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The Preparations of Employees Towards Retirement and Estate Planning: The Case of Malaysia

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ABSTRACT

The life expectancy in Malaysia has risen significantly in a way during the period of 1960-2017, the life expectancy increased by 40% where males with 72 years and the females with 77 years lived in 2017. This significant increase in the Malaysians' life expectancy has created serious concerns regarding the retirement and estate planning. There will be millions in Malaysia by year 2020 with age of 60 and over with 10% increase in the number of people reaching retirement age each year most of whom don't carry a plan for their retirement periods and estates. This study investigated this serious prospective problem to evaluate the preparation for the retirement and estate planning among the Malaysians. By applying both the primary and secondary data, a questionnaire as an instrument disseminated to collect information from a sample of 50 respondents. The analysis represented that most of the Malaysian employees are either totally unaware or they had little awareness about the retirement and estate planning. The Malaysians use Saving Schemes, Provident Fund and Children as their preparation approaches for retirement and estate planning. They consider mainly their Occupation and Quantity of Children as main barriers to plan for their retirements and their Psychological perception as a barrier to their estate planning.

Keywords: Life Expectancy, Retirement, Estate Planning, Saving Schemes, Provident Fund.

1. INTRODUCTION

For every nation in the 20th Century, retirement is traditionally described in terms of the end to an active work force participation in full-time work employment. The full-time work is always limited to a certain age after which an individual leaves employment to live a few years in quiet and relax on a rocking chair.

Unpleasantly, due to the decline in health during retirement the period of retirement is usually short but it still needs planning typically on saving enough to afford for the minimal life's necessities.

From last century, the health and hygienization development plans caused pupil live much longer than before after retirement. According to the National Centre for Health (2016) a child born in 1940 lived for an average life expectancy of 62.9 years in USA, however a child born in 2014, the average life expectancy has enhanced to 78.8 years (Figure 2).

The life expectancy in Malaysia has also risen significantly. Based on the Department of Statistics in Malaysia (2017), the population of Malaysia is expected to live up to 74.8 years in 2017 compared to 74.3 years in 2011 with an increase of 0.5 years. In 2017, life expectancy at birth in Malaysia is 72.7 years for male and 77.4 years for female. This figure has increased continuously over the years with the increasing of 0.6 years for both male and female compared to 2011 (Figure 1).

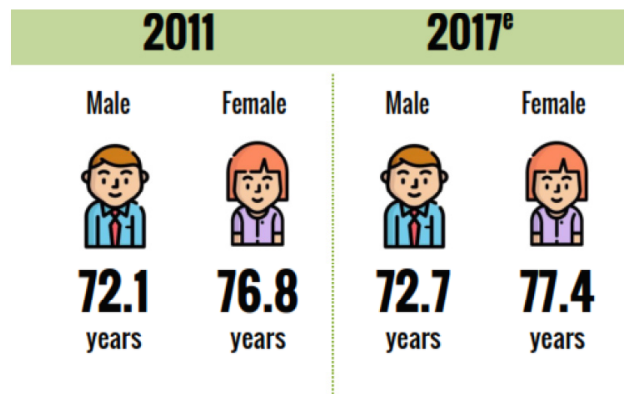


Figure 1: The Average Life Expectancy in Malaysia
Source: The Department of Statistics in Malaysia, 2017

According to the Department of Statistics (2017) in Malaysia, during 1960 to 2017, the average life expectancy of the Malaysian males as well as the females which were around 53 and 56 years respectively in 1960 increased to around 72 and 77 years in 2017. This significant increase in the Malaysians' life average expectancy of males and females which has reached to 40% could definitely create serious problems regarding their retirement and estate planning (Börsch-Supan, 1995). Furthermore, there is no increase in the retirement age made by either the government or the private institutions for males and females in Malaysia.

No change in the retirement age and significant increase in the life average expectancy among the Malaysians requires strategists and researchers to initiate new study plans to handle the chaos of Malaysians' boom generation after their retirements. This much longer life needs addressing issues which not faced by earlier generations such as paying for retirement, health care, estate planning, housing, life style and tax rates on estate (Evelyn, 2016). According to a research study by Zandi (2017) the perceived opportunity for tax rates significantly affect tax compliance.

