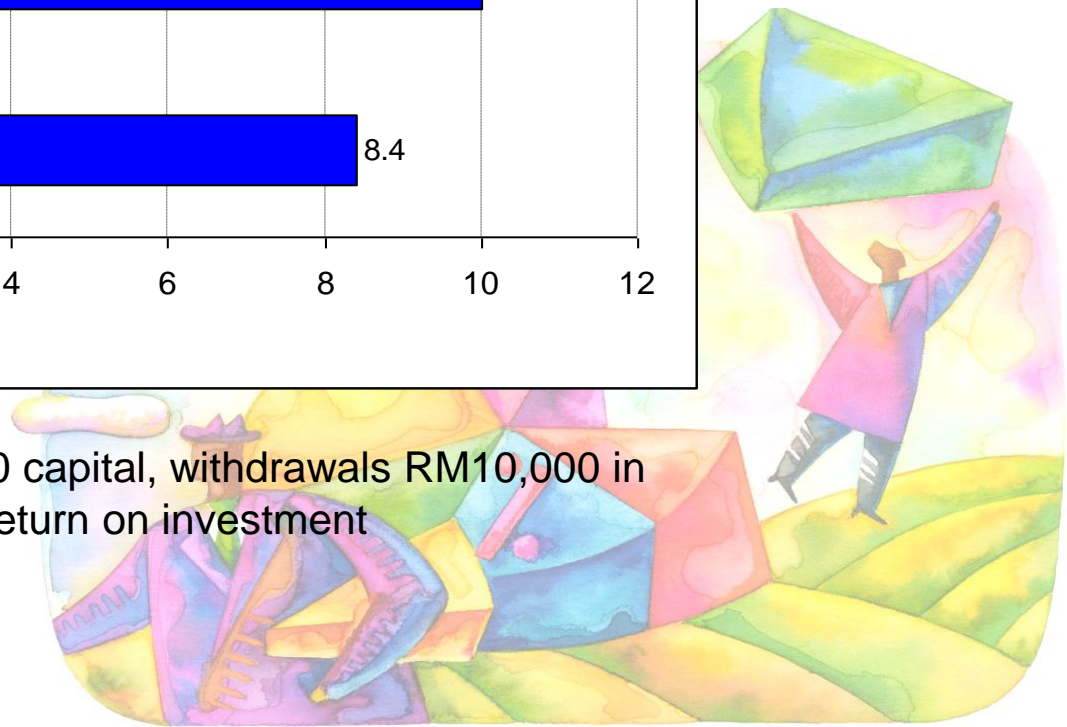
- Studies shows 70% of EPF members exhausts their EPF Money within 10 years of age 55, 40% within 5 years.
- Currently on average, an EPF member takes RM100,000 on his retirement at age 55
- Current EPF contributions are already very high by international standards.

How long does RM100,000 lasts?

Depends on the expected investment return and price inflation rate..

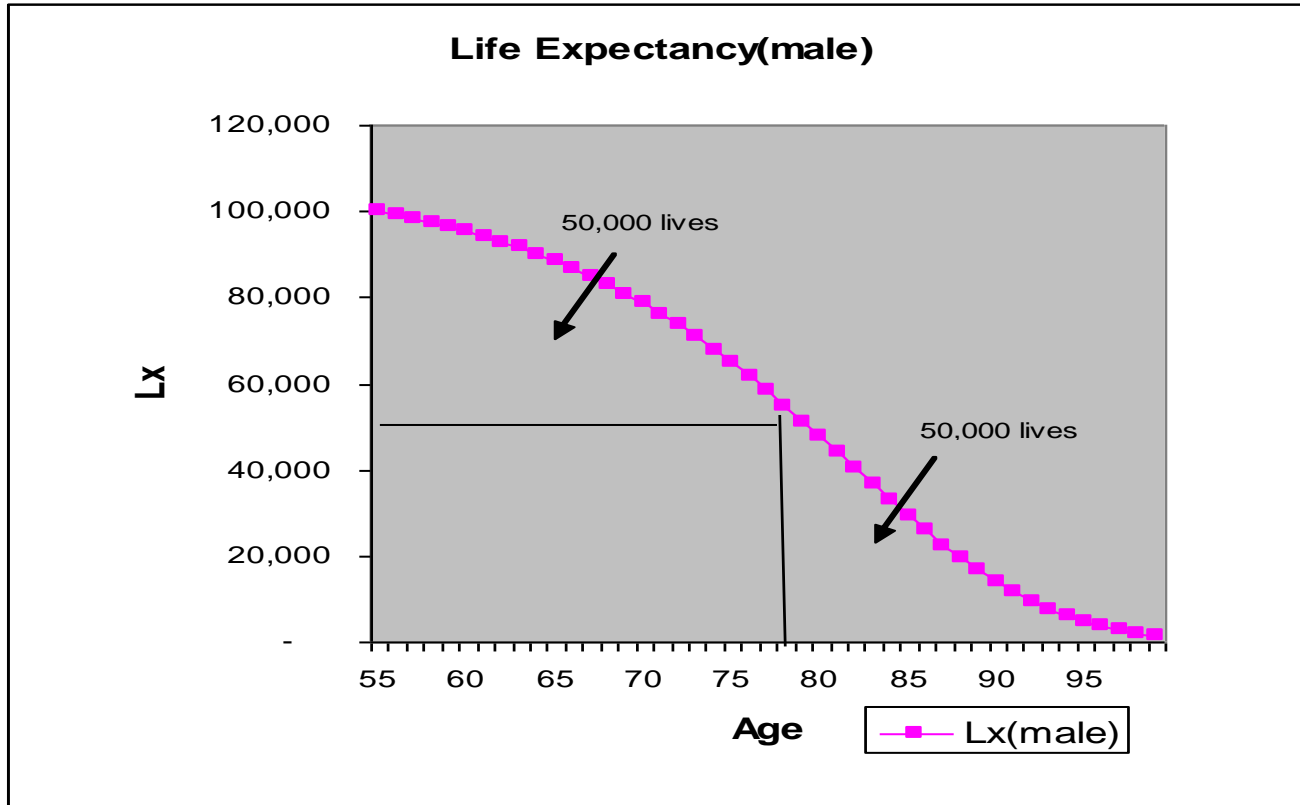


Assumptions: RM100,000 capital, withdrawals RM10,000 in 2006 every year, 5% p.a. return on investment



