100 years in Malaysia | PRUDENTIAL

Fulfilling Futures

Seeking future financial security

The challenges facing young Malaysians

Written by ECONOMIST IMPACT

Foreword

In 2024, we will celebrate our 100th year anniversary in Malaysia. As the country grew and developed over the last century, we have served the evolving needs of Malaysians and strived to be their trusted partner.

As such, it is fitting that this report looks at how we can continue to serve the needs of the next generation as they embark into adulthood, and how this vision of ours aligns with the country's development goals.

Though the country has gone through many changes over the decades, one issue persists. Malaysians, especially young adults, profess a low satisfaction in their ability to prepare for their future. This is one of the lowest in the 13 markets surveyed.

The limited financial acumen to make decisions on how to save, spend, and invest may be contributing to the lack of confidence in their future financial stability.

This is why financial empowerment needs to start from a young age and it should not be a once-off classroom session, but rather constant learnings that evolve alongside the individual's growth.

As a trusted partner, Prudential Malaysia is proud to have guided Malaysians in their financial planning journey with our affordable and accessible healthcare solutions as well as our corporate responsibility programmes that aim to build financial resiliency among Malaysians, from a young age.

As we move into the next 100 years for Prudential in this country, we will continue to meet the needs of all Malaysians for a more sustainable, responsible and inclusive future.

For Every Life, For Every Future.

Lim Eng Seong
CEO
Prudential Assurance Malaysia Berhad

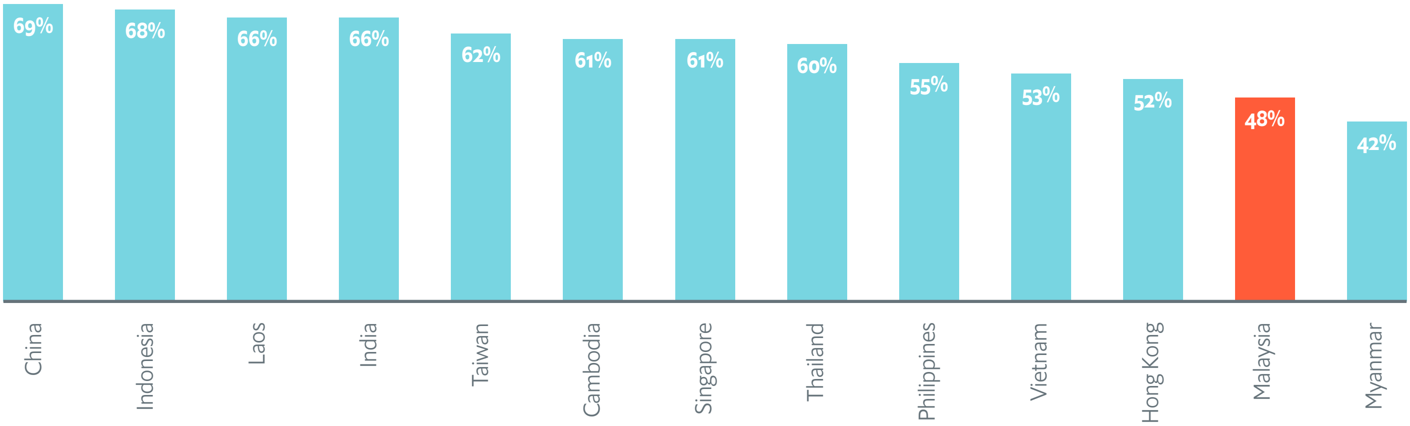
Malaysia's economy has recovered strongly since coming out of the pandemic. According to the International Monetary Fund (IMF), real GDP increased by 8.7% in 2022 and, although moderated, growth is projected to be 4.5% in 2023, returning to pre-covid levels.[1] The foundations also exist for continued growth of incomes. The World Bank, for example, expects the country to achieve the status of a high-income economy between 2024 and 2028.[2]

This economic progress notwithstanding, Malaysians harbour clear worries about their financial future. In an Asia-wide survey conducted by Economist Impact, less than half of Malaysian respondents, 48%, profess satisfaction with their current financial well-being. With the exception of Myanmar, this is the lowest figure recorded among 13 Asian economies. And Malaysians' confidence about being able to save for their older age is the lowest in the region.

