Chapter 13

Retirement PlanningTools and Processes

Chapter Objectives

Students must be able to:

- Understand the Need to Plan for Retirement.
- Describe the Retirement Planning Process.
- Understand the Attitudes Towards Retirement.
- Understand the Obstacles to Retirement.
- Learn How to Evaluate the Current Resources.
- Understand the EPF and Non-EPF Methods of Savings.
- Describe the Types of Employee Benefits Plan.
- Understand the Tax Implications of Each Type of Retirement Scheme.
- Understand How to Overcome Inadequate Retirement Resources.

Chapter 13

Retirement Planning Tools and Processes

Introduction

The need to plan one's retirement is becoming more obvious as the years pass. While every person is expected to die someday, there will be those who lived "too" long and in the process outlived their ability to survive economically. Yes, these people are retired and can no longer utilize their ability to generate an income for their own basic sustenance. The only way they can live on is to draw on past savings, living off their relatives or children's income or to rely on social welfare.

The concern of retirement for the aged has changed over the years. This change is the result of the changes in several areas. For instance, in Asia, there is the culture of filial piety – of grown children taking care of their aged parents. In the early days, it is usual to find parents toiling their life away just to give their children a chance of a good education and a better tomorrow. In return, they expect their grown-up children to take care of them when they grow old.

This culture is progressively under threat of extinction as the financial impact and demands of modern society take their toll on the grown children's lives. When the cost of living goes up, the ability of the working population to care for those other than their immediate families will become increasingly difficult.

In view of these transformations taking place, it is obviously wiser to plan for one's destiny than to rely on a cultural practice that has become unreliable. In any case, it is both good for the retiree and his grown-up children if the retiree is financially independent.

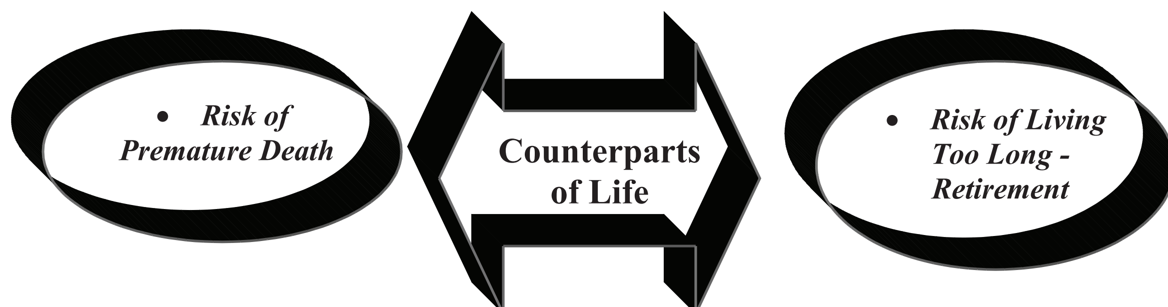
This chapter explores some of the ways in which an individual can plan for his retirement. The mechanism are outlined, so that the planner will have a good grasp of the concepts and processes that he can use to help his clients plan their retirement.

The Need for Retirement Planning

The retirement risk is the counterpart of the risk of premature death. Both are real but only one can happen in one's lifetime. After retirement, a death can no longer be classified as premature. The person has lived his full economical life. If the individual dies prematurely, he will have no necessity for funds that are being reserved for retirement. On the other hand, if the individual lives until retirement, say age 55/56, provisions made for premature death will not be used, but there is a

need for funds to sustain the living years after he had retired. With the possibility of either outcome materializing, the individual has little choice but to make provisions for both – if he does not wish to leave his financial future to the fickleness of fate.

An individual who retires can expect to live for another 15 to 20 years. With increased awareness of health concept and improvement to the health care system, people are generally living longer than those of the past generations. The life expectancy of a Malaysian male is about 70 while women are estimated to live slightly longer. With increased longevity arises the problem of retirement income. For income to be produced, it is either man at work or money at work. When a retired person 'really' retires, he is economically 'dead' – but yet is alive in person, requiring all the necessity that everyone else needs. So a question arises as to where he is going to get the income to sustain the balance of his living years?