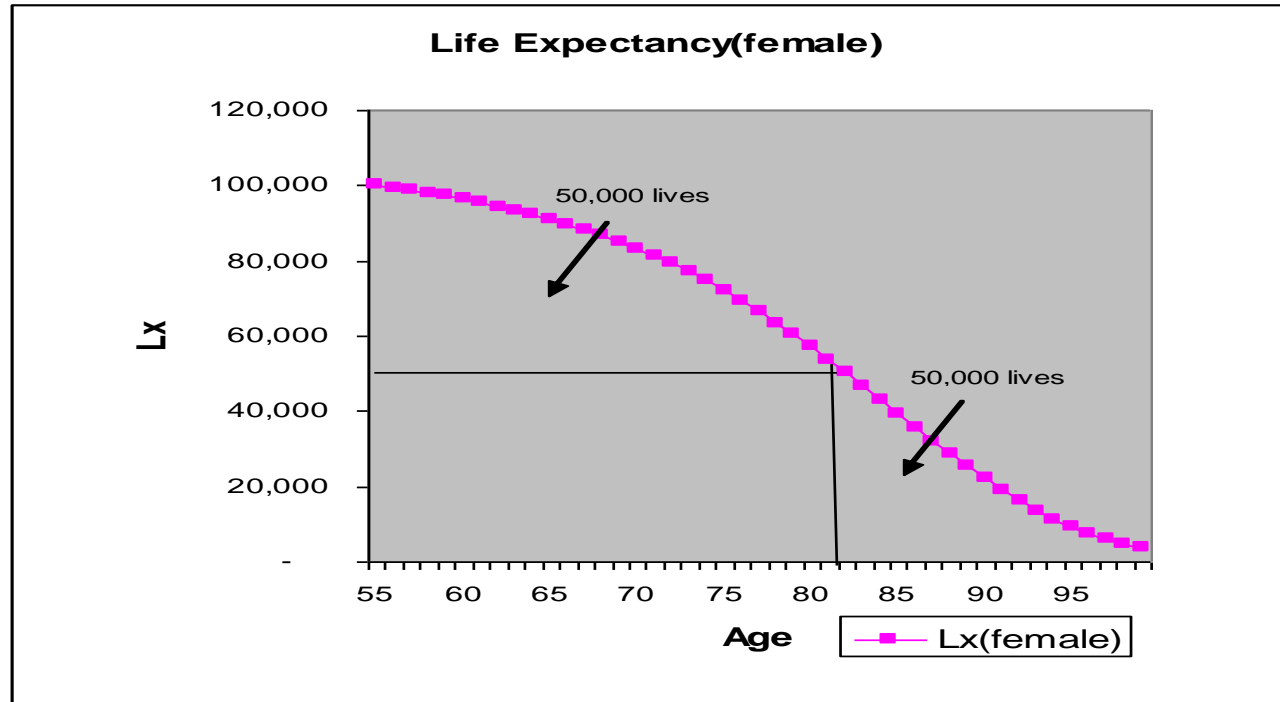
Life Expectancy

-Male



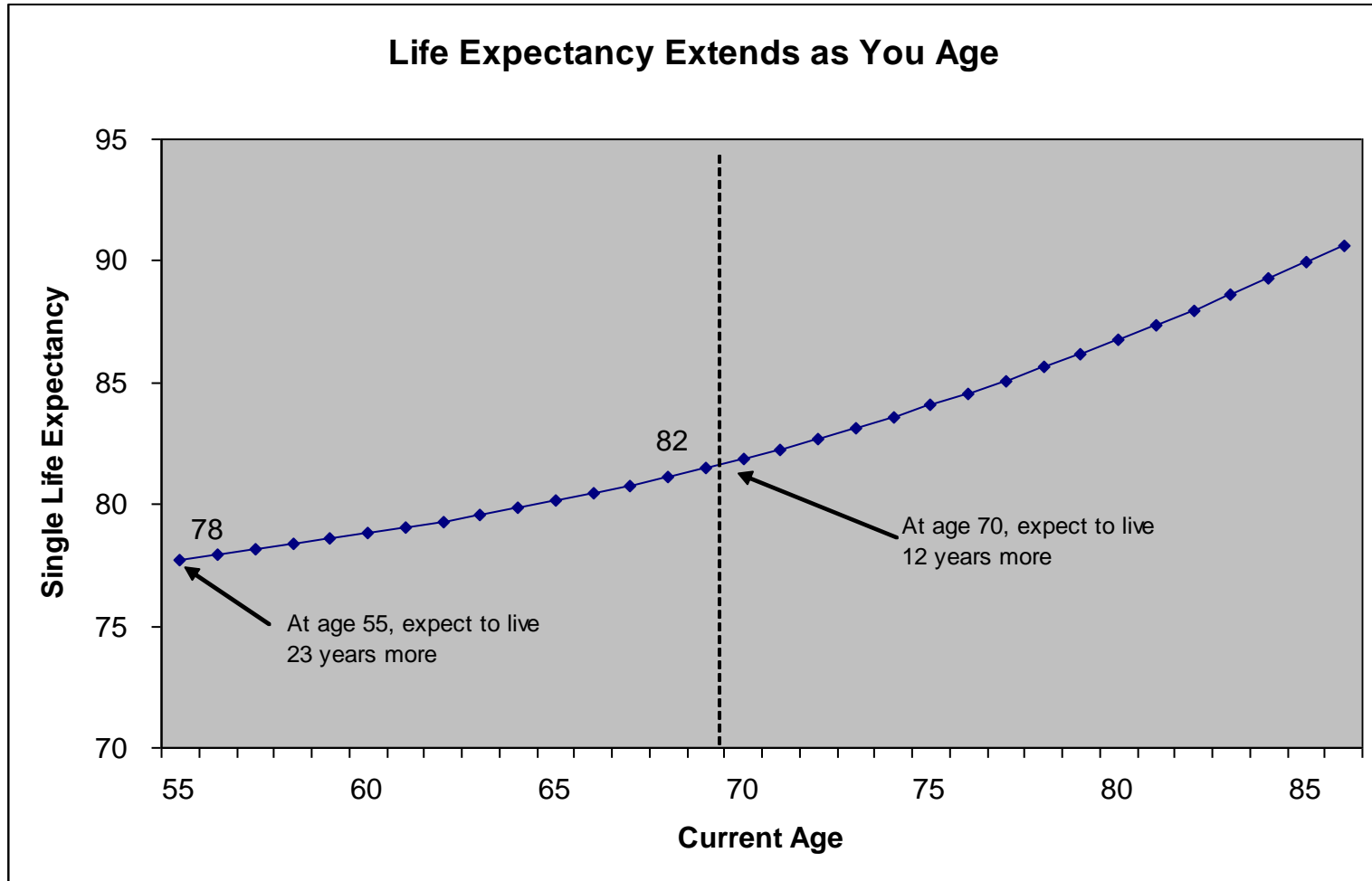
Life expectancy of a Male at age 55 based on Malaysian Insured Life Table is Age 78.

Life Expectancy -Female



Life expectancy of a Female at age 55 based on Malaysian Insured Life Table is Age 82.

