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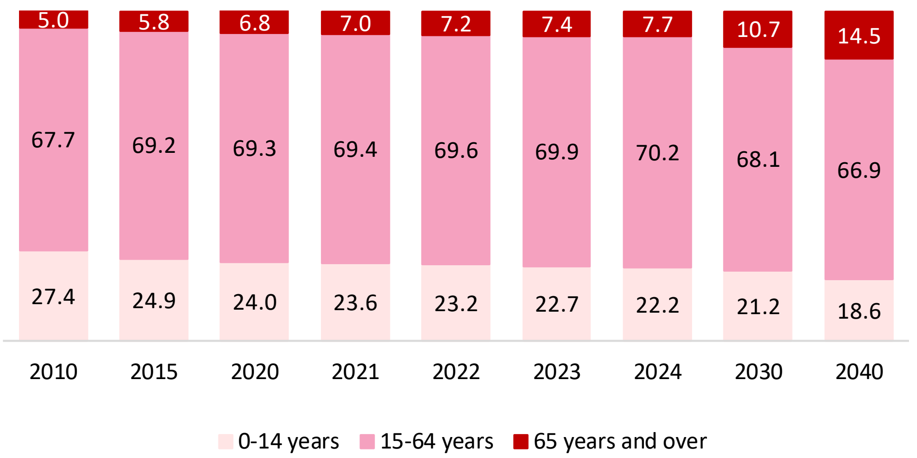
RISING LIFE EXPECTANCY IS DEEPENING MALAYSIA'S RETIREMENT INSECURITY

Background: Ageing Nation with High Life Expectency

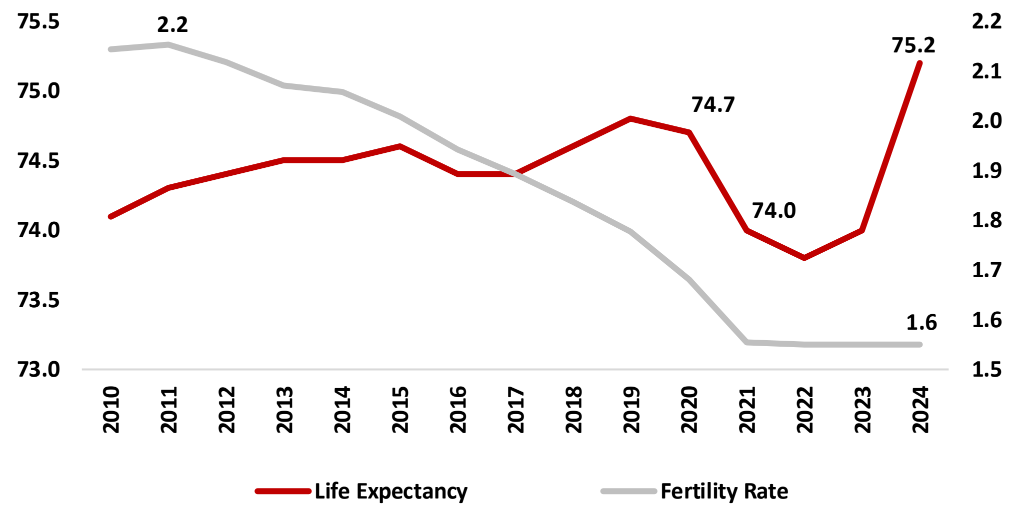
- Malaysia is undergoing a profound demographic transition as its population ages, with the share of those aged 65 and above rising steadily. According to the Department of Statistics Malaysia (DOSM), 7.7% of the population fell into this category in 2024, crossing the threshold that officially classifies Malaysia as an "aging society" by international standards. This demographic shift is driven by longer life expectancy, declining fertility rates, and improvements in healthcare and living standards. While these trends reflect important social and economic progress, they also pose significant challenges. An expanding elderly population will place growing pressure on the healthcare system, reshape labour force participation, test the adequacy of social protection programmes, and, most critically, raise concerns over the sustainability of retirement income.

