

Financing the Old Age Deficit in Malaysia



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The Demography of Ageing

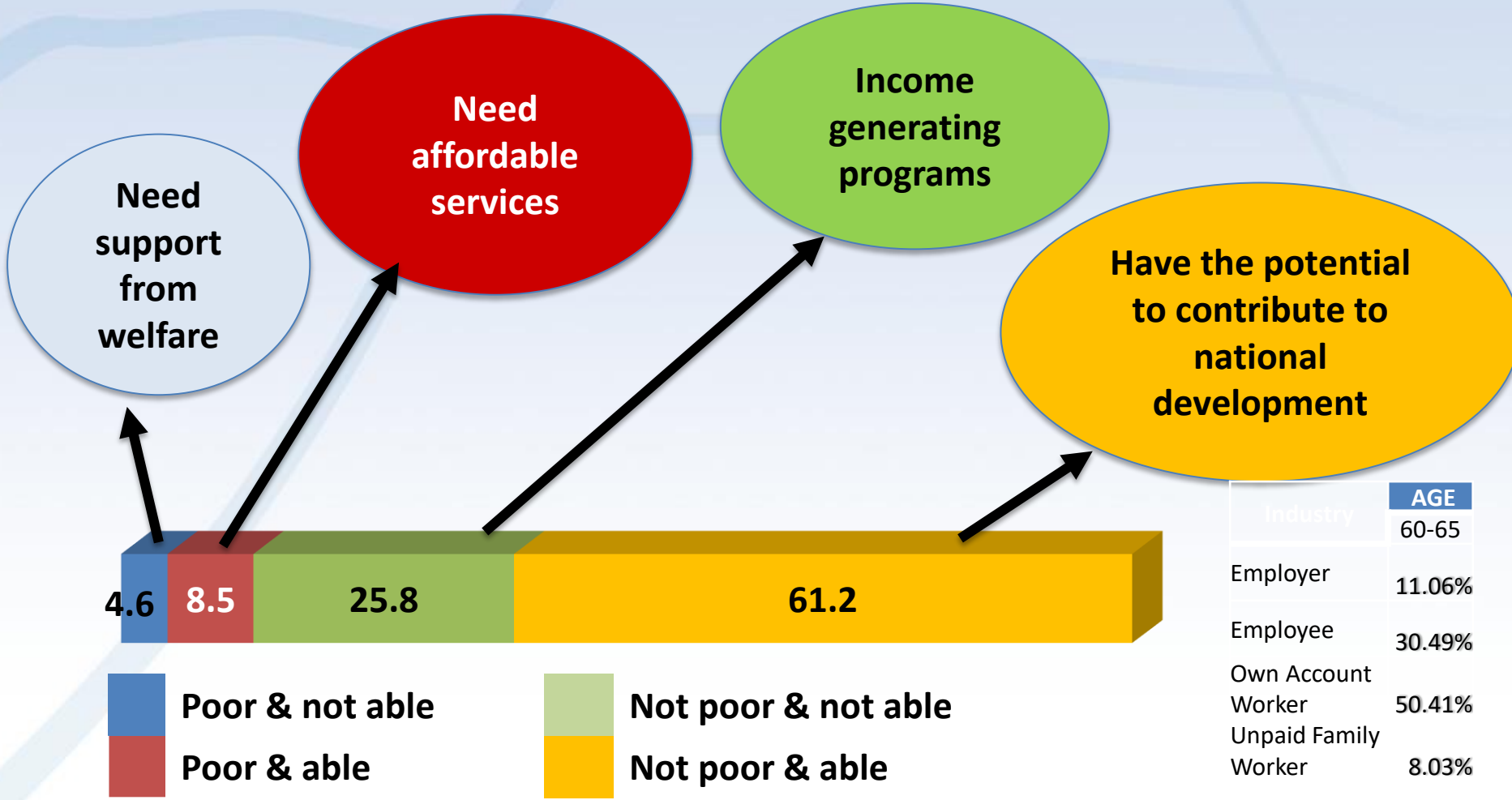
- Speed of Ageing
- Longevity
- Regional differences
- Ethnic dimension
- Gender dimension

Life Exp	Sex	At Birth	At 60
1991	M	69.2	16.1
	F	73.4	18.1
2000	M	70	16.7
	F	74.7	19
2010	M	71.9	17.9
	F	76.6	20.1
2015	M	72.5	18.2
	F	77.1	20.6

Age Group	2010	2020	2030	2040
Number of Older Persons				
Age of 60 and over	1,361,500	2,098,000	2,805,900	3,341,000
Age of 70 and over	642,700	947,800	1,485,700	2,002,100
Age of 80 and over	244,400	395,100	604,500	952,200
Total	2,248,600	3,440,900	4,896,100	6,295,300
Proportion of Older Person by Age (%)				
60-69	60.55	60.97	57.30	↓ 53.07
70-79	28.58	27.55	30.34	↑ 31.80
80 and over	10.87	11.48	12.36	↑ 15.13
Total	100.0	100.0	100.0	100.0