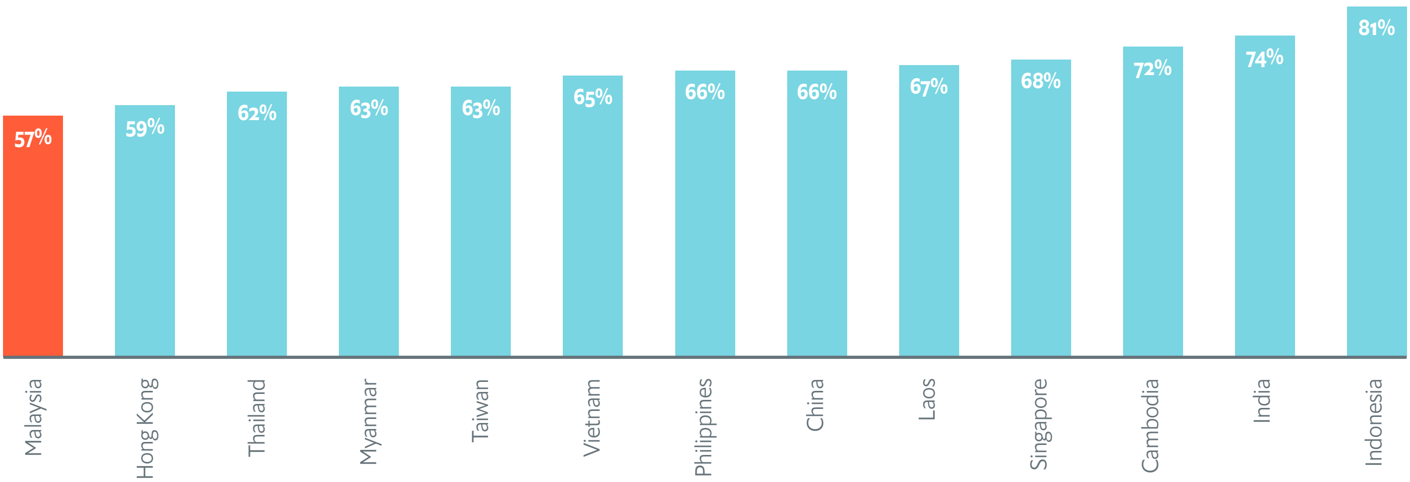
Concerns about personal finances are strongest among the youngest cohort of Malaysians in the survey, those aged between 25 and 34. According to two experts who we interviewed for this article, young Malaysians have good reason to be concerned. Low wage growth, cost of living increases, changes in the employment landscape and limited financial literacy combine to limit young people's ability to save and invest for the future. Below, we delve into these and other financial challenges facing young Malaysians, and explore some of the public initiatives being taken to help them meet those challenges.

Figure 1: Many Malaysians are unsure about their current and future financial well-being

Share of respondents expressing satisfaction with the financial well-being today



Share of respondents who are confident of being able to save enough financially to enable living to age 80 or beyond



Source: Economist Impact survey, 2023

Trouble making ends meet

"Young people are finding it increasingly difficult to save," says Balqais Yusoff, head of the Policy and Strategy Department at the Employees Provident Fund (EPF) of Malaysia. One reason for that is a skill set mismatch—a misalignment between the skills sought after in the labour market and those possessed by individuals—as well as structural wage challenges, which particularly impacts the youngest members of the workforce. According to Ms Yusoff, 78% of EPF members earn less than RM5,000 (US$1,080) per month, and for half of members, the monthly earnings are less than RM3,000 ($650).

Wages have stagnated in recent years for most workforce members, including the youngest ones, according to Norma Mansor, president of the Malaysian Economic Association and director of the Social Wellbeing Research Centre at the University of Malaya. "Wage stagnation has driven many young people, especially those with higher education, abroad—to Singapore, Hong Kong and further afield—where the earnings opportunities are greater," she says. Meanwhile, says Ms Yusoff, the pandemic led to an increase in the number of people, including younger workforce members, taking freelance and gig work jobs in Malaysia's informal sector, where wages are often unpredictable and social protections are non-existent. Many hold multiple jobs to make ends meet: 38% of our survey respondents in the 25-34-year age group say they work at more than one job, compared with 26% of those aged between 35 and 44.

One result of this crunch, says Ms Mansor, is a high level of indebtedness among young people. According to the Malaysian Department of Insolvency, bankruptcy declarations between 2018 and 2022 among individuals in the 25-34 year-old age group accounted for 22% of the nationwide total.[3] "As a cohort, these individuals are highly geared," says Ms Yusoff, "many having declared bankruptcy due to the burden of car and other personal loans as well as credit card debt." She also notes that household debt in Malaysia is high, citing a debt-to-income ratio of 146%. "So we have a crisis in the making, in which many young people, when they become eligible to take their retirement income, will have to use a large chunk of it to pay off their debts."

These circumstances translate into a low rate of savings among working-age Malaysians. That is evident in the EPF, the country's state-funded retirement vehicle. According to EPF data, 47% of its members under the age of 55 had total savings of under RM10,000 (US$2,150) at the end of 2023.[4] This figure almost certainly understates the savings-poor status of working-age people in Malaysia, as only those employed in the formal sector are EPF members. It is also a situation exacerbated by the pandemic, as covid-19 pressured many to dip into their retirement funds. The EPF reported that six in 10 members made such premature withdrawals, and estimates that it will take them an additional four to six years of work to rebuild these savings.