Life Expectancy Extends as You Age



**How can you stretch your retirement
Lump Sum?**

Assumptions:

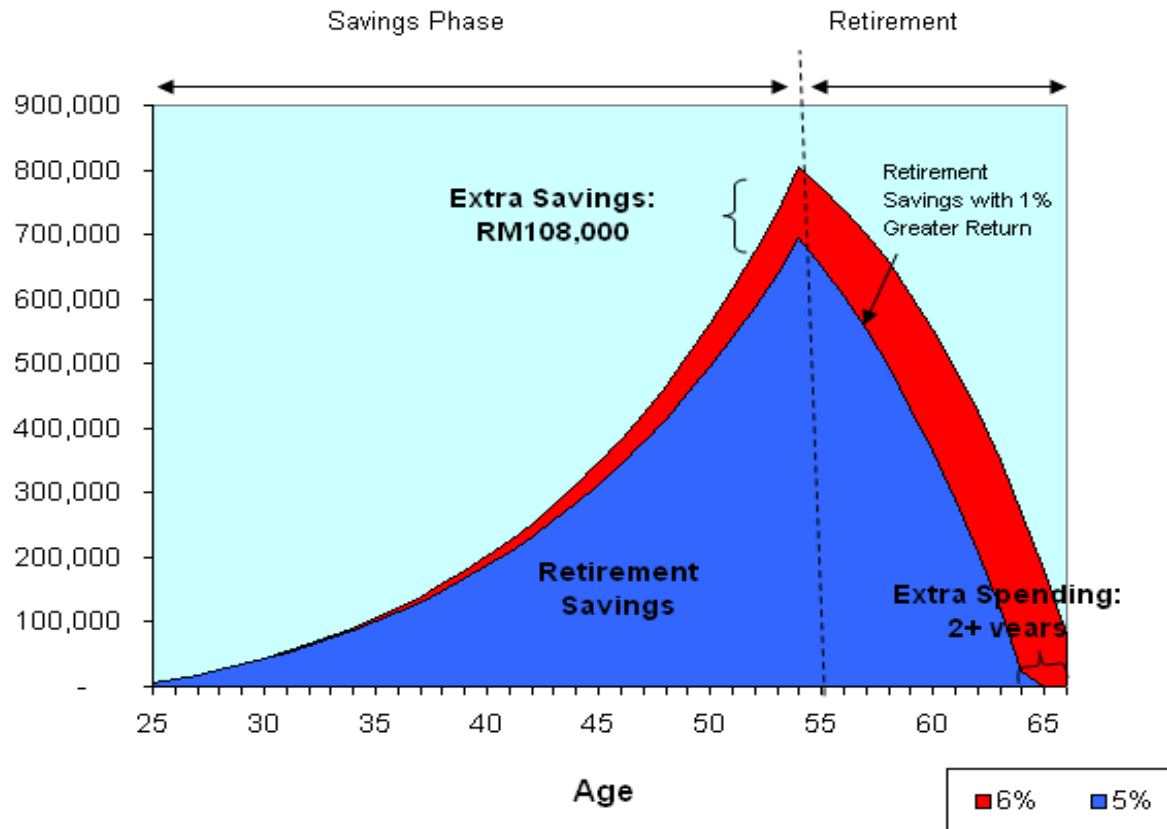
Retirement Age:	55	EPF Dividend Rate:	5% p.a.
Age at entry:	25	Salary at entry:	RM2,000
Employer contribution:	12%	Salary increment rate:	5%
Employee contribution:	11%	Inflation rate:	3% p.a.