The need for a retirement income creates a need for retirement planning. To plan for one's retirement is to retire by design, otherwise it will be by default. The only logical choice is to choose one that is more controllable and afford greater peace of mind.

An Overview of the Retirement Planning Process

To plan one's retirement is akin to planning against the risk of premature death. There is a process of performing the task. The retirement planning process consists of essentially three broad steps. These steps are outlined below:

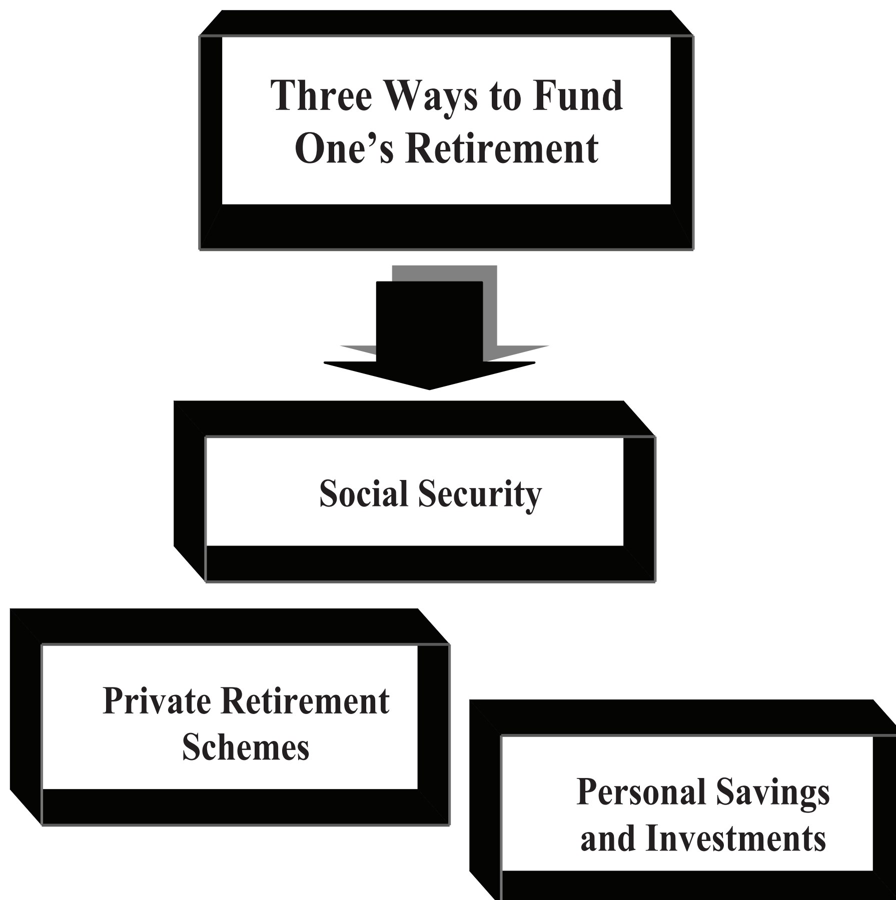
- The first step is to assess the future income need of a person. How much will he need to retire the way he wanted? If it is just to survive, the need will be smaller. If a more ambitious retirement plan is in the mind of the person, then the funds to be created will be greater. This requires forecasting the income needs that will exist after the person had retired in congruence to the type of retirement he desires. As part of this step one has to identify the sources that will be available to meet these needs.

- The second step involves the question of how to accumulate the funds defined in the first step. This requires the designing of a plan that will meet the needs of the client and to implement the plan successfully thereafter. The amount needed is the difference between the resources that will be needed for the retirement and the resources, e.g. EPF, available at retirement.

- The final step is to ascertain the manner in which the accumulation will be consumed. How should the retiree be paid? Is lump sum better or is it the annuity payment method? For the method to be determined, the period of projected benefit payments and the provision that should be made for the dependants must be known.