Chart 1: Percentage of population by specific age group (%) 2010-2040



Sources: DOSM, Bank Islam

Chart 2: Life expectancy (year) and fertility rate (births per woman ratio), 2010-2023



Sources: DOSM, CEIC Data, Bank Islam

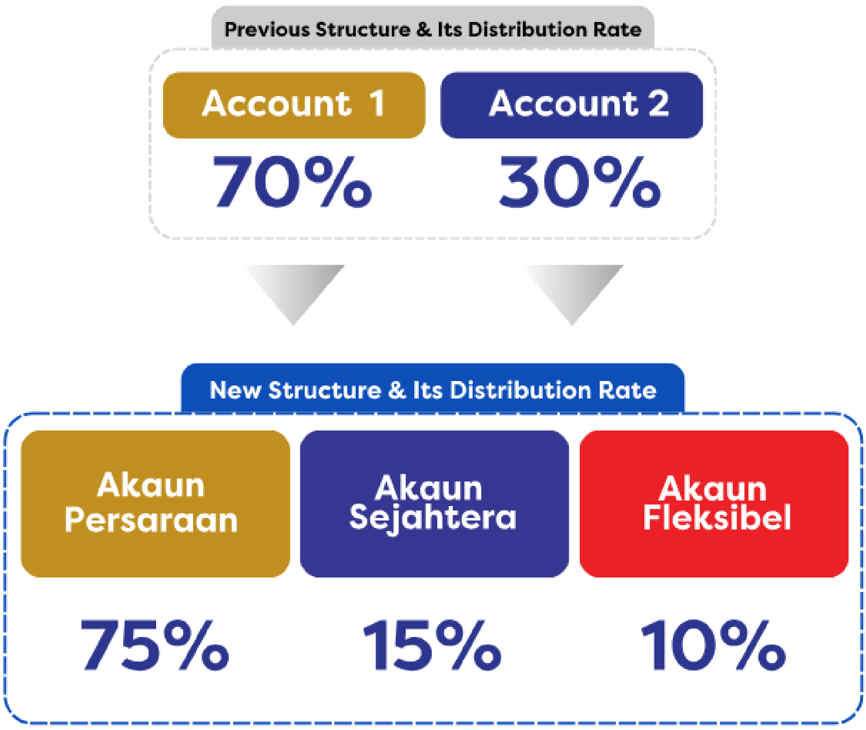
- With Malaysia's average life expectancy now exceeding 75 years, most individuals can expect to spend at least 15 years in retirement, given Malaysia's official minimum retirement age of 60. This means a prolonged period without steady employment income, heightening dependence on retirement savings to cover daily expenses. Rising living costs further compound the challenge, as savings accumulated during working years may prove insufficient over a longer retirement horizon. The combination of extended longevity and financial strain reinforces the urgency for policy adjustments, particularly in ensuring that retirement savings, such as those in the Employees Provident Fund (EPF), are managed and withdrawn in a way that guarantees sustainable income throughout retirement.

Current Framework of the EPF Contribution Structure

- The Employee Provident Fund (EPF) or known as Kumpulan Wang Simpanan Pekerja (KWSP) is Malaysia's mandatory retirement savings scheme aimed at providing financial security during retirement. It ensures consistent monthly contributions from both employees and employers, building a long-term savings buffer for individuals once they leave the workforce. Effective on 11 May 2024, EPF had restructured its members' account aimed at enhancing long-term income security while providing flexibility to meet short-term financial needs.