No pre retirement withdrawal from Accounts II and III. Money invested after retirement earns 5% p.a.

Assumed drawdown of 75% of final salary at retirement. Ringgit amount subsequently inflated at 3% p.a.

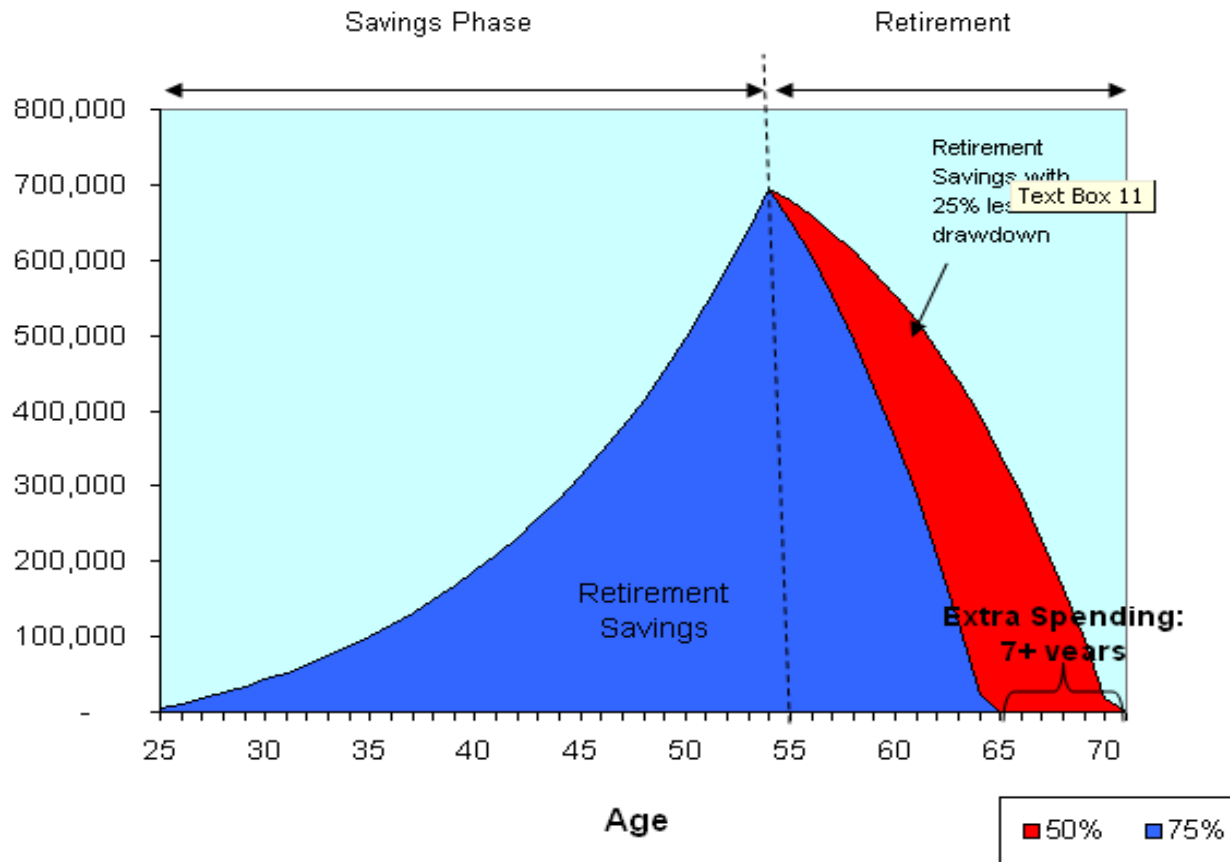
Adding 1% to Annual Returns Could Fund More Than 2 Extra Years of Spending with NRA at 55