According to Börsch-Supan (1995) there will be more than 3 million people in Malaysia by year 2020 with age of 60 or over whereas will be around 10% increase in the number of people reaching retirement age each year. This needs the serious attention of the authorities to look after the importance of retirement and estate planning in Malaysia.

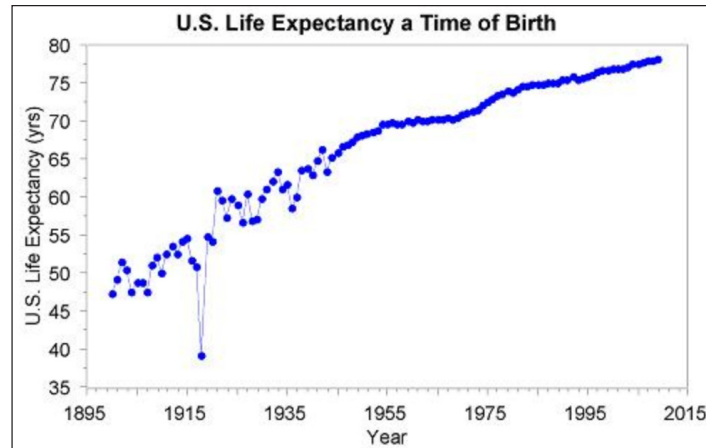


Figure 2: The Average Life Expectancy in USA
Source: National Centre for Health Statistics, 2016

2. BACKGROUND OF STUDY

The Malaysian extension of average life expectancy period after the retirement shows the significance of the preparation of the employees for retirement and estate planning. Due to the lack of a comprehensive plan on the retirement and estate planning in Malaysia, the prospectus for the retirement and estate planning is poor. This stresses serious needs for the efficient retirement and estate planning among the Malaysian employees.

The employees' plan for their retirement and estate will affect their lives after retirement (Madoff and Cornelia, 2009). This research is a distinguished study in defining the problem, preparation and understanding the barriers to retirement and estate planning in Malaysia.

Despite of many developed countries such as US and UK where the issue of retirement and estate planning has got lot of importance and sufficient research works have been carried out but the issue of retirement and estate planning in Malaysia is still in infancy level. This gap in research and preparation for retirement and estate planning in Malaysia might originate from underestimating the prospective problems will be faced soon.

This pioneer study will explore the progress of Malaysian employees' preparation as a milestone indicating the retirement and estate planning roadway. Besides we will explore the awareness of the Malaysian employees towards retirement and estate planning and how the Malaysian employees prepare their selves for life after retirement. We will study root causes which effect retirement and estate planning of the employees to explore what are the barriers or issues for Malaysian employees in their way ahead for retirement and estate planning.

3. LITERATURE REVIEW

There are two basic terms in our study which require clarification; Retirement Planning and Estate Planning. Retirement Planning is a process which is consisting of the determination of goals for retirement subsequently setting the decisions and actions which are necessary to achieve those goals. In other words, retirement planning is identification of the income sources, estimation of the expenses, implantation of a

saving program, and management of assets. Overall, estimation of the future cash flows is done in order to assess whether the goals of income will be or could be achieved (Investopedia, 2015).

On the other hand, according to Investopedia (2015), Estate Planning is a collection of tasks. The nature of tasks is how the personal assets would be managed in case the person has died or in case of his or her incapacitation. Estate Planning also includes taxes of estate and Assets' bequest among the heirs.

The both Retirement Planning and Estate Planning are interrelated and can't be separated from each other. Retirement and estate planning is necessary to spend a joyful and comfortable life after retirement. Many have to play a range of roles throughout their lives as they go through the different phases of their lives. Effective retirement and estate planning is necessary for each and every one including employees whom carry pension plans for their retirement period. The literature represents on the retirement planning that the lack of retirement and estate planning brings issues and problems for the retiree (Joo, 2001). Research on retirement and estate planning in Malaysia is an essential study and majority of the literature available on the retirement and estate planning has focused mainly on the socio-economic dimensions and the relationship. We can find sufficient amount of literature on retirement and estate planning in context of developed countries while there is a limited amount of literature available in the context of developing countries.