- Under the new structure, there are three accounts with its distribution rate introduced as portrayed in the following chart:

Chart 3: Old and New Structure of EPF Contribution



Sources: EPF

Chart 4: Detail of New Structure of EPF Contribution

Akaun Persaraan	Akaun Sejahtera	Akaun Fleksibel
• Previously known as Account 1. • Aims to accumulate and increase the members' saving level for the long term in order to achieve comfortable life after retirement. • Existing balances in Account 1 will remain in Akaun Persaraan.	• Previously known as Account 2. • Aims to meet the pre-retirement life cycle needs for the medium term which contributes to retirement wellbeing. • Savings in this account can be withdrawn for pre-retirement purposes (subject to EPF terms and conditions) such as: i. Housing ii. Education iii. Health iv. Insurance/Takaful protection v. Hajj vi. Age 50 Years Old • Existing balances in Account 2 will remain in Akaun Sejahtera.	• A new account, which designed to meet members' short-term financial needs. • Savings in this account can be withdrawn by members any time. • Akaun Fleksibel will start with a zero balance.

Sources: EPF

- While the EPF is mainly intended to support retirement, it also recognises that individuals may face major financial needs during their working years. As such, EPF offers various withdrawal facilities including for housing, education, healthcare and other emergencies to help the members financially. Even in the event of crisis such as the COVID-19 pandemic, the government introduced several special withdrawal schemes namely i-Lestari, i-Sinar, and i-Citra to provide financial relief to EPF members facing economic struggle during the outbreak.

The Alarming State of Retirement Savings After Pandemic Withdrawals

- The EPF disclosed that pandemic-related withdrawals amounted to RM101.0 billion, disbursed to over 7.3 million members, or 58% of the 12.6 million members under the age of 55. While these measures provided crucial short-term relief, they have severely eroded retirement savings. As of December 31, 2021, 6.1 million EPF members had less than RM10,000 in their accounts, leaving them highly vulnerable and unprotected in old age. To put this in perspective, a remaining balance of RM10,000 would translate into a retirement income of less than RM42 per month over 20 years, far below the level required for even a basic standard of living. Alarmingly, 3.6 million members had savings of under RM1,000, underscoring the scale of financial insecurity and the urgent need for structural reforms to strengthen retirement preparedness.

- By income category, the impact on retirement savings has been stark. Among the bottom 40% of EPF members, around 5.0 million individuals saw their total savings plunged by 38.0% to just RM8.0 billion, leaving their median balance at a mere RM1,005. The middle 40% fared only slightly better, with savings declining by 18.0% to RM155.0 billion and a median balance of RM24,995. Only the top 20% of members under 55 recorded an increase in savings; however, even their median stood at RM152,043, which translates to just

RM633 per month over a 20-year retirement. These figures highlight not only the widening inequality in retirement preparedness but also the sobering reality that even higher-income groups may struggle to sustain an adequate standard of living in old age.

- Overall, the three exceptional withdrawal programmes have left many EPF members in a precarious position, with insufficient funds to sustain retirement. The proportion of members meeting the basic savings threshold of RM240,000 by age 55, equivalent to RM1,000 per month over 20 years, fell sharply from 36.0% in 2020 to just 30.0% by end-2021. According to EPF estimates, members will now need to work an additional four to six years to rebuild the savings depleted during the pandemic, underscoring the long-term cost of short-term relief measures.

- Although the special withdrawal schemes provided crucial relief by allowing members to access portions of their EPF savings earlier than usual, they have deepened concerns over the adequacy of retirement savings in Malaysia. The sizable pre-retirement withdrawals made during the COVID-19 pandemic have left many members with dangerously low balances, raising long-term risks to financial security in old age and placing additional strain on the social protection system. The sharp decline in savings highlights the urgent need for strategies to help members rebuild their retirement funds and strengthen financial resilience across the workforce.

- On December 12, 2024 the EPF has launched the *Belanjawanku 2024/2025* and *Retirement Income Adequacy (RIA) Framework,* aimed at providing Malaysians with a comprehensive guide to monthly spending. At the same time, EPF has revised its recommended savings benchmark, moving from a single-tier model to a more holistic three-tier savings framework namely adequate savings, basic saving and enhanced saving to better reflect varying retirement needs. The framework promotes a structured monthly withdrawal over a 20-year period, in line with Malaysia's rising life expectancy, to ensure more sustainable income throughout retirement.