Seeking nest eggs for the future

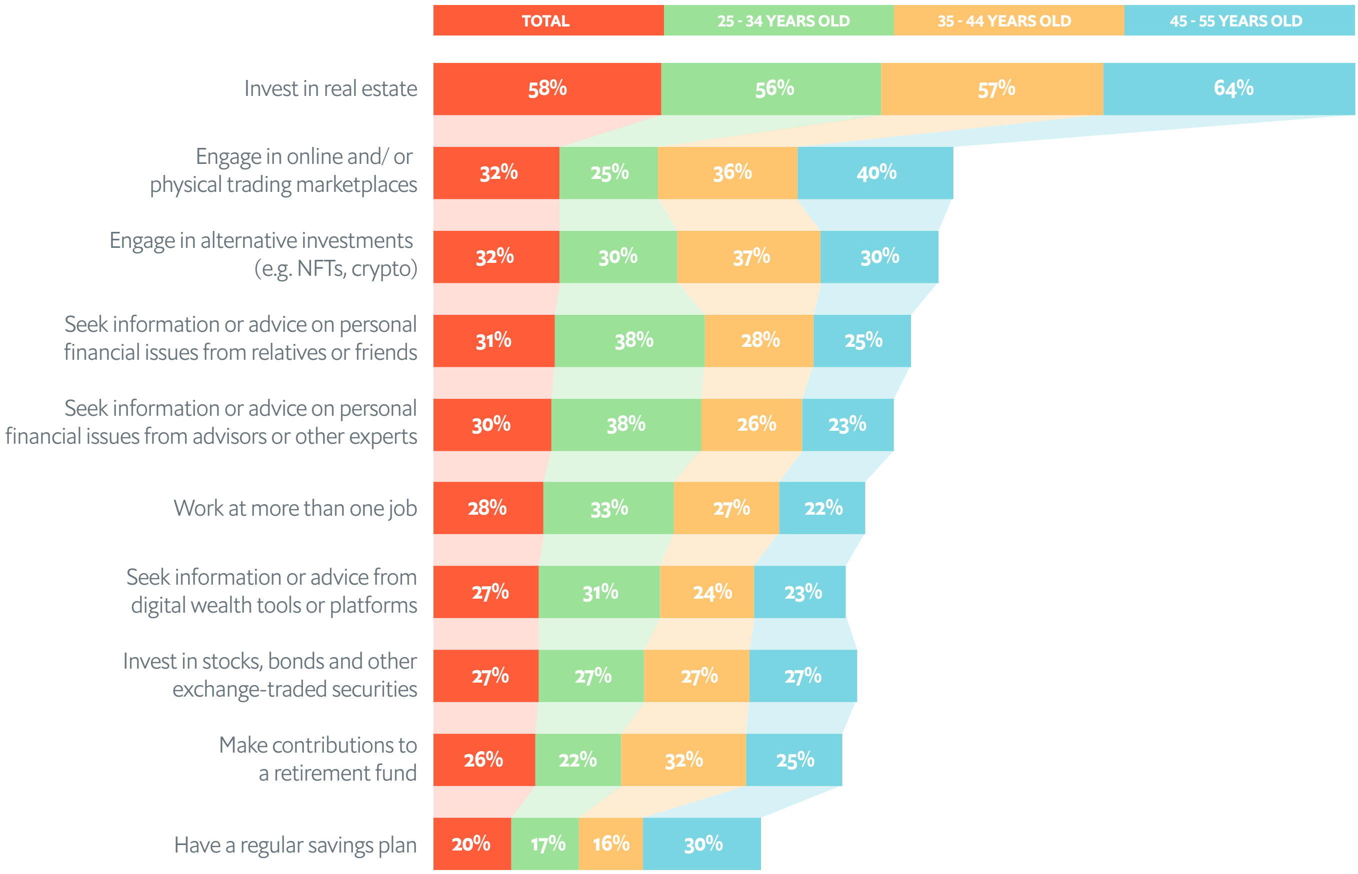
The measures Malaysians take to build financial well-being are broadly in line with those of others in Asia. Somewhat more Malaysian respondents than in the region as a whole (58% versus 52%) cite deposits in a savings plan, such as a bank account, as the most common measure. Roughly the same share of respondents in both Malaysia and Asia as a whole (32% and 33%) say they make contributions to a retirement fund. When it comes to riskier means of building wealth, meanwhile, Malaysian respondents appear slightly less adventurous than their peers elsewhere: 32% of the former invest in stocks and bonds, for example, and 27% invest in alternative instruments such as crypto assets; the analogous figures in Asia are 35% and 31%, respectively.