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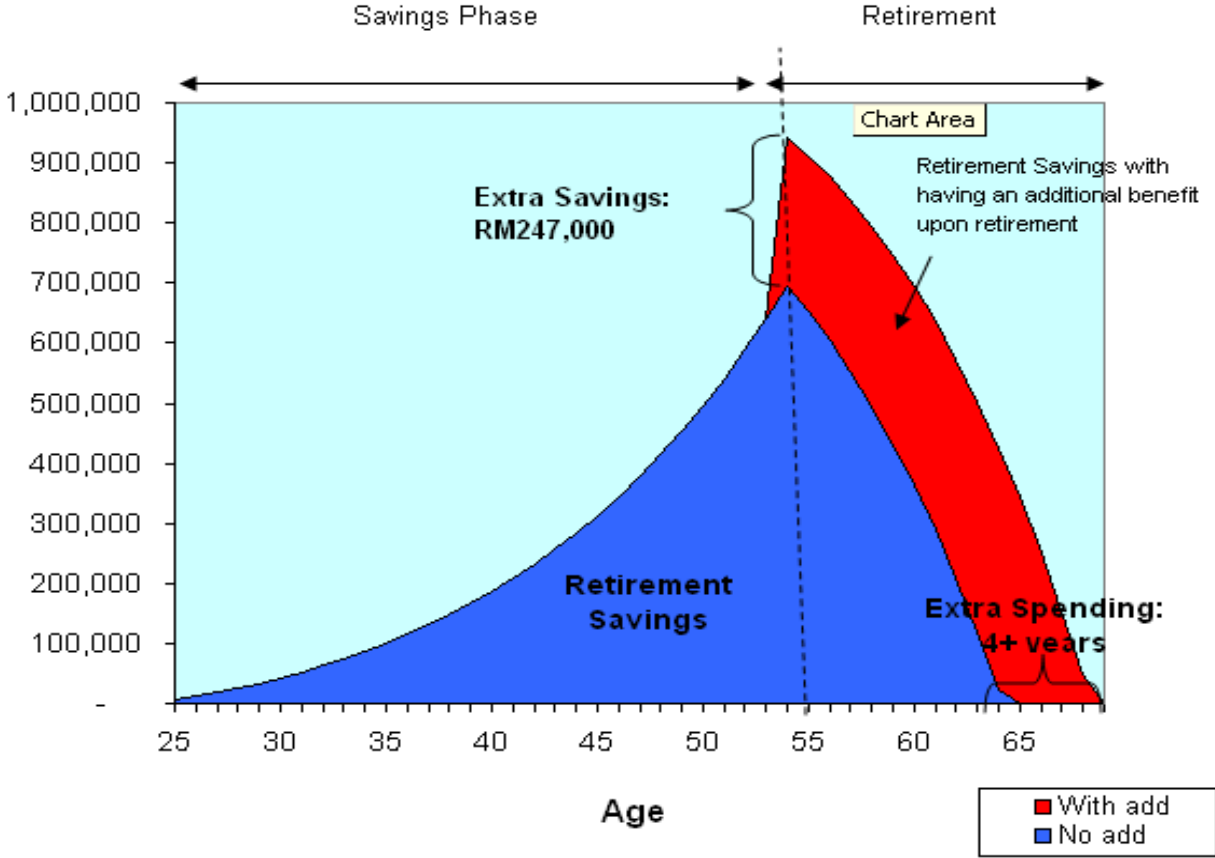
Reducing Drawdown to 50% of Final Salary Could Fund More Than 7 Extra Years of Spending with NRA at 55

Reducing Drawdown to 50% of Final Drawn Salary Could Fund More Than 7 Extra Years of Spending with NRA at 55



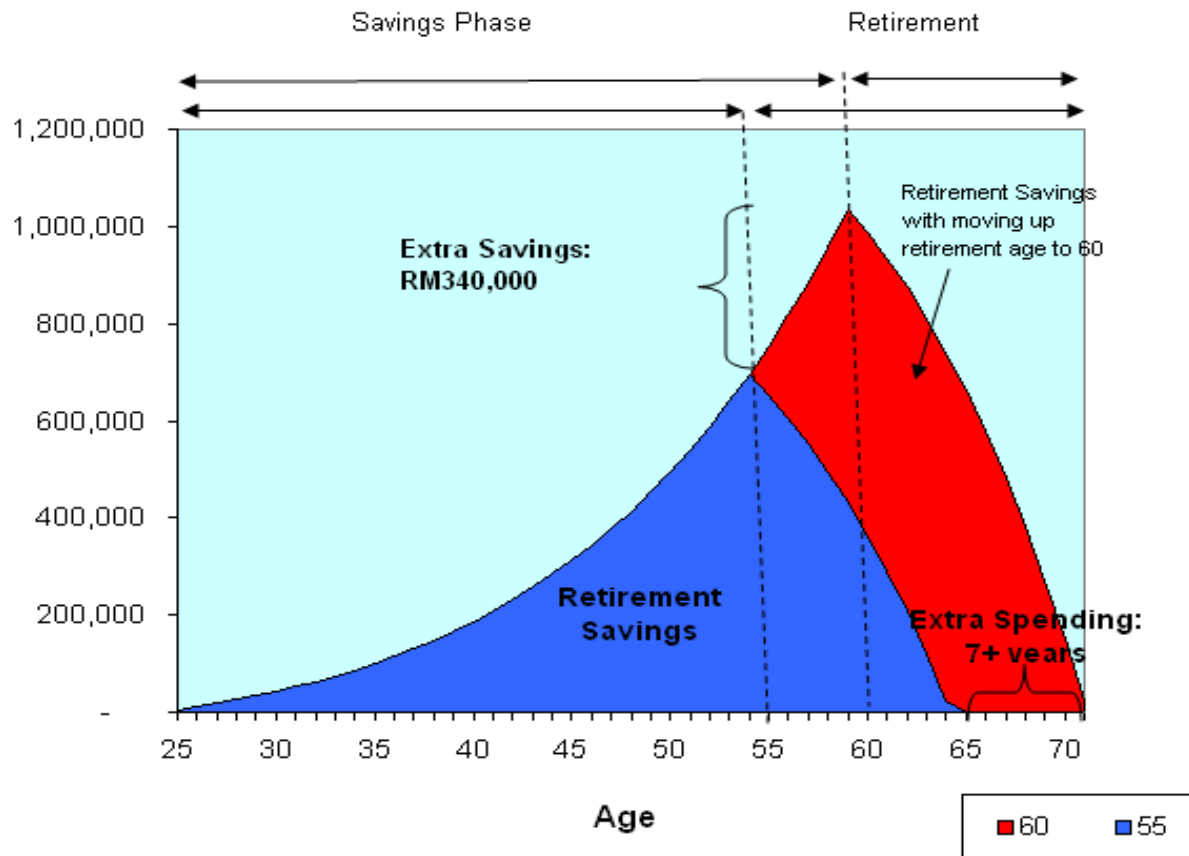
Additional Benefit of 1 x LDS x Years of Service to Retirement Scheme Could Fund More Than 4 Extra Years of Spending with NRA at 55