Typology of Older Persons: Economic Status and Disability



Source: DOSM, 2016

Hamid et al 2017: Survey of needs of older person

Data for NTA Estimates

Population Data

NTA Variables:
Labor Income,
Asset Income,
Consumption
Individual/ HH
Characteristics:
age; other SES

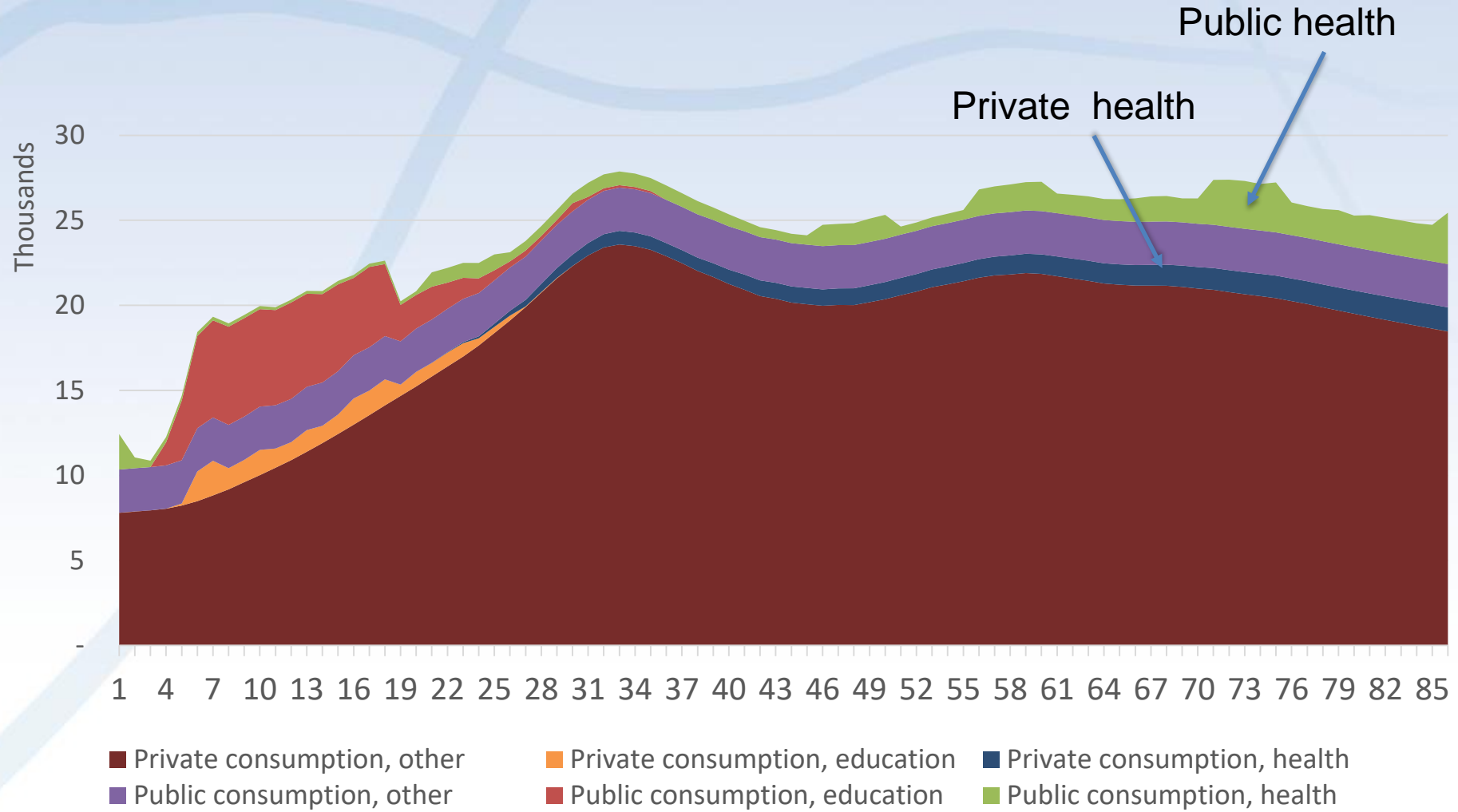
Malaysian
Pop 2014
(DOSM)

National Income:
Distribution and Use
of Income Accounts
and Capital Account
(2014)
Admin data:
MOE, MOH, JKM
(DWM)

Household Income and Expenditure Survey (HIES 2014) (Microdata)