- Scheduled for launch in January 2026, the RIA Framework will enable EPF members to set personalised savings targets aligned with varying retirement lifestyles and goals. The framework reinforces the concept of treating EPF savings as a source of long-term income, helping members better understand the level of savings required to support themselves throughout retirement. Since 2019, the EPF, in collaboration with the Social Wellbeing Research Centre (SWRC) at the University of Malaya, has developed the Belanjawanku Guide as a reference tool that estimates the minimum monthly expenditure required to maintain a reasonable standard of living in Malaysia.

Chart 5: Retirement Income Adequacy (RIA) Framework

Basic Savings	Adequate Savings	Enhanced Savings
• Covering essential retirement needs • 60% of adequate savings amount (RM390,000 by age 60) • Supports monthly withdrawals of RM1,625 in year one, growing to RM4,434 by year 20	• Providing a reasonable standard of living during retirement • Set at 240 times (20 years x 12 months) the Adequate Retirement Income, rounded down to the nearest RM10,000 (RM650,000 by age of 60) • Enables monthly withdrawals starting at RM2,708 in year one, growing to RM7,389 by year 20.	• Supporting greater financial security and independence for a higher quality of life • 2 times of Adequate Savings amount (RM1.3 million by age of 60) • Provides monthly withdrawals of RM5,417 in year one, increasing to RM14,779 by year 20, for a more comfortable retirement.

Sources: EPF, Bank Islam

Chart 6: Ideal Savings Milestones by Age based on RIA Framework

Age	Old Basic Savings	Basic Savings	Adequate Savings	Enhanced Savings
30	RM35,000	RM38,000	RM47,500	RM85,400
40	RM86,000	RM107,000	RM149,000	RM279,000
50	RM175,000	RM217,000	RM339,000	RM652,000
55	RM240,000	RM294,000	RM476,000	RM935,000
60	-	RM390,000	RM650,000	RM1,300,000

Sources: EPF, Bank Islam

- Instead of the previous basic savings benchmark of RM240,000 by age 55, the EPF now recommends a higher target of RM390,000 by age 60 to reflect rising living costs and longer life expectancy. Additionally, members are encouraged to aim for “adequate” savings of RM650,000 or “enhanced” savings of RM1.3 million by age 60 for a more financially secure retirement. The new basic savings rate will gradually increase over three years to help members adjust. Starting 1 January 2026, the target will rise to RM290,000 then to RM340,000 in 2027, and finally reach RM390,000 by 2028. This phased approach replaces the previous benchmark of RM240,000.

- According to Prof Datuk Norma Mansor, director of Universiti Malaya’s Social Wellbeing Research Centre (SWRC), the adequate savings of RM650,000 is based on the estimated minimum monthly expenses of RM2,690 needed by a single senior citizen living in the Klang Valley to live a reasonable, sustainable, and meaningful life. This estimate comes from the Belanjawanku 2024/2025 guide developed by SWRC and EPF. Among all cities, Klang Valley is the most expensive for retirees, followed by Georgetown (RM2,620) and Johor (RM2,500). The lowest cost of retirement living is in Alor Setar, at RM2,160 per month.

- The image below (refer to Chart 8) illustrates the estimated monthly living expenses for a single senior citizen in the Klang Valley, totaling RM2,690. The majority of the budget is allocated to housing, food, and transportation, which together make up nearly 70% of total costs. This serves as a reference for how much retirees would need each month to maintain a reasonable and sustainable standard of living, particularly in urban settings.