Additional Benefit of 1 x LDS x Years of Service Could Fund More Than 4 Extra Years of Spending with NRA at 55



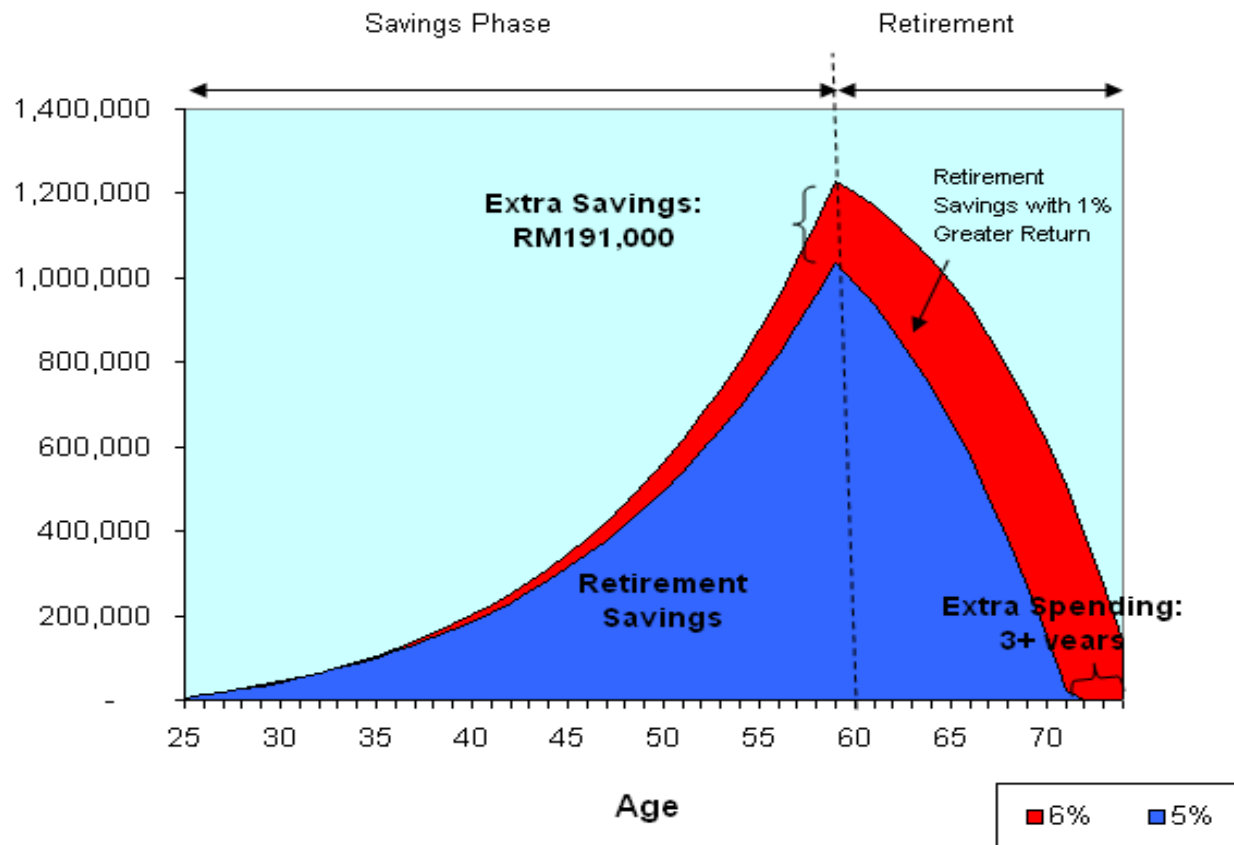
Extending NRA to age 60 Could Fund More Than 7 Extra Years of Spending

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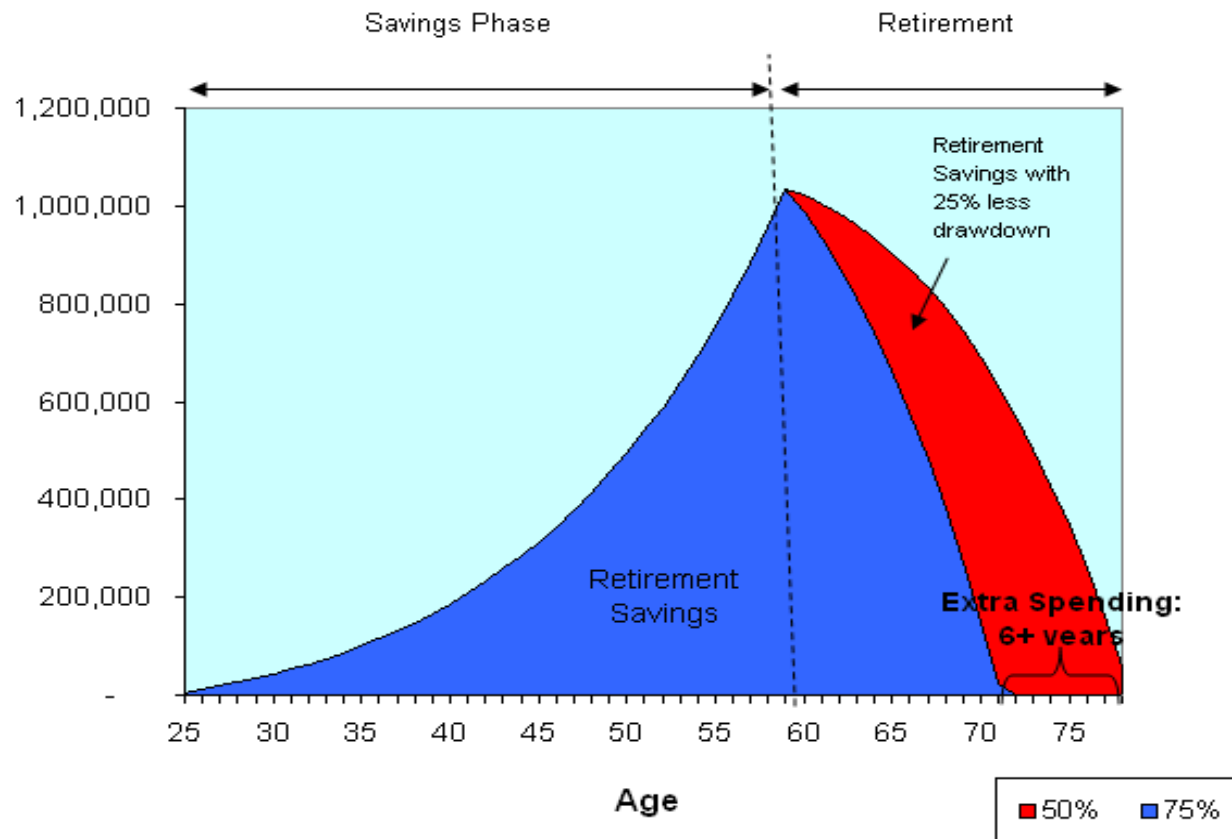
Adding 1% to Annual Returns Could Fund More Than 3 Extra Years of Spending with NRA at 60