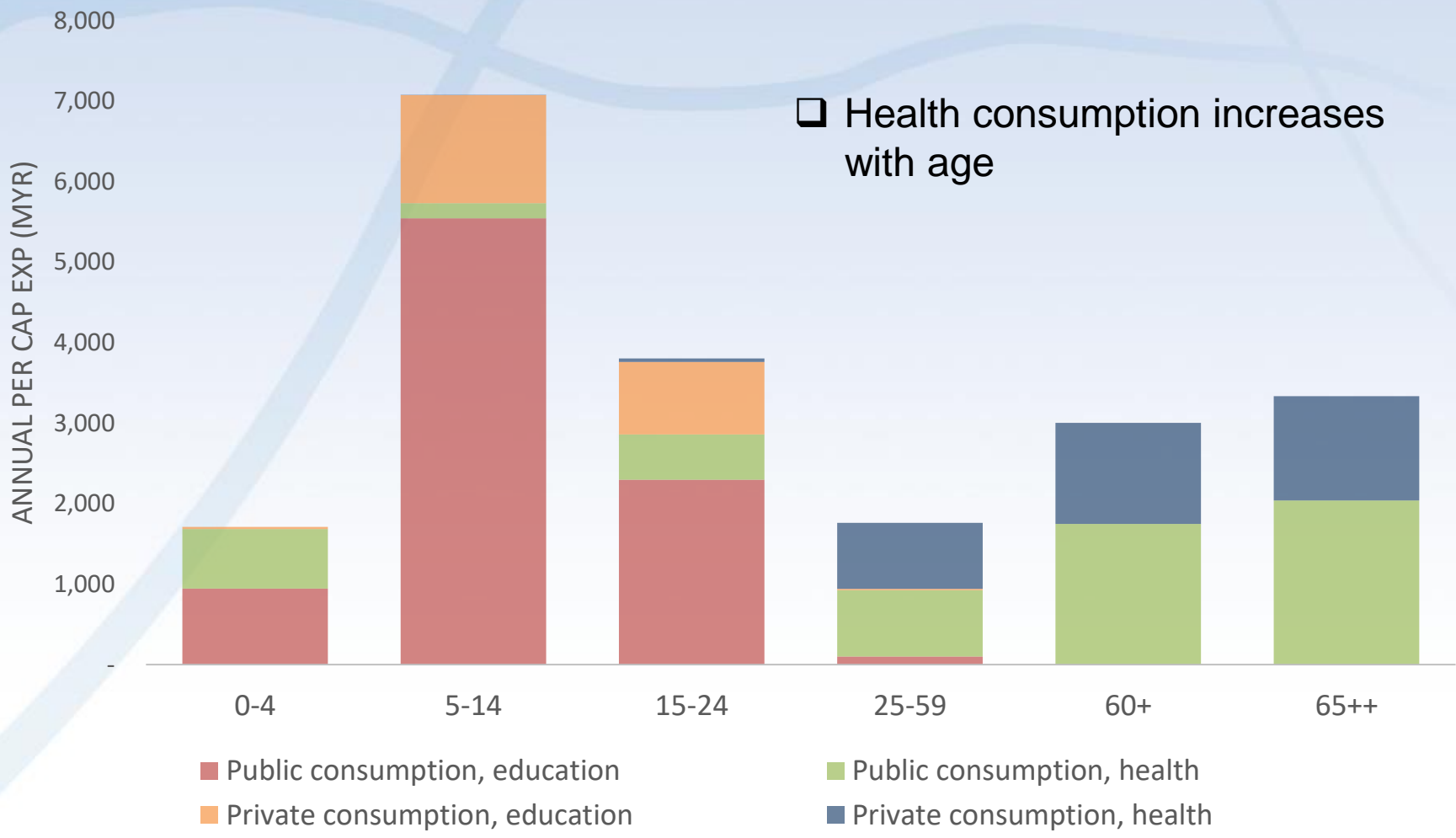
Admin record/ Macro data

Per Capita Consumption by Age, Malaysia, 2014



Source: Authors calculation of NTA estimates using HIES 2014]

