Determinants of Financial Retirement Planning in Malaysia: A Conceptual Paper

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ABSTRACT

This study aims to develop a conceptual framework that explores the determinants of financial literacy and their influence on financial retirement planning among Malaysians. In light of increasing life expectancy, rising medical costs, and economic uncertainties, effective retirement planning has become a critical concern for individuals and policymakers alike. The framework focuses on three primary determinants: education level, income level, and medical costs. Education level shapes an individual's capacity to understand and apply financial concepts, thereby influencing their planning behavior. Income level affects one’s ability to save and invest for retirement, while escalating medical costs represent a major financial risk that can undermine retirement preparedness. The interplay of these factors highlights the need for a holistic approach to improving financial literacy to ensure adequate retirement planning. This framework contributes to the existing literature by providing a basis for future empirical research and offering insights for policymakers to develop targeted financial education and retirement readiness programs tailored to Malaysia's socio-economic context.

Keywords: retirement planning, education level, income level and medical cost

INTRODUCTION

A significant portion of Malaysians are not saving enough for the retirement at 56 or 60 years old. Based on the research by Employee Provident Fund or EPF, as of October 2024, only 36% of active EPF members met the basic savings threshold of RM240,000 at age 55. This is concerning, especially with the EPF's updated Retirement Income Adequacy (RIA) framework recommending a basic savings level of RM390,000 by 2028 to support a 20-year retirement period based on research and publication by EPF in 2024. According to Chong (2025), retirement is viewed as a reward or form of compensation after years of hard work. Basically, employees in Malaysia take the EPF as main platform for retirement investment for future expenses.

Retirement planning or also known as financial planning is the process of determine retirement income goals, actions and decisions necessary to achieve those goals in the future life. It includes identify sources of income to support life, estimate expenses related according to current economics situation, implement a savings program, and manage assets and risk to ensure a stable and sufficient retirement income. According to Kagan, J. (2025), retirement plan is a strategy or creating for long-term saving, investing with a tolerance of the risk taken and finally withdrawing money that an individual’s accumulated to achieve a financially comfortable retirement goals in the future. Retirement planning should start as earlier as they started their career. In Malaysia, retirement planning is particularly critical due to increasing life expectancy, rising healthcare costs, and the shift towards individual financial responsibility in old age.

A key component of retirement planning in Malaysia is the EPF, a compulsory savings scheme for private sector employees. The EPF provides financial security in retirement, but studies have shown that many Malaysians deplete their EPF savings within a few years of retirement, raising concerns about the adequacy of retirement funds (Ong & Hamid, 2020). Malaysians are encouraged to complement their EPF savings with private retirement schemes (PRS), personal investments, and insurance. However, financial literacy remains a challenge, many individuals underestimating the amount needed for a comfortable retirement life, this resulted of delaying retirement planning age (Lee & Sabri, 2021). Additionally, Malaysia faces challenges such as increasing of aging population and limited social safety nets, making early and proactive retirement planning essential. The government and financial institutions have responded with awareness campaigns and financial literacy programs to encourage Malaysian to plan for their retirement.

As of mid-2025, Malaysia offers a comprehensive array of retirement planning instruments, blending mandatory savings schemes with voluntary options to help individuals prepare for financial security in their later years. Malaysia offer few investment alternatives for Malaysian to invest for retirement such as EPF, Government Pension Scheme (GPS) (below stated PRS) and Supplementary Investment Options (SIO). According to EPF, a mandatory retirement savings scheme for all private sector employees with reported RM18.31 billion of income and RM1.26 trillion of total assets in the first quarter of 2025. PRS offers a voluntary, long-term investment option for individuals seeking to supplement their retirement savings and the depositors will get the benefits such as tax incentives up to RM3,000 per year, funds' performance and accessibility of personal account management for monitoring of an investment growth. Lastly, Supplementary Investment Option (SIO), individuals can explore additional investment avenues to bolster retirement savings by unit trust, fixed deposit, money market and cash management funds (Stashaway, 2025). In summary, Malaysia's retirement planning framework in 2025 emphasizes a combination of mandatory savings, voluntary contributions, and diversified investment options. Individuals are encouraged to leverage available tools and resources to tailor a retirement plan that aligns with their financial goals and lifestyle aspirations. Retirement planning should be starting earlier at young age because the high amount of accumulated financial goals can be achieved and will be peace of mind during of retirement period.