Adding 1% to Annual Returns Could Fund More Than 3 Extra Years of Spending with NRA at 60



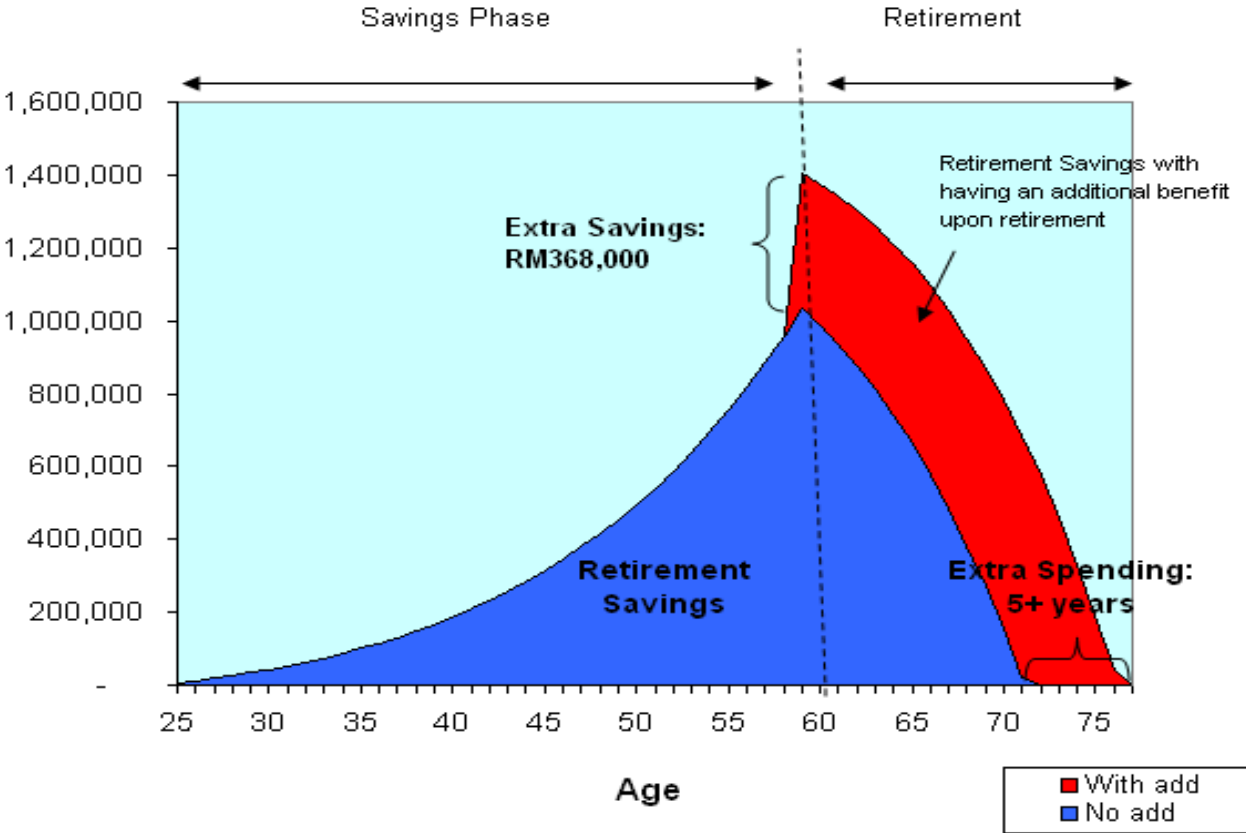
Reducing Drawdown to 50% of Final Salary Could Fund More Than 6 Extra Years of Spending with NRA at 60

Reducing Drawdown to 50% of Final Drawn Salary Could Fund More Than 6 Extra Years of Spending with NRA at 60



Additional Benefit of 1 x LDS x Years of Service to Retirement Scheme Could Fund More Than 5 Extra Years of Spending with NRA at 60

**Additional Benefit of 1 x LDS x Years of Service
Could Fund More Than 5 Extra Years of Spending
with NRA at 60**



How to Survive Your Retirement

- Try not to 'consume' your EPF savings before your retirement
- Supplement your EPF with additional savings/corporate retirement plan
- Continue working to at least age 60
- Plan your post retirement draw down to last at least until age 78. One option is instead of drawing down 75% of your final salary draw down 50% of your final salary to extend the drawdown period.
- Find suitable investments for your lump sum after age 55
- Set aside 10-20% of your lump sum for emergency medical needs

Should you insure your longevity risk?