The main factors which affect the retirement and estate planning of the employees are level of education, gender, income of household and age (Lee, 2004). There are a number of socio-economic factors which are interconnected and affect the behavior of the employees towards retirement and estate planning. According to a study by Joo (2001) education as well as certain training programs which related to retirement and estate planning have the ability to affect the behavior of the employees toward planning on their retirement and estate.

The conclusion of a research work by DeVaney (1995) was that the age and the income two of which made a ground factor for the employees for planning their retirement and estate along with the gender could effect on early retirement and estate planning. A study by Glass (1998) has addressed that marital status was very important and had greater effect on the behavior of the employees towards their retirement and estate planning. A research study regarding the retirement and estate planning by Joo (2002) underlined gender as the main contributor to the retirement and estate planning behaviors of the employees. Richardson (1989) highlighted in favor of age as the major factor effecting the behavior of the employees regarding their retirement and estate planning. According to Mitchell et.al (2000) income was the main influential factor toward the retirement and estate planning.

4. METHODOLOGY

We had three designs to conduct this research which were qualitative, quantitative and a mixture of qualitative and quantitative methods. There are certain benefits attached with each method and different situation requires a proper methodology. Per our knowledge and information, most of the researchers prefer qualitative methodology because it is relatively easy to implement as well as cost effective. Most of the studies which were conducted in the field of social sciences carried out by using the qualitative methodology. The nature of our research is pretty much related to a currently social issue, therefore, qualitative research methodology is better suited to our research work.

Due to the authentication of a quantitative research methodology adds to the results of our research we therefore, have applied mix of the both methodologies.

Population and Sample

The population is all of the Malaysian employees. The sample of our research was consisted of 50 employees working in different State and Private institutions. The sample included the retired employees as well the currently working.

Data Collection Methods

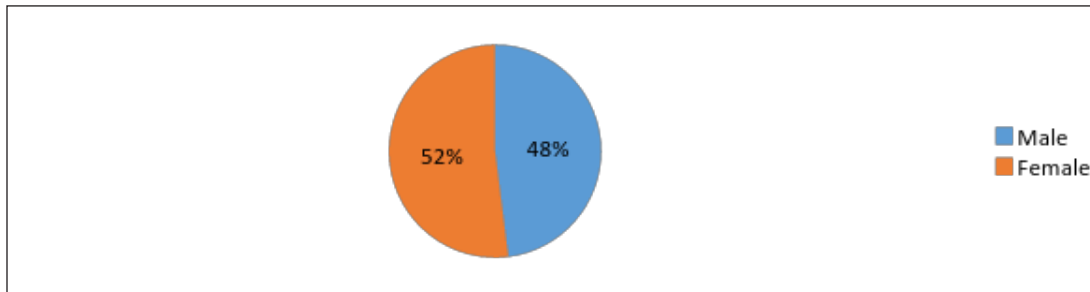
For collection of data in our research, we need two sources of information of which both secondary and primary selected. For primary sources we chosen survey (questionnaire) which was relatively easy to manage, cost effective and valuable information could be collected by it. We have also collected information from the secondary sources of Malaysian annual bulletins.

Descriptive Statistics

We disseminated 50 questionnaires. The analysis of the information collected through questionnaire survey is given below:

Q1. Gender:

- (a) Male
- (b) Female

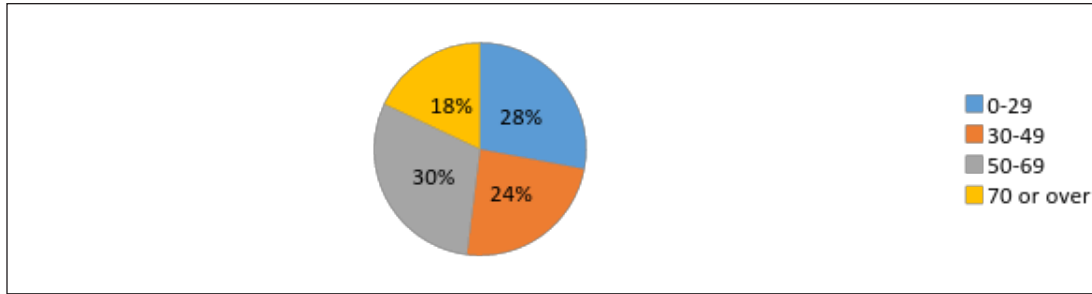


From the above graph we can see that there was almost equal representation of males and females. Marginally, there were greater number of females with 52% while, there were 48% males. So, we can conclude that our research results have fairly represented equally the males and females Malaysian employees.