Chart 7: Estimated Monthly Expenses for Selected Cities by Household Categories

Klang Valley and Selected Cities	Total Expenses for Household Category (RM)								
	Single (P.T.U)	Single (Car Owner)	Married (w/o Children)	Married (1 Child)	Married (2 Children)	Senior Single	Senior Couple	Single Parent (1 Child)	Single Parent (2 Children)
Klang Valley	1970	2800	4970	6420	7440	2690	3390	5120	6070
Alor Setar	1600	2210	3940	5130	5880	2160	2760	3970	4640
Kota Kinabalu	1730	2330	4200	5460	6290	2430	3080	4280	5020
Johor Bahru	1790	2400	4360	5770	6560	2500	3180	4530	5280
K. Terengganu	1710	2320	4120	5320	6080	2220	2870	4150	4830
Kuching	1730	2320	4120	5380	6170	2300	2940	4190	4900
Kuantan	1730	2320	4130	5380	6170	2300	2940	4200	4910
Kota Bharu	1610	2260	4010	5250	5990	2200	2840	4080	4750
Georgetown	1860	2570	4600	6030	6870	2620	3300	4800	5540
Ipoh	1740	2360	4210	5470	6290	2370	3020	4320	5040
Seremban	1780	2400	4390	5740	6540	2440	3080	4530	5270
Malacca City	1740	2370	4230	5500	6320	2360	3000	4320	5050
Average	1840	2480	4360	5660	6470	2380	3030	4460	5200

Sources: Belanjawanku 2024/2025 Booklet

Chart 8: Estimated Monthly Budget for Single Senior citizen living in Klang Valley

Sources: Belanjawanku 2024/2025 Booklet

Mixed Reactions to Monthly EPF Payout Proposal under the 13 Malaysia Plan (13MP)

- In the 13MP framework, policymakers are considering to implement a transition towards monthly EPF payout. The proposed mechanism would restructure EPF contributions into two distinct components; which one allocated specifically for retirement savings and the other earmarked for a monthly pension payout. This dual-structure approach aims to balance flexibility and security, allowing members to access a portion of their savings while ensuring they continue to receive a stable stream of income throughout their retirement years. Monthly disbursement is expected to help reduce financial mismanagement, protect against longevity risk, and promote better financial planning.

- Nevertheless, public acceptance and flexibility in managing retirement funds remain key considerations in any reform. At present, many EPF members prefer to withdraw their savings in a full lump sum upon reaching retirement age. Proposals to shift toward monthly EPF payouts have therefore faced resistance, as some members view them as a loss of financial freedom. Many believe that, having earned these savings, they should retain full control over how and when the money is used—whether for investment, debt repayment, or supporting their families. Moreover, there is a deeply rooted cultural perception of EPF withdrawals as a form of "retirement windfall," often channelled into home renovations, pilgrimages, or gifts, rather than being strictly reserved for long-term income security.

- However, without proper financial planning or discipline, these funds are often used up within five to ten years, leaving retirees without sufficient income for the remainder of their lives. This also poses a serious risk of rapid fund depletion, specifically for retirees without a steady post-retirement income source such as Private Retirement Scheme (PRS), gratuities or other additional savings.

Reality Versus What Ought to Be: : The Retirement Savings Gap in Malaysia

- Although the EPF's RIA framework and Belanjawanku 2024/2025 provide guidance on monthly expenses and savings, the reality for many Malaysians is far more challenging. A primary concern is that inflation and the rising cost of living continue to erode the purchasing power of retirement payouts over time. This challenge is intensified for retirees with children still in university, as they must cover education and living costs while facing uncertainty over how long it will take their children to secure employment.

- Compounding the challenge is Malaysia's high youth unemployment rate, which stood at 10.4% in 2024. This delays financial independence for young adults, increasing reliance on family support and placing additional pressure on household finances. In families where one spouse has little or no personal savings and depends solely on the retiree's income, retirement funds are likely to be stretched even further. According to the RIA framework, individuals would need approximately RM650,000 by age 60 to sustain a reasonable standard of living in retirement. Yet, as of October 2024, only 36% of EPF active contributors had even achieved the earlier benchmark of RM240,000 by age 55, underscoring the severity of Malaysia's retirement preparedness gap.