LITERATURE REVIEW

RETIREMENT PLANNING

As of 2025, Malaysia faces a multifaceted retirement planning landscape marked by demographic shifts, financial inadequacies, and evolving policy considerations. Malaysia is experiencing a significant demographic transition towards an aging population. The elderly population is projected to reach 2.9 million by 2025, up from 1.8 million in 2010. (Tai, TL & Sapuan, NM. 2018). Despite this shift, many Malaysians are ill-prepared for retirement. Research indicates that retirees may receive less than one-third of their pre-retirement income, highlighting a substantial income gap. Furthermore, 90% of Employees Provident Fund (EPF) members under 30 are estimated to fall short of the basic RM240,000 savings required for retirement to ensure an individual will be survive in the future.

There are several key issues related with the retirement planning in Malaysia. the main issue is inadequate of retirement saving. Based on the article by The Edge, 2025 most Malaysians are not saving enough for retirement. A recent survey revealed that 70% of Malaysians saved less than RM500 per month in 2023 or did not save at all. Additionally, only 36% of active formal EPF members meet the existing basic savings level according to age, anchored at RM240,000 by age 55. Based on research on population in Malaysia, the aged of Malaysian overall will be expected to rise to 80 years old by 2040. Based on this result, an individual should need to prepare for adequate retirement savings becomes even more critical with related cost of living, living lifestyle, technology advancement and inflation. Furthermore, Bank Negara Malaysia, via its Economic, Monetary and Financial Developments report in 2023, warned that an average Malaysian would be at risk of having depleted his or her retirement savings 19 years before death.

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Many Malaysians lack the necessary financial literacy to make informed retirement planning decisions. This gap hinders effective savings and investment strategies, exacerbating retirement insecurity. Based on research by Chek. M. Z. A & Ismail. I. (2023), many Malaysians lack the basic knowledge and skills to make informed financial decisions and effectively plan for retirement maybe less of exposure about financial retirement planning at primary or secondary school. The lack of financial literacy hampers individuals' ability to set realistic retirement goals, manage their investments, and maximize their savings by potential of financial instruments. Consequently, individuals may face difficulties in achieving their desired retirement lifestyle and may be more vulnerable to financial risks for the long-term period because of unexpected situation in future.

A notable challenge in retirement planning in Malaysia is the limited understanding of financial concepts and retirement planning among the population (Kamarulzaman et al,2025). Many Malaysians lack the basic knowledge and skills to make informed financial decisions and effectively plan for retirement because lack of exposure about the scheme and platform of retirement investment. Basically, the Malaysian just know about basic or compulsory deposit for retirement as known Employee Provident Fund (EPF) for government servants, private employees and self-employment.

The diagram below shown significant growth in membership, contributions, and investment income. The increased participation in programmes like i-Saraan also indicates a positive trend towards greater financial inclusion among informal sector workers.

Table 1: EPF quarterly total contribution received in the past three years (2023-2025)

Quarterly	2023 (RM in billion)	2024 (RM in billion)	2025 (RM in billion)
1st quarter	RM28.83	RM 29.13	RM 33.54
2nd quarter	RM24.63	RM 24.72	N/A
3rd quarter	RM 23.10	RM 25.20	N/A
4th quarter	RM 23.98	RM 26.47	N/A
*4Q total contribution based on full-year figure deducted by nine-month contribution			

Sources: EPF, The Edge

Based on the diagram above, total contribution decreased 2.36 billion from 1st quarter 2023 to 4th quarter 2024. This number was increase up to RM33.54 billion in 1st quarter 2025. The growth of amount was reflecting an incentive by government and EPF such as i-Sara and others. Total members of EPF were 16.07 million with active members: 8.52 million (approximately 50% of Malaysia's 17.03 million labor force). Total Contributions in first quarter 2025 was RM33.54 billion (a 15.1% increase from RM29.13 billion in Q1 2024). The voluntary Contributions in first quarter of 2025 recorded at RM7.02 billion (a 62% increase from RM4.33 billion in Q1 2024) and total investment income in first quarter 2025 was RM18.31 billion. (EPF official website).

LIFE-CYCLE HYPOTHESIS

The Life-Cycle Hypothesis posits that individuals plan their consumption and saving behaviour over their entire lifespan to smooth consumption, necessitating careful financial planning, particularly for retirement (Parcia, 2017). This theory suggests that individuals will accumulate assets during their working years to finance consumption during retirement, thereby maintaining a stable standard of living (Lusardi & Mitchell, 2011). However, the effectiveness of this strategy heavily relies on an individual's financial literacy and their ability to project future needs and economic conditions accurately (Sabri & Aw, 2020). Furthermore, variations in education levels can significantly impact an individual's comprehension of complex financial products and investment strategies, directly influencing their capacity for effective retirement planning (Dhlembeu et al., 2022). This highlights a critical interdependency where higher educational attainment is presumed to enhance an individual's analytical skills and access to information, which are important for optimizing lifetime financial decisions and achieving consumption smoothing (Bhatia & Singh, 2023).