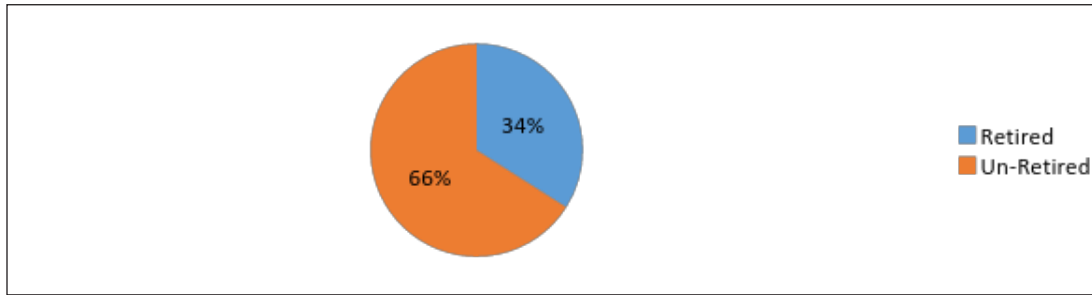
Q2. Age:

- (a) 0~29
- (b) 30~49
- (c) 50~69
- (d) 70 or over

Based on the above graph we can see that most of the respondents of our survey were between the age of 30 years to 70 years or over. There were almost half of the employees less than the age of 49 years and half of the employees with age of 50 years or over. So, there was a good balance between the representation of the mature and immature Malaysian employees.



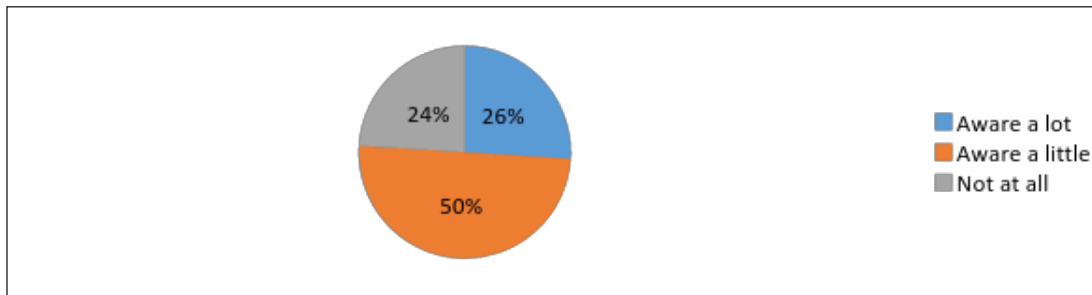
Q3. Retired or Working (Un-Retired)?



Among the respondents, there were 34% who were retired while others were working. So, there is a fair representation of the retired as well as working people.

Q4. How much are you aware of retirement and estate planning?

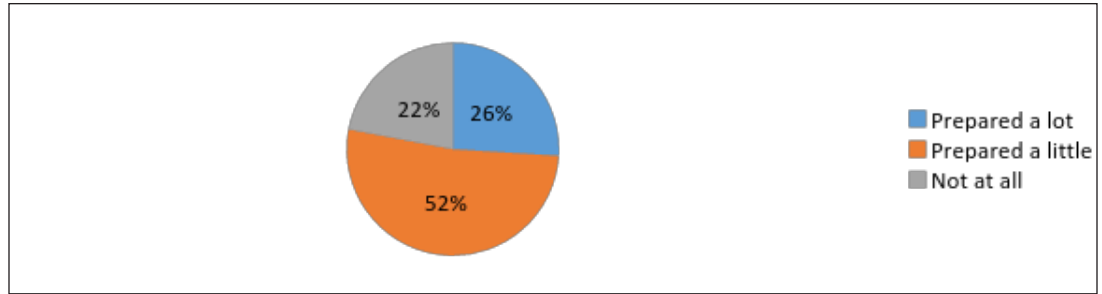
- (a) Aware a lot
- (b) Aware a little
- (c) Not at all



According to above graph, there were only 26% who are aware a lot of retirement and estate planning. There were 50% who are aware a little towards retirement and estate planning and the remaining 24% were not at all aware of retirement and estate planning. So, overall, there were 74% respondents who are either not at all aware or a little aware towards retirement and estate planning.