- For a retiree with RM240,000 in savings at age 55, a 20-year retirement horizon, a dependent spouse, and children still in university, the minimum urban living cost, easily exceeding RM6,000 per month, would be far beyond reach. The situation is even more dire for the remaining 64% of members who fall below this threshold, many of whom depleted their accounts further through pre-retirement withdrawals during the pandemic. The severity of the shortfall is stark: the median savings for members aged 51–55 stood at just RM39,585. Spread across 20 years, this equates to only RM164.94 per month, an amount wholly inadequate to meet even the most basic urban household expenses.

- Consequently, retirees face a growing risk of outliving their savings as they grapple with rising healthcare costs, inflation, and longer life expectancies. Bank Negara Malaysia (BNM) reported that medical inflation accelerated to 15% in 2024, surpassing both the global average of 10% and the Asia-Pacific average of 11%. This surge has been driven by higher costs of medical supplies, the adoption of advanced healthcare technologies, persistent manpower shortages, and broader inflationary pressures.

- The financial vulnerabilities stemming from early withdrawals, inadequate savings, and pandemic-related shocks underscore the urgent need for comprehensive policy reform. Strengthening social protection systems and enhancing retirement income strategies will be critical to safeguarding the long-term financial security of Malaysia's ageing population.

- Taken together, Malaysia's ageing demographics, rising life expectancy, and eroded EPF balances point to a looming retirement crisis. While inadequate savings alone pose a serious challenge, the sharp rise in living and healthcare costs compounds the problem. For retirees with already depleted balances, such cost pressures mean that even basic healthcare risks becoming unaffordable, leaving them financially exposed at precisely the stage in life when they need support most. This intersection of inadequate retirement savings and escalating healthcare costs underscores the vulnerability of Malaysia's ageing population and makes retirement preparedness not only an economic challenge but also a pressing social priority.

Concluding Perspective: Retirement Preparedness as a National Priority

- Malaysia's transition into an ageing society is no longer a distant prospect but a present-day reality. Rising life expectancy, delayed financial independence among youth, and widespread reliance on EPF savings highlight the structural vulnerabilities of the retirement system. Pandemic-era withdrawals have further depleted already insufficient balances, leaving the majority of members far below the recommended thresholds for a dignified retirement. The situation is compounded by surging healthcare costs, with medical inflation hitting 15% in 2024—well above global and regional averages. For retirees whose savings are already stretched, these costs threaten to make healthcare increasingly unaffordable, amplifying financial insecurity at a time of heightened need.

- The convergence of these challenges—insufficient savings, longer lifespans, rising living costs, and escalating healthcare expenses—makes retirement preparedness the sharpest evidence of Malaysia's looming ageing crisis. Without timely reforms, the burden will spill over into the broader economy and society, as inadequate retirement income strains families, increases intergenerational dependency, and places greater pressure on public welfare systems.

- Addressing this requires a comprehensive, multi-pronged approach. Strengthening the retirement income framework is paramount, including policies that incentivize higher contributions, expand coverage for informal sector workers, and reform withdrawal structures to balance flexibility with sustainability. Complementary measures must focus on healthcare financing, such as expanding insurance coverage, improving efficiency in service delivery, and containing cost pressures through better resource management. Beyond financial measures, investments in elderly care infrastructure, community-based support, and active ageing initiatives will also be critical to ensuring that longer lifespans translate into healthier, more productive years rather than prolonged vulnerability.

- Ultimately, Malaysia's ageing society presents both risks and opportunities. While the demographic transition poses pressing financial and social challenges, it also offers a chance to reimagine the retirement and healthcare systems to be more inclusive, sustainable, and resilient. The urgency is clear: building a secure retirement landscape today is essential to safeguard not just the welfare of future retirees, but also the stability of Malaysia's economy and society in the decades ahead.