Sources of Retirement Funding

In essence, there are three broad sources of funding the retirement need of an individual. In Malaysia, there is no social security like those found in some developed countries. The only ways to fund the retirement is through EPF, private retirement schemes or through personal accumulation and savings methods or a combination of these.



The Retirement Planning Process

As in financial planning, retirement planning follows a planning process that is conceptually close to the six-step personal financial planning process adopted by the Malaysian Financial Planning Council (MFPC).

The discussion of the retirement issues, strategies and techniques to follow are structured mostly around this six-step retirement planning process.

The six-step retirement planning process is as follows:

Six-Step Retirement Planning Process under the RFP Practice Standards (RPS)

SIX-STEP PROCESS	DESCRIPTION	KEY PURPOSES	SPECIAL NOTE
Step 1	**Setting Goals, Objectives & Priorities**	*Establish the client's wants and arrange them in order of importance*	In every of the six-step process, starting from the initial engagement, the **client-practitioner relationship** that has been defined and established should be re-defined, re-established and enhanced as an on-going affair.
Step 2	**Gathering Relevant Data & Information**	*Procure crucial information for determining the client's situation*	
Step 3	**Analyzing Information & Assessing Financial Status**	*Identifying the clients needs, resources, constrains and options*	
Step 4	**Developing and Presenting a Retirement Plan for Implementation**	*Detailing the problems and solutions in a strategized, written format for the client's considerations and actions*	
Step 5	**Executing the Retirement Plan**	*Getting permission and having the plan implemented effectively & efficiently*	
Step 6	**Monitoring Execution & Reviewing of the Retirement Plan**	*Checking and adjusting the execution to ensure goals and objectives listed are met*	

- **Step 1: Setting retirement goals and objectives and establish priorities**

As a practical initial process the financial practitioner and the client will mutually define the scope of the engagement before work begins. He is to establish a trusting relationship with the client in the area of his professional services and with him as a person. This may require some initial disclosures of his background and his practice and to provide testimonials of past performances. These will be answered by asking the questions like*, "What does the financial practitioner do and what were his track records?"*

In addition, he should explain to the client their mutual responsibilities, and disclose his area of competence, in particular his expertise in performing the retirement planning job. Usually, this is already done when the financial practitioner begins the financial planning activity on the signing of a *letter of engagement*. Where necessary, the financial practitioner should also declare which are the planning areas in which he has no expertise. In such cases, the financial practitioner should let the client know that other professional help is needed to solve some of the problems. This is to prevent the client from having unnecessary wrong expectations.

The key first step is to establish his retirement goals and objectives. In the MFPC model of the six step financial planning process setting the goals and objectives should be kept foremost in the planner's mind. Financial planners firmly believe in the power of goals and the importance of purpose and intentions. Achieving goals is what it is all about.

- **Step 2: Gathering relevant data and information.**

The information obtained on the client provides the basis of analysis to understand the client's situation. The financial practitioner must first have a clear understanding of the client's financial wellbeing and his future needs, aspirations, goals and objectives at retirement. Since, the client will usually possess limited resources; it is valuable to know what are his priorities, and once known they should be arranged in order of their importance. In addition, it is important to find out what is the client's current financial health and the available financial resources that can be used to support his retirement plan.

- **Step 3: Analyzing data to determine client's situations and his retirement needs.**

Once the data gathering process completes, it is time to analyze those data to help determine the client's current financial situation, his retirement needs and his resources adequacy in meeting those needs. The financial practitioner should take a holistic approach when analyzing the client's retirement situation so that at the plan design stage, the outcome will be an effective retirement funding plan with strategies that optimize the client's needs and wishes on his retirement.

- **Determining and Filling the Client's Retirement Needs**

  Once the overall health position of the client is determined, the financial practitioner can proceed with finding out the retirement needs of the client. The retirement gap is the deficiency amount

that has to be determined and filled in order for the client to have adequate funds to meet his retirement needs.

These are the **6 stages** to help determine the funds required to cover the deficiency of the client at retirement:

- **Stage 1: Determining the "1st year