Q5. Do you think how much you have prepared yourself for retirement life?

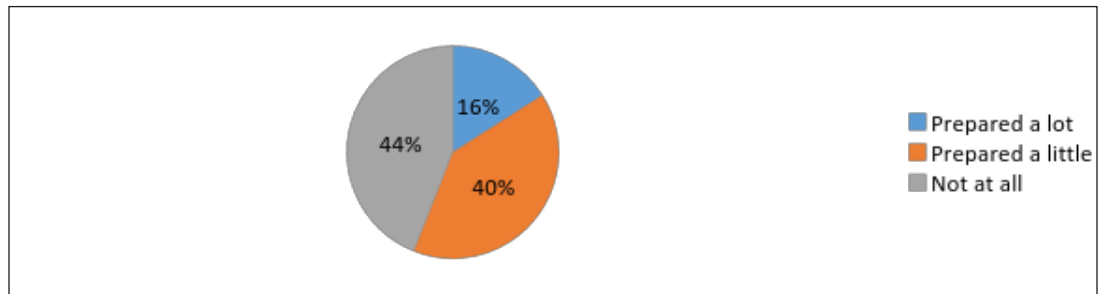
- (a) Prepared a lot
- (b) Prepared a little
- (c) Not at all



Among the respondents, there were 26% who have prepared a lot their selves for retirement life. There were 52% who have prepared their selves a little for retirement life and the remaining 22% have not prepared at all their selves for retirement life. So, there were 74% who have not prepared at all or they have prepared their selves a little for retirement planning which amounts to more than the 2/3 of the respondents.

Q6. Do you think how much you have prepared yourself for Estate Planning?

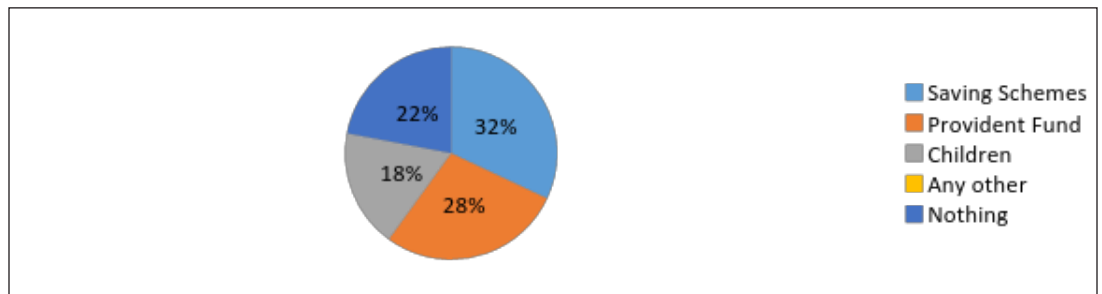
- (a) Prepared a lot
- (b) Prepared a little
- (c) Not at all



Among the respondents there were 16% who have prepared a lot their selves for estate planning. There were 40% who have prepared their selves a little for estate planning and the remaining 40% have not prepared at all their selves for estate planning. So, there were 84% of the participants who either have not at all or prepared a little their selves for state planning.

Q7. Which methods have you used or using for retirement planning?