Conversely, a deficit in financial knowledge, often correlated with lower educational attainment, can lead to suboptimal asset allocation, insufficient savings, and an overestimation of financial security in later life (Sabri & Aw, 2020). This show how foundational financial literacy, often augmented by formal education, becomes for navigating the intricacies of long-term financial stability and mitigating the pervasive issue of inadequate retirement savings observed globally (Alsemgeest, 2019). Moreover, the intrinsic motivation to acquire financial knowledge, a key component of effective planning, is frequently observed to be higher among those with greater educational achievements (Lusardi, 2008). This enhanced understanding enables individuals to make more informed decisions regarding diverse financial instruments and to adapt their strategies in response to evolving economic landscapes and personal circumstances (Prakash et al., 2022). This theoretical perspective also emphasizes that individuals with higher education may be better equipped to understand and adapt to the complexities of modern retirement planning, which has shifted from defined benefit to defined contribution schemes, placing greater responsibility on individuals for their financial security (Lusardi, 2008). This adaptability is important given the increasing longevity and the volatility of financial markets, further necessitating a sophisticated understanding of financial principles for sustained well-being post-retirement (Das, 2025).

Overall, the ability to process complex economic information and make informed financial decisions is strongly linked to overall wealth accumulation, suggesting that investments in financial literacy can yield substantial financial benefits in retirement (Behrman et al., 2012). Specifically, financial literacy has been shown to positively influence financial behaviour, leading to improved returns on investments and better management of emergency expenses (Prakash et al., 2022). This foundational understanding, often cultivated through formal education, enables individuals to optimize their pension contributions and overall wealth accumulation strategies for a more secure retirement (Behrman et al., 2012).

EDUCATION LEVEL

The Securities Commission Malaysia (2018) found that only 6% of Malaysians are considered "financially savvy", with a significant proportion lacking basic investment knowledge. According to Mahdzan et.all (2013), in Malaysia indicate that those with tertiary education demonstrate higher levels of financial knowledge and retirement preparedness. A higher level of education typically correlates with increased financial literacy in making informed retirement planning decisions and can often lead to improved financial well-being and reduced financial stress (Prakash et al., 2022) (Lusardi & Mitchell, 2011). This heightened literacy allows individuals to better comprehend complex financial products, evaluate investment opportunities, and accurately assess their retirement needs, thereby facilitating more effective long-term financial strategies (Lusardi & Mitchell, 2011). It also equips individuals with the capacity to discern reliable financial advice from speculative information, mitigating risks associated with misinformed decisions (Rahman et al., 2021). Furthermore, individuals with higher educational attainment are more inclined to seek professional financial advice, recognizing the specialized nature of retirement planning and the benefits of expert guidance in navigating its complexities (Alsemgeest, 2019). This propensity to engage with financial experts, combined with enhanced analytical skills, positions them to construct more robust and resilient retirement portfolios (Rahman et al., 2021) (Rahim, 2020). Enhanced financial knowledge also encourages proactive engagement with retirement planning, leading to earlier initiation and more consistent contributions (Lusardi, 2008). This proactive approach enables them to leverage the power of compounding over longer periods, significantly enhancing their wealth accumulation for retirement (Lusardi, 2019). Moreover, a strong correlation exists between higher education levels and an individual's propensity to participate in employer-sponsored retirement plans and to invest in diverse financial instruments, further optimizing their retirement savings (Rooij et al., 2012).

Finally, formal education has been shown to positively influence financial behavior, leading to better management of personal finances and more effective retirement preparation (Narges & Laily, 2011). A greater understanding of financial concepts, often fostered through higher education, allows individuals to navigate the complexities of financial markets and make prudent decisions regarding investments and savings, thereby increasing their preparedness for retirement (Silva et al., 2017). However, it is important to note that while education can enhance financial knowledge, it does not always translate directly into optimal financial behaviors, as some highly educated individuals may still exhibit poor financial habits (Britt et al., 2015). This discrepancy highlights the relationship between academic knowledge and practical financial decision-making, suggesting that other factors, such as psychological biases or individual circumstances, also play a significant role (Kezar & Yang, 2010) (Lusardi & Mitchell, 2014). This indicates that while education provides a foundational understanding, effective retirement planning also necessitates addressing behavioral aspects and fostering self-discipline.