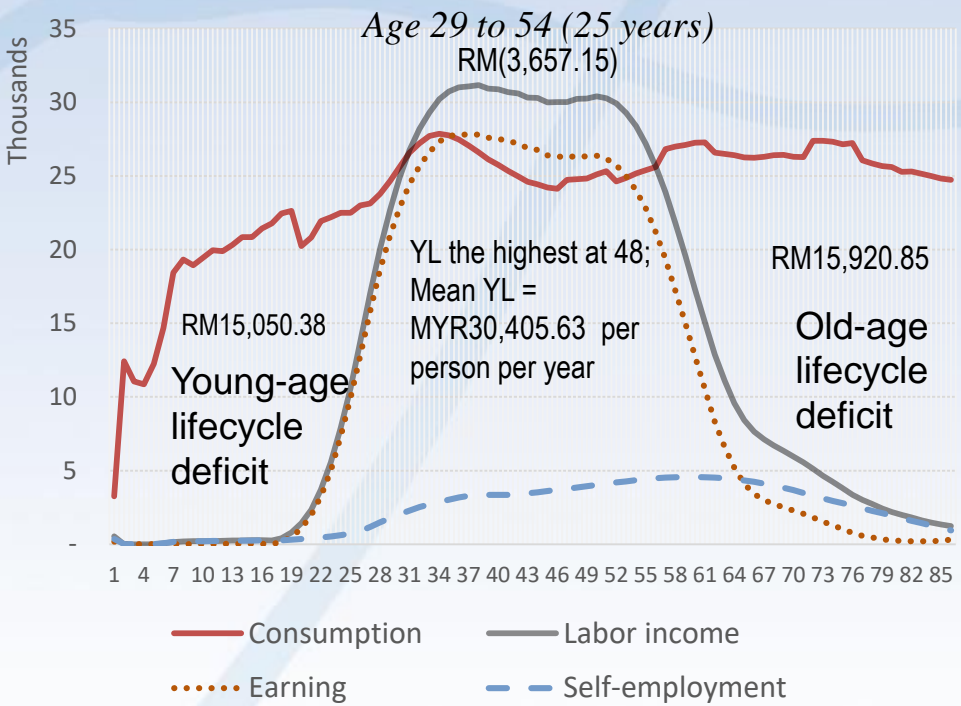
Health and Education Consumption, Malaysia, 2014



Source: Authors calculation of NTA estimates using HIES 2014]

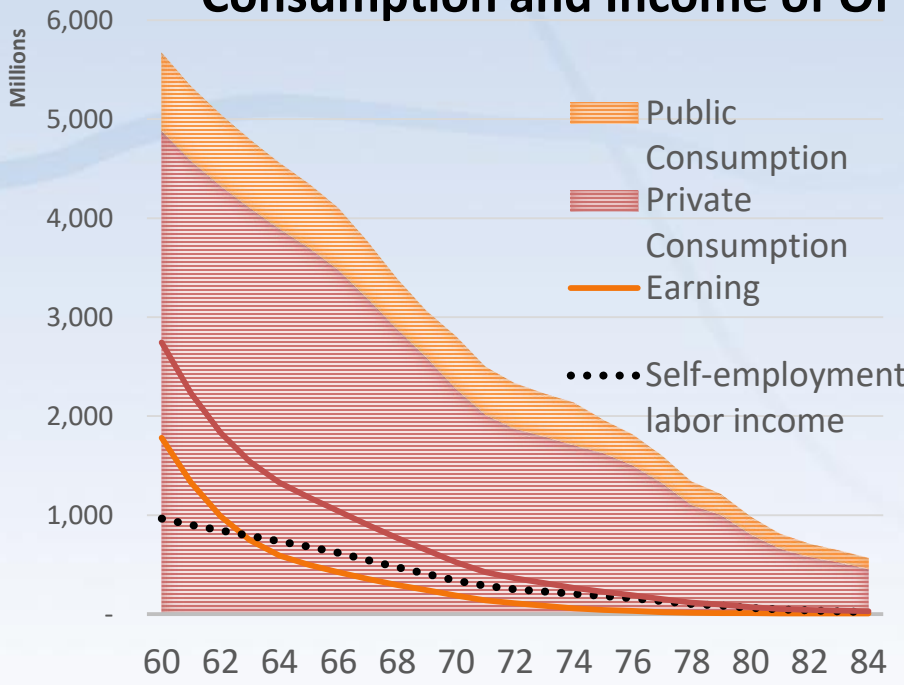
Per Capita Values by Age, Malaysia 2014

Consumption and Income, Ringgit (RM)



- ❑ Larger share of labor income consisted of earnings at early working ages
- ❑ Self-employment has increasingly become the main source of labor income for older population