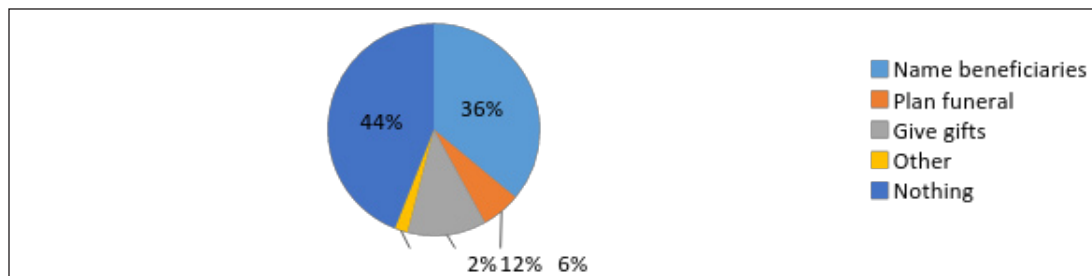
- (a) Saving Schemes
- (b) Provident Fund
- (c) Children
- (d) Any other
- (e) Nothings



We can clearly see from the above graph that there were 32% who have used or using saving schemes as method for retirement planning. There were 28% who have used or using Provident Fund as method for retirement planning. There were 18% who have used or using Children as method for retirement planning. Coincidentally, there was 0% who have used or using any other method for retirement planning while the remaining 22% have not used or using any method for their retirement planning. Overall, there were 22% who have not used or using any method for retirement planning while the 78% of the respondents have used or using a specific method for retirement planning. So, more than 2/3 of the participants have used or using a specific method for retirement planning.

Q8. What methods have you used or using for estate planning?

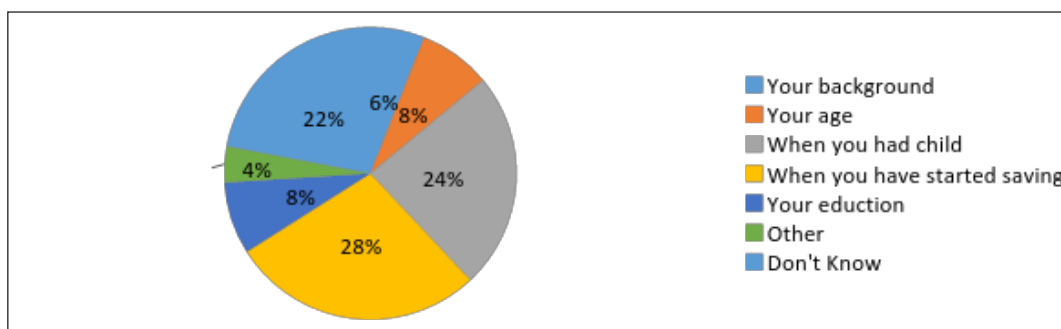
- (a) Name beneficiaries
- (b) Plan funeral
- (c) Give gifts
- (d) Other
- (e) Nothing



There were 36% who have used or using Name Beneficiaries method for their estate planning. There were 6% who have used or using Plan Funeral method for their estate planning. There were 12% who have used or using Give Gifts method for their estate planning. There were only 2% who have used or using any other method for their estate planning while the remaining 44% of the participants did not used or using any method for estate planning, it amounts almost half of the participants.

Q9. What are the factors which have effected or are effecting your retirement planning?

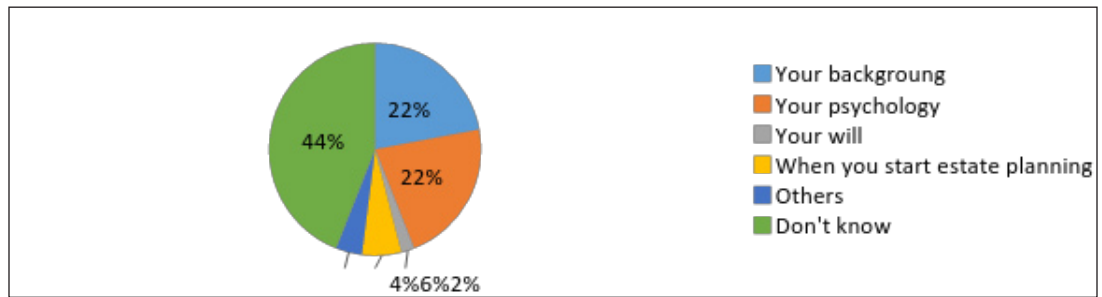
- (a) Your background
- (b) Your age
- (c) When you had Child
- (d) When you have started saving
- (e) Your education
- (f) Other



There were 8% respondents who said it was the background and education which had effected or effecting their retirement planning. There were 24% who said it was the When you had child factor which had effected or effecting their retirement planning. There were 28% who said it is When you have start saving factor and there were 6% who consider their Education factor and 4% consider Other factor effecting their retirement planning while the remaining 22% Don't know about the factor. So, there were around 50%, half of the total respondents who either consider When You Had Child or When You Have Started Saving factor which had or are effecting their retirement planning.