INCOME LEVEL

The Life-Cycle Theory posits that an individual's saving rate and overall financial behavior are intrinsically linked to their position within their economic life cycle, with higher saving rates typically observed during peak earning years (Parcia, 2017). This perspective emphasizes that individual’s smooth consumption over their lifetime by accumulating assets during their working lives to support themselves in retirement (Parcia, 2017). Consequently, those with higher incomes during their prime working years are theoretically better positioned to accrue substantial savings, thereby facilitating a more secure retirement (Prakash et al., 2022). Conversely, the inability to accumulate sufficient savings due to lower income levels can lead to significant financial strain in later life highlighting the critical role of income in achieving retirement security (Aidoo-Mensah, 2018).

Additionally, Lusardi and Mitchell (2011) opined that higher income individuals are most likely to possess the means and motivation to save and invest for retirement. It shows that individuals with higher income levels are generally more capable of setting aside funds. Research from various countries, including Malaysia, indicates that individuals with higher income levels tend to have greater awareness and are more likely to participate in retirement planning activities such as high of awareness when an individual have higher of income and prepared for the future. According to by Nor and Ismail (2019), the income level is the main significantly influence saving behavior among Malaysian that show highly income received that will contribute the possibility of higher amount of saving according to their purpose. Income level plays a significant role in contributing to the long-term purpose of retirement planning. Individuals with higher income levels are generally more capable of setting aside funds for retirement and are more likely to engage in long-term financial planning.

Given these systemic challenges, it becomes evident that income level directly influences the capacity for substantial savings, which is a cornerstone of effective retirement planning (Cardona-Montoya et al., 2022). Higher income levels allow for greater discretionary income, enabling individuals to allocate a larger proportion of their earnings toward retirement accounts, while lower incomes often necessitate a focus on immediate consumption, leaving less disposable income for future savings. This disparity often forces lower-income individuals to prioritize immediate needs over long-term financial security, highlighting the necessity of targeted interventions and policies aimed at bolstering their saving capacity (Rahman et al., 2021). This dynamic is further complicated by the fact that many individuals, particularly in lower-income brackets, demonstrate a prevalent lack of financial discipline and tend to withdraw their savings for short-term consumption, rather than accumulating it for long-term goals like retirement (Munisamy et al., 2022).

Furthermore, individuals with lower incomes are significantly less likely to seek professional financial advice for retirement investment decisions, exacerbating their challenges in navigating complex financial landscapes (Lim et al., 2014). This reluctance can stem from perceived costs, a lack of trust, or a belief that their financial situations are too modest to warrant professional consultation, thereby hindering their ability to make informed retirement planning decisions (Lusardi & Mitchelli, 2007). This creates a vicious cycle where those who could benefit most from expert guidance are the least likely to access it, perpetuating financial insecurity into their retirement years (Rhee & Boivie, 2015). Moreover, the complexity of retirement planning, coupled with the

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overwhelming array of financial products and strategies, further deters lower-income individuals from engaging with professional advisors, despite the potential benefits of such guidance (Alsemgeest, 2019). This phenomenon contributes to a pronounced disparity in retirement preparedness, as households with lower financial literacy and income often exhibit less engagement in retirement planning and accumulate fewer assets (Munisamy et al., 2022). Consequently, this leads to significant retirement saving shortfalls for a substantial portion of the population, even for those approaching retirement age (Behrman et al., 2012). This challenge is particularly evident in countries like Malaysia, where a considerable portion of the population lacks sufficient retirement savings and financial assets, with a significant number having no savings accounts whatsoever (Osman et al., 2018). This situation stresses the urgent need for enhanced financial literacy initiatives and accessible financial planning resources, particularly for vulnerable populations, to mitigate the widespread issue of inadequate retirement provisioning (Munisamy et al., 2022).

Table 2: Level of Income in Malaysia (Source; DOSM, 2022)

Income Group	**Monthly Household Income (MYR)**	**Percentage of Households**	**Remarks**
T20 (Top 20%)	RM 10,960 and above	20%	High-income households
M40 (Middle 40%)	RM 5,000 – RM 10,959	40%	Middle-income households
B40 (Bottom 40%)	Below RM 5,000	40%	Low-income households

Diagram above explains that household income in Malaysia divided by three categories which is low-income household (RM5,000 and below), middle income households (RM5,000 – RM10,959) and high-income households (RM10,960 and above). Based on the previous research done by Noor et. Al. (2016), the higher the income of an individuals will contribute to the higher of retirement planning for the future (assume by participation in pension scheme funds such as EPF and other mutual retirement planning that available in market) refers to percentage of contribution or an investment.

MEDICAL COST TREATMENT

Medical costs in Malaysia are relatively lower compared to developed nations, making it a popular destination for medical tourism especially from Indonesia because of healthcare services is cheaper example heart bypass estimation cost up to RM80,000 (Malaysia Medical Council, 2023). However, the rising healthcare costs in Malaysia are becoming a burden, especially for private treatment that provide more quicker of services but the cost is a much higher compared to public hospitals that offer the subsidized prices by government and disadvantages waiting long time for an operation or other services.

Medical treatment costs is importance in retirement planning, specifically focusing on Malaysia that the cost arising every year. According to a study by EPF (2021), Malaysians underestimate post-retirement healthcare costs, often lead to financial strain because medical costs are among the highest expenses faced by retirees due to increased risk of chronic illnesses (e.g., diabetes, hypertension, heart disease), limited income post-retirement (minimum income compared with cost of living status today) and inadequate insurance coverage or lack of private health protection.

METHODOLOGY

This study adopts a quantitative research design using a cross-sectional survey method to assess the level of financial literacy among Malaysian individuals. According to Sabri et al. (2010), preliminary analysis to test for differences in savings behavior and financial problems included t-tests for variables measured in continuous units, and analysis of variance (ANOVA) for demographic characteristics and other categorical variables. This survey approach allows the collection of a large volume of standardized data to analyze relationships between variables such as income, education, age, and financial knowledge. Data is analyzed using SPSS software. Descriptive statistics (mean, frequency, standard deviation) are used to assess literacy levels. Inferential statistics, such as multiple regression and ANOVA, are applied to determine the relationship between demographic factors and financial literacy.

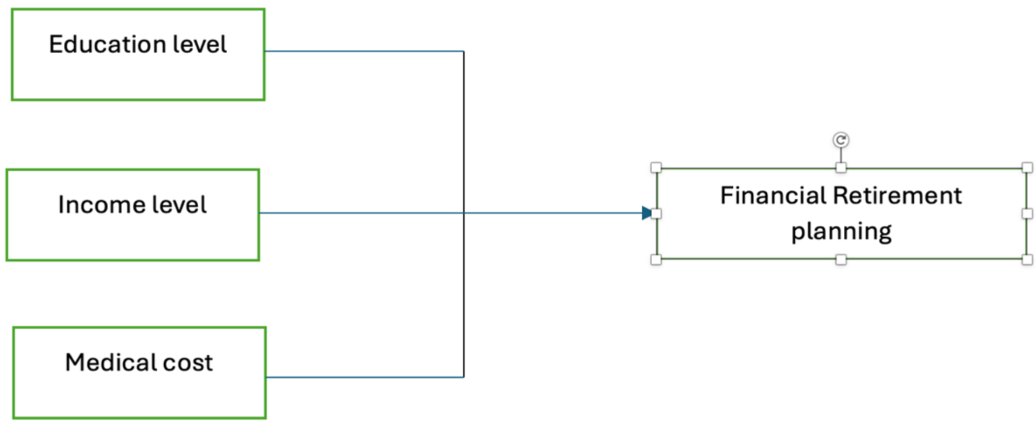

Figure 1: Conceptual Framework

CONCLUSION

This conceptual study examines the determinants of retirement planning in Malaysia which highlights the roles of education level, income level, and the rising medical costs in influencing once financial retirement planning. Higher education levels will be expected a factor contributor to greater financial literacy, empowering individuals to make informed retirement decisions. Meanwhile, income level also expected the factor to individuals with higher incomes tend to prioritize and engage more actively for their future. Additionally, the escalating cost of healthcare especially in old age that amplifies the urgency of financial retirement planning. Malaysians increasingly face the dual burden of out-of-pocket medical expenses and limited coverage, making health-related financial planning an essential yet often underestimated aspect of retirement. Collectively, this framework highlights the need for targeted policy interventions that including inclusive financial education programs, income support mechanisms, and enhanced healthcare subsidies to bridge the gaps in retirement preparedness. Strengthening financial literacy across all socio-economic levels is important to ensuring that Malaysians can retire with dignity, security, and sufficient healthcare access.

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