Breaking down the Malaysian responses by age group reveals a key difference in financial practices that helps explain our interviewees' concern for younger citizens' future well-being. Whereas 40% of 45-55 year-olds and 36% of 35-44 year-olds contribute to retirement funds such as the EPF, only 25% of those in the 25-33 year-old group do. (By contrast, 33% of Singapore citizens in this age group make such contributions.)

The youngest Malaysian respondents are no more likely than older ones to engage in share trading or investing in crypto assets. (The figure who take up the latter is identical—27%—in each of the three age cohorts in the survey.) But Ms Yusoff believes that younger Malaysians are less equipped with financial knowledge than those in their 30s and 40s to safely invest in such instruments. "Many younger people are experimenting with different types of investment instruments, such as exchange-traded funds (ETFs) and riskier ones such as Bitcoin," she observes. "They may feel that time is on their side and they can afford to make mistakes, but the level of financial literacy is low, and that's going to work against them." She relates that EPF surveys indicate literacy rates of under 30% for many respondents aged 30 and below, compounding the challenges of understanding financial products. "This suggests that they don't really understand the products."

Figure 3: How Malaysians seek to boost their finances

The main measures respondents take to improve their financial health



Source: Economist Impact survey, 2023

Funding future healthcare needs

Malaysians are almost as concerned about their ability to maintain their health into older age as they are about their future financial well-being. Just 51%—again the lowest figure of 13 Asian countries in the survey—are confident they will be healthy enough to live well to age 80 and beyond, well below the region-wide average of 64%.

Malaysians of all ages have benefitted greatly from the country's taxpayer-funded universal health system, says Norma Mansor, which has made hospital care affordable for most people. She believes, however, that young people, witnessing long wait times to get into public hospitals and a gradual rise of out-of-pocket payments, question whether the universal health system will be able to meet their medical needs as they grow older. The government recognises the health system's weaknesses in this area and has proposed a major healthcare system reform to, among other aims, "materially contribute towards reducing out-of-pocket expenditure and lowering catastrophic health spending".[5]

Younger people are considerably more open than older generations to purchasing private health insurance coverage, according to Balqais Yusoff. Indeed, in its advisory work, the EPF has in recent years sought to guide younger members in how to use health and other types of private insurance to secure themselves against long-term eventualities. "There's a real opportunity to help people understand how to protect their incomes through health insurance. If you have something that can help pay for treatment, rather than going out-of-pocket, it will help to protect your financial future."

Building financial knowledge

According to the Financial Education Network (FEN), an inter-agency platform that aims to improve financial literacy among the population, one in three Malaysians rate themselves as having a low financial literacy level.[6] Based on EPF surveys, Ms Yusoff believes financial literacy levels are considerably lower among young Malaysians.

This helps to explain why improving financial literacy, including through youth-oriented initiatives, is considered a strategic national imperative in the country. In 2019, the FEN published a national five-year strategy[7] to guide the efforts of its members—including the Ministry of Education, the Ministry of Higher Education, Bank Negara (the central bank), the Securities Commission and the EPF, as well as other stakeholders—in pursuing this objective. Of the strategies' five key priorities, number one is "Nurture values from young", and a core plank of the third is to "impart financial knowledge to promote positive financial behaviour among the youth."

Among the initiatives set out in the national strategy is the *Belanjawanku*, a monthly expenditure guide, or reference budget (along with a mobile app), for families living in the country's 12 major cities. Published in June 2023, it is a joint initiative of the EPF and the Social Wellbeing Research Centre led by Ms Mansor. While the budget follows a model introduced in Europe, a unique feature of Malaysia's, according to Ms Mansor, is the inclusion of guidelines for savings. "We're advising young families that they must set aside between 20% and 30% of their monthly income to save for old age and unexpected eventualities," she says.

While there is a need to ramp up multi-stakeholder efforts at the national level to improve financial literacy, Ms Yusoff believes that progress is being made in addressing the problem, thanks partly to FEN's current strategy and roles. But those efforts must be sustained over the long-term, she says. "It will take a generation or two before we'll be able to see real outcomes."

End notes

1 "IMF Executive Board Concludes 2023 Article IV Consultation with Malaysia", IMF press release, June 1, 2023

2 World Bank, Aiming High: Navigating the Next Stage of Malaysia's Development, March 2021

3 Malaysian Department of Insolvency, Bankruptcy Statistic 2022

4 Data provided by Employees' Provident Fund, Malaysia

5 Ministry of Health, Health White Paper for Malaysia, 2023

6 Financial Education Network, Malaysia National Strategy for Financial Literacy, 2019-2023

7 Ibid

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