Q10. What are the factors which have effected or are effecting your estate planning?

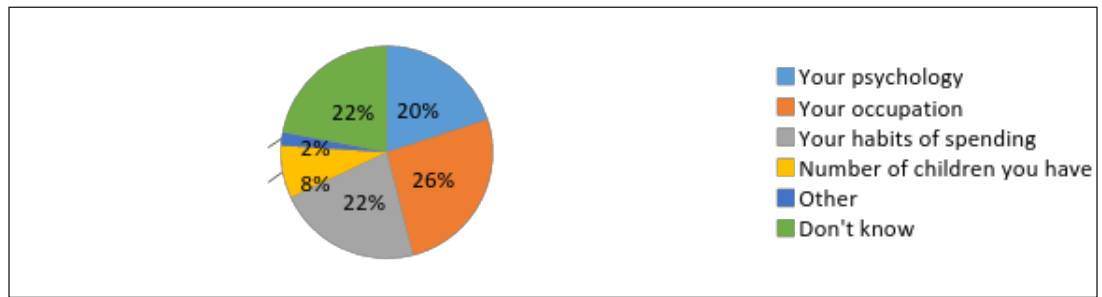
- (a) Your background
- (b) Your psychology
- (c) Your will
- (d) When You Start Estate Planning
- (e) Others
- (f) Don't know



There were 22% who consider their background as the factor which affect their estate planning. There were 22%, 2%, 6% and 4% who consider their Psychology, their Will, When They Start Estate Planning, and Others respectively as factor affecting their estate planning. While almost half of the respondent 44% don't know what is the factor which had or is effecting their estate planning.

Q11. What are the barriers or issues to your retirement planning?

- (a) Your Psychology
- (b) Your Occupation
- (c) Your Habits of Spending
- (d) Number of Children You Have
- (e) Other
- (f) Don't Know

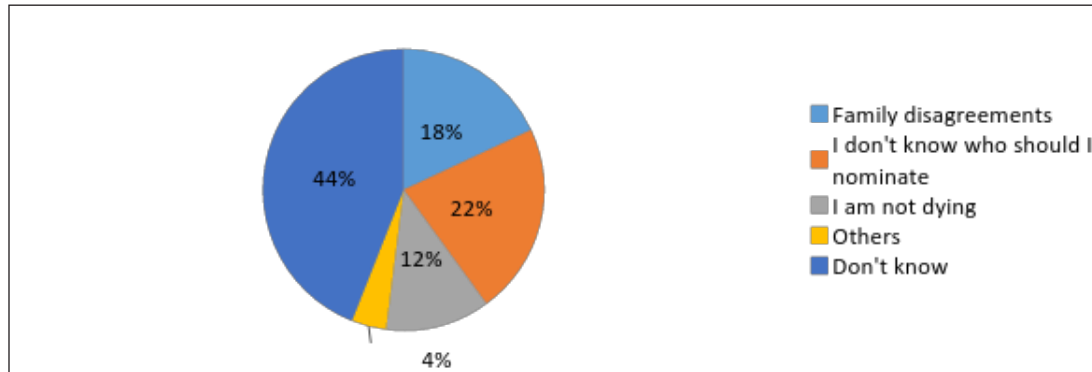


There were 20% who consider their Psychology as the barrier to their retirement planning. There were 26%, 22%, 8% & 2% who consider their Occupation, their Habits of Spending, Number

of Children They have, and Other respectively as barrier to their retirement planning while 22% of the participants don't know about the barrier to their retirement planning.

Q12. What are the barriers or issues to your estate planning?