Assumptions

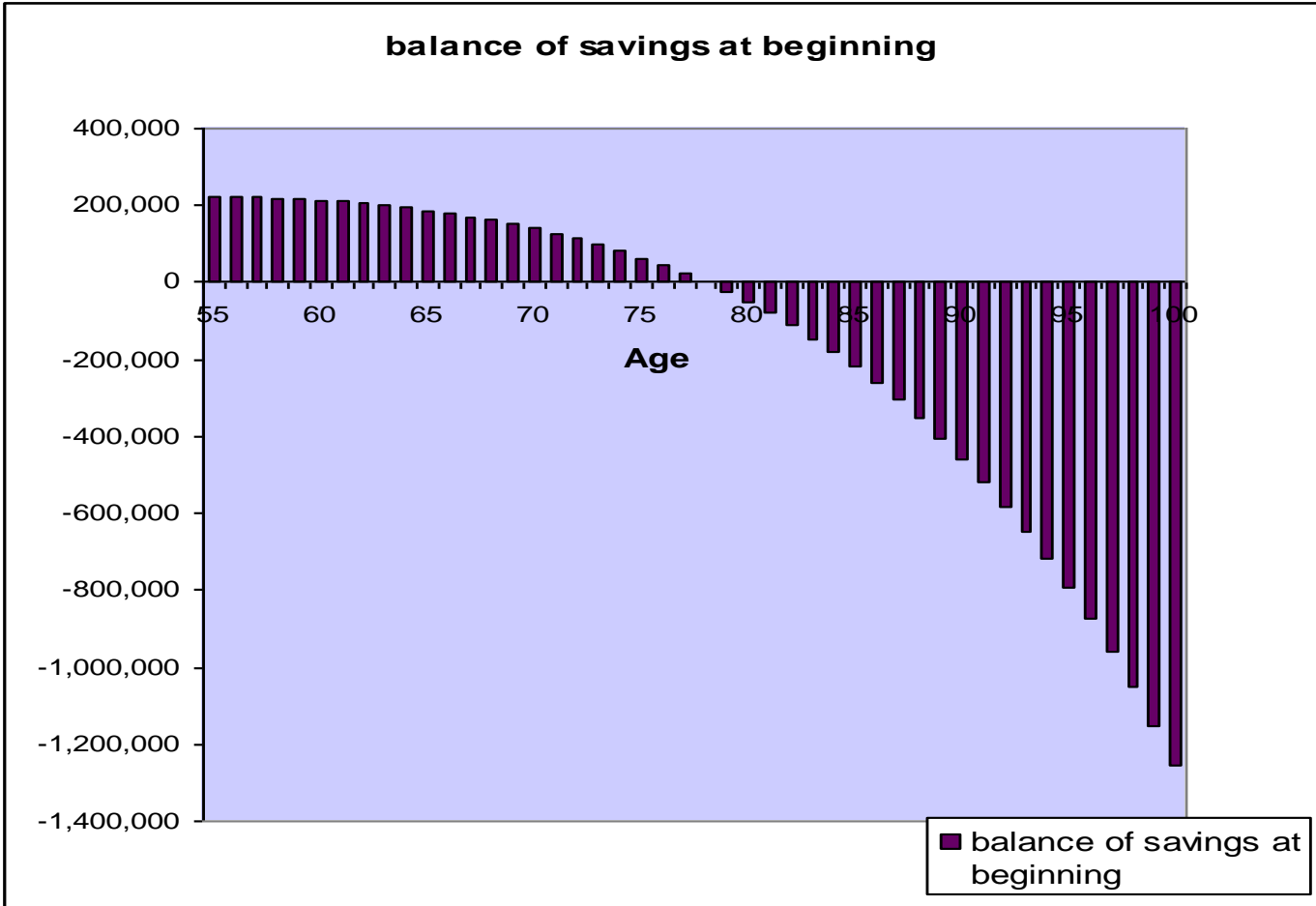
Inflation Rate:	3% p.a.
Interest rate/ Investment Return:	5% p.a.
Monthly Expense/Withdrawal:	RM1,000 inflating at 3%p.a.
Lump sum Benefit at age 55:	RM225,000

Progression of your financial position

Figures in RM

Attained Age	Balance of savings at beginning	Annual Withdrawal	Balance of savings at end
55	225,198	12,000	223,858
60	213,701	13,911	209,779
70	139,965	18,696	127,333
78	0	23,683	(24,867)
90	(460,162)	33,766	(518,624)
100	(1,254,745)	45,379	(1,365,131)

Balance of Savings



Features of a Life annuity

- Once you have purchased your annuity, it would be payable for life. Thus those who live long is financed by those who die early.

“You can’t take it with you anyway”

- You do not have to worry about how to invest your lump sum after retirement or how much your investment will earn
- There are many types of annuities, some annuities can continue to be payable to your surviving spouse. These cost more.
- Annuities which increases annually to compensate for inflation also cost more.
- Generally, insurance companies do not sell life annuities in Malaysia as there is a lack of suitable investments for the insurers for such a product