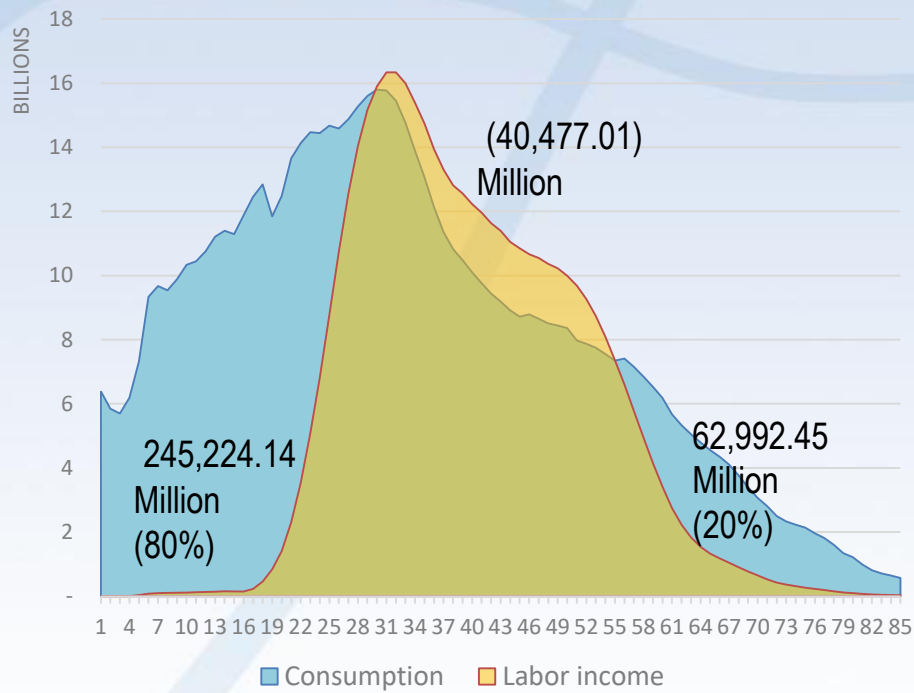
Consumption and Income of OP



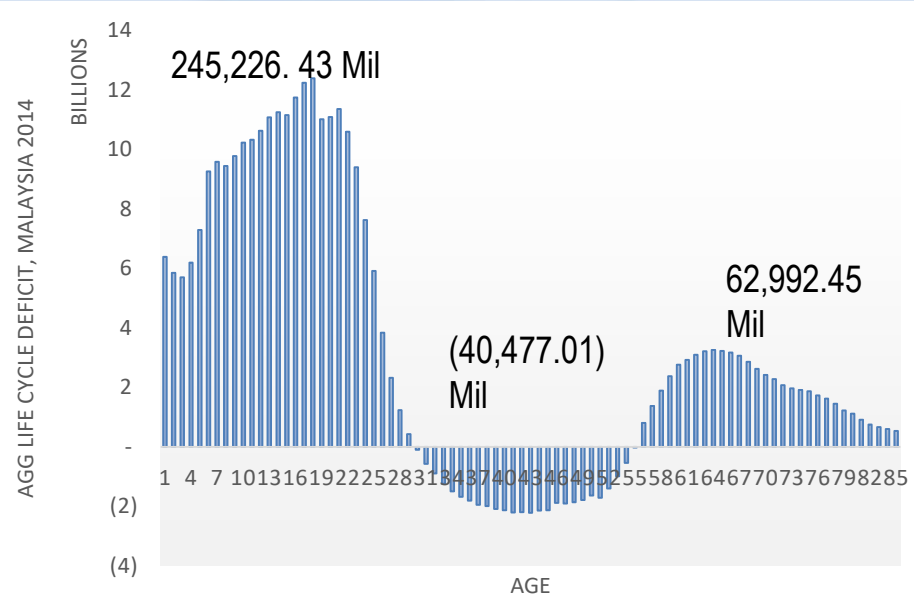
- ❑ Some OP still work to finance their consumption
- ❑ (Labor force participation among those aged 55-64 in 2015: 51 %; in 2016: 49%)
- ❑ OP mainly work in agricultural and informal sectors

Aggregate Values by Age, Malaysia 2014

Consumption and Income, Ringgit (RM)



Life Cycle Deficit, Ringgit (RM)

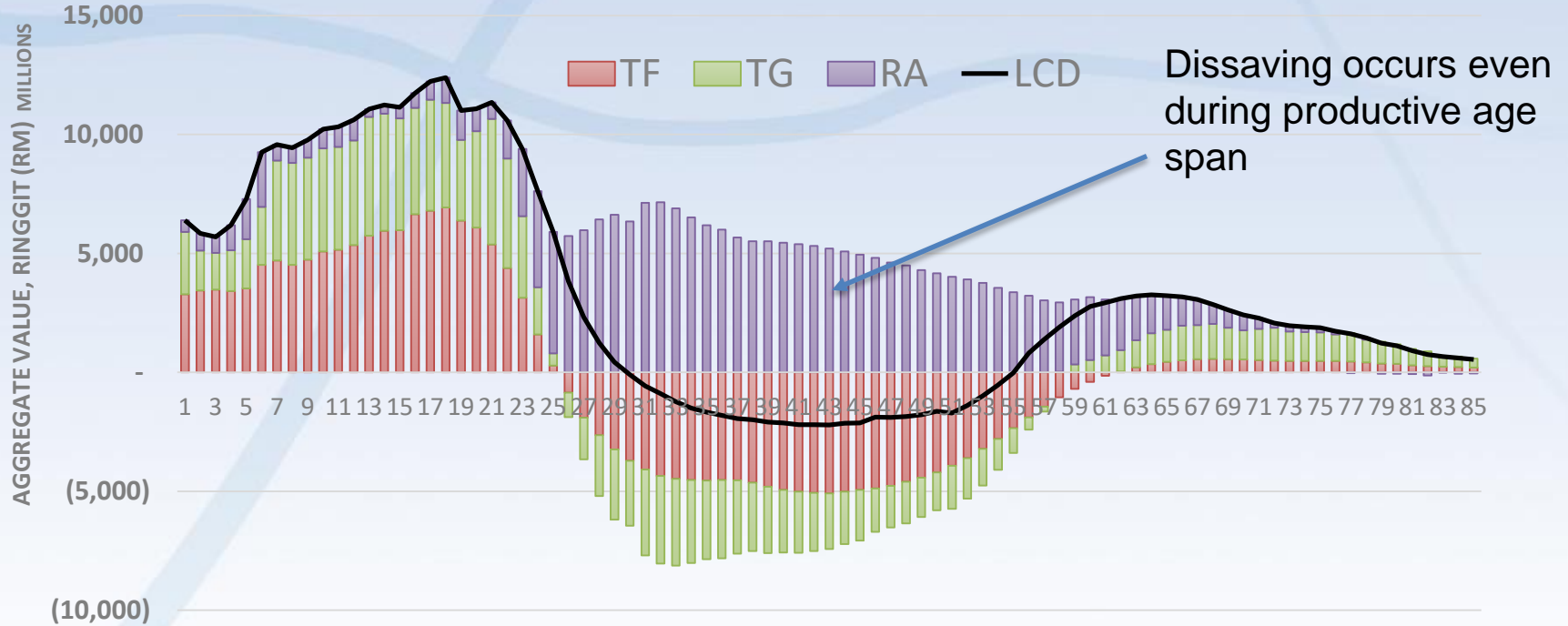


Source: Authors calculation of NTA estimates using HIES 2014]

- ❑ Deficit for old age < young ages due to fewer persons in older age group
- ❑ The aggregate surplus between ages 29 and 54 years is RM40 billion – not enough to cover the deficits of the early and later stages of the lifecycle

- ❑ Percent of LCD to LY: 61.30%
 - ❑ Age 0-29: 56.14%
 - ❑ Age 55+: 14.42%
 - ❑ Age 60+: 12.31%
- ❑ Percent of LC surplus to LY: 9.27%

LCD and Age Reallocation by Age, Malaysia, 2014

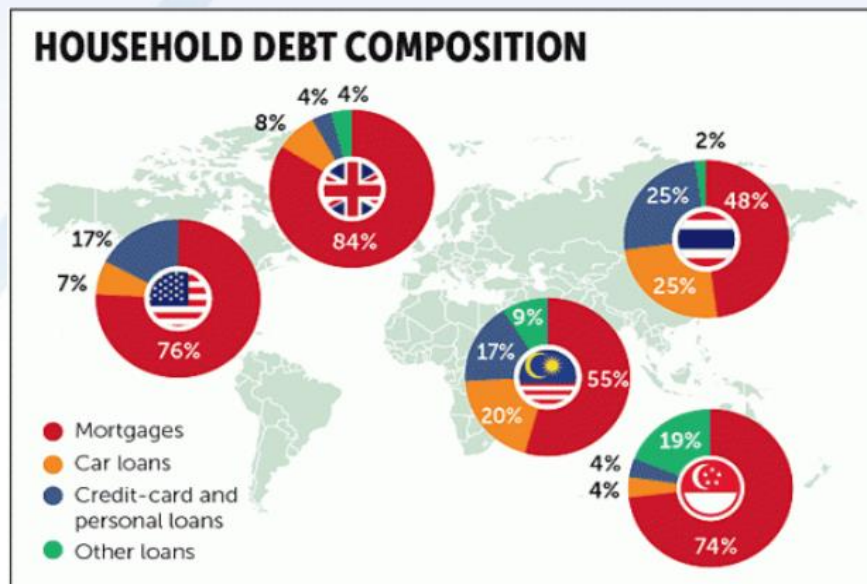
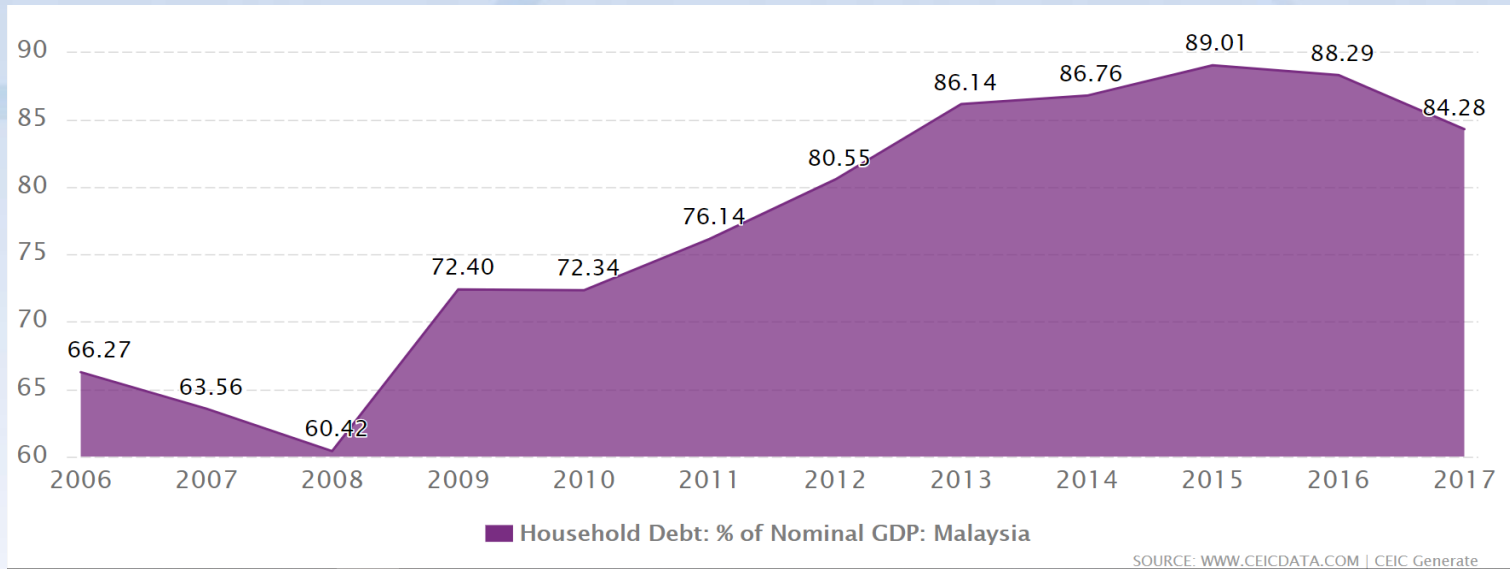


Source: Authors calculation of NTA estimates using HIES 2014]

Transfer from both family and government almost entirely goes to YOUNG (**NOT Old**) members

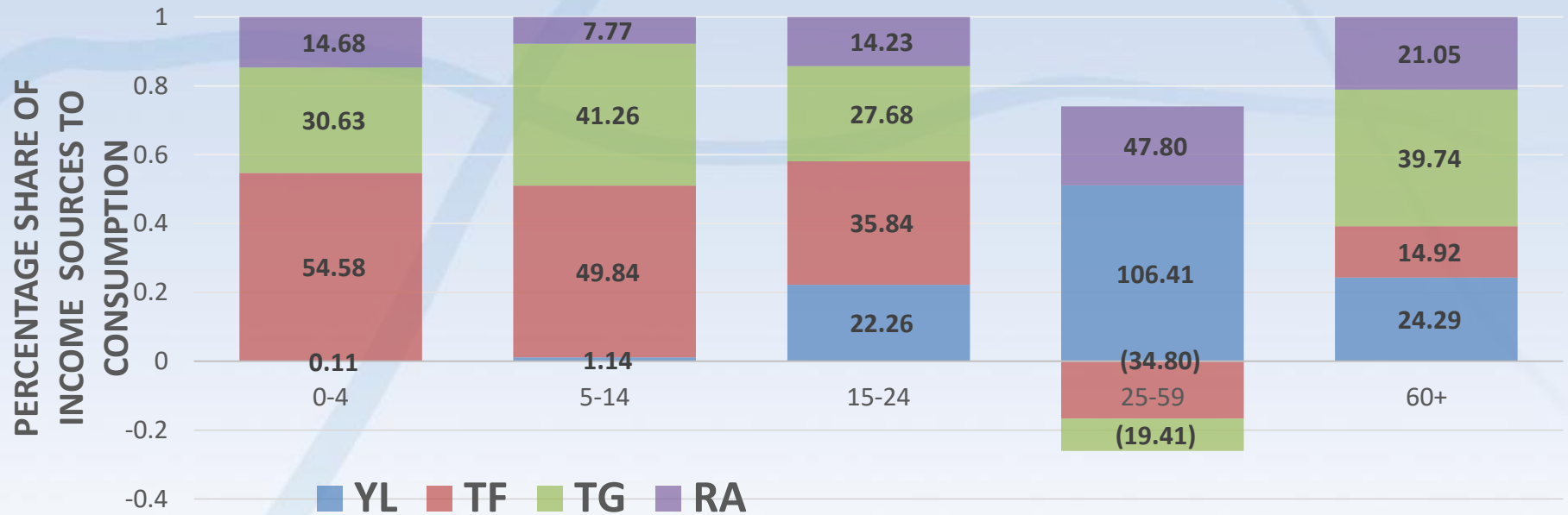
- ❑ Private: Older person do not receive much transfer – i.e., elderly DO NOT impose financial burden on younger family members
- ❑ Public (so far): Elderly are yet to pose a burden to the tax payer (because the SP system is not quite in place??)

Possible Explanation for Dissaving



Over burdened by high prices and high cost of living

Sources of Financing the Deficit, Malaysia, 2014



Source: Authors calculation of NTA estimates using HIES 2014]

- ❑ Children's consumption (0-4) is mostly financed by private transfers
- ❑ Income sources to finance teenagers (15-24) are almost equally shared between public and private transfers, although private transfer is slightly higher
- ❑ Working age's consumption (25-59) is mostly financed by labor income. The surplus is reallocated to other groups
- ❑ The elderly use multiple sources of financing, but mostly (about 40%) depend on public transfers; 24% on labor income and 21% on asset reallocation

Sources of Financing Old-Age Deficit, Malaysia, 2014

■ YL ■ TF ■ TG ■ RA



Source: Authors calculation of NTA estimates using HIES 2014]

Sources and Importance:

- For OP public transfer (TG) is the main source – the percentage gets bigger as they get older
- The reliance on transfers (TF & TG) increases as the elderly get older
- Younger elderly (60+) have three main sources: TG, YL and RA

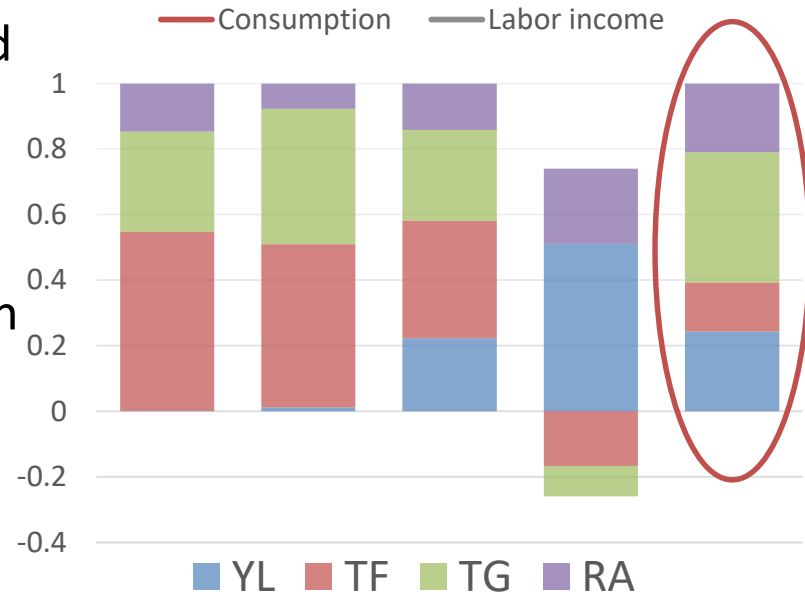
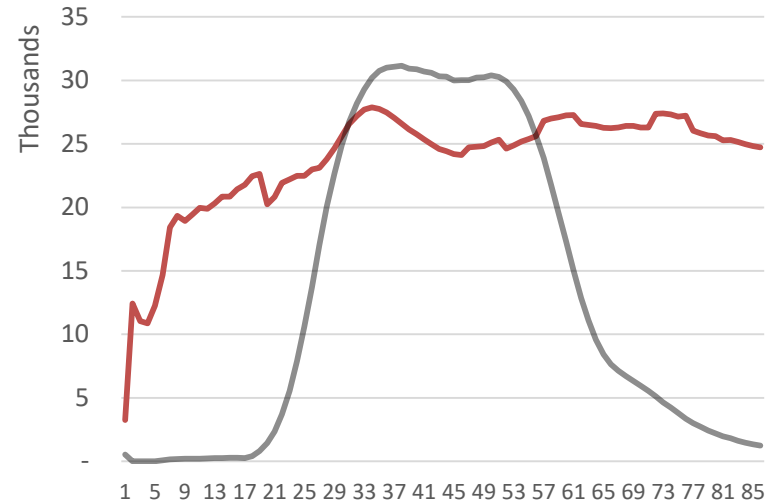
Implications:

- Fiscal burden, sustainability, economic growth and ability to secure the second demographic dividend

Policy Implications

- **Increase the surplus** of working group to support higher old-age deficit
 - Labor productivity
 - LFPR (women and OP)
- **Preventive** vs curative health care – e.g., promote healthy behaviour along the life span
- Encourage saving to ensure **income security** after retirement (asset-based versus transfer)
- **Retirement preparedness:** Governments need to help individuals make sound decisions for (wholesome) retirement planning (finance, social, health)
- **Financial Education:** Along the life span and in the workplace to increase financial literacy and capability of the public
- **Social Protection system:** Needs to be improved as currently it is patchy and in silos

Conclusion



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