- (a) Family disagreements
- (b) I don't know who should I nominate
- (c) I am not dying
- (d) Others
- (e) Don't know



According to above graph, there were 18% participants who said family disagreements as barrier to their estate planning. There were 22%, 12%, and 4% who said I Don't Know Who Should I Nominate, I Am Not Dying, and Other factor as barrier to state planning while; there were half of the respondents who don't know the barrier to their estate planning.

5. FINDINGS

Based on the literature review and data and information collected via our questionnaire survey we have achieved a wide numbers of interesting points on the retirement and estate planning in Malaysia. There was almost equal representation of the males and females in the survey conducted. There were half of the respondents who were either 49 years old or less and half of the respondents were either 50 years old or 70 years or over. So, there was balanced representation of the mature and immature employees. There was also fair representation of retired and working employees. 1/3 of the employees were retired.

There were more than 2/3 of the respondents who either are not at all aware or aware a little about retirement and estate planning which depict a poor situation among Malaysian employees and should be a serious concern for the Malaysian government to consider regarding the employees. There were 2/3 of the employees who either not at all prepared or prepared a little their selves for retirement planning. This finding also requires serious attention of the Malaysian government toward its employees. Same was the situation about the estate planning; more than 4/5 employees either did not at all planned or planned a little their selves for estate planning. This is really a serious problem and needs urgent concern of the government.

Malaysian employees mainly depend on Saving Schemes, Provident Fund and on their Children for their retirement planning. A significant percentage 22% of the employees doesn't use any of the method for their retirement planning. The situation is worse in terms of estate planning. About half of the employees

don't use any method for their estate planning while the remaining mainly uses Name Beneficiaries and Give Gifts method for their estate planning. Again there is a significant portion of the Malaysian employees who don't have knowledge what are the factors which had or are affecting their retirement and estate planning. There were 22% who don't know about the factors which had or are affecting their retirement planning and there were 44% respondents who don't know about the factors which had or are affecting their estate planning. We again have to highlight that the government's urgent needs to take short as well as long-term measures to increase the level of awareness among the Malaysian employees about their retirement and estate planning. Mainly, Malaysian employees consider When You Had Child and When You have Started Saving as the main factors affecting their retirement planning while they consider their Background and Psychology as main factors which had or are effecting their estate planning. The situation is indifferent to the barriers to retirement and estate planning. Again there were 22% who don't know what barriers to their retirement planning are and there were 44% respondents who don't know about what are the barriers to their estate planning. Malaysian employees consider their Psychology, their Occupation, and their Habit of Spending as the main barrier to their retirement planning while they consider Family Disagreements, I Don't Know Who Should I Nominate as main barrier to their estate planning.

The conclusion clearly express critical needs for increasing the awareness among the Malaysian employees for their retirement and estate planning. An empirical study by Zandi (2017) stated that Malaysian CFOs are not well educated and ready for setting tax planning though the SAS started long time ago in 2001 in Malaysia. Financial directors may carry a low tax education and tax systematic planning and training in Malaysia (Zandi, 2016).

The Malaysian government therefore, needs to take necessary action in short and long-term strategies to address the problem with the employee's behavior toward Retirement and Estate Planning.

6. CONCLUSION

We conducted a descriptive research study on Malaysian employees' preparations toward retirement and estate planning. We have found that majority of the employees are either totally unaware or they are a little aware of the retirement and estate planning. Majority of employees don't use any method for retirement and estate planning. Malaysian employees mainly depend on Saving Schemes, Provident Fund and Children for their retirement planning while they use Name Beneficiaries and Give Gifts methods for their estate planning.

Malaysian employees consider When You Had Child and When You Start Saving as the main factors affecting their retirement planning and they consider their Psychology, their Occupation, and their Habit of Spending as barrier to their retirement planning. On the other hand, they consider their Background and their Psychology as main factors affecting their estate planning while they consider Family Disagreements and I Don't know Who Should I Nominate as the key barriers to their estate planning.

This study clearly expresses the critical needs for increasing the awareness among the Malaysian employees towards their retirement and estate planning. The strength of belief and good character should be among the top parameters for talent sourcing and talent developing programs (Zandi et.al., 2017).

It requires the Malaysian government to address the issue by building up a solid strategic initiative within human resource management of its Economic Development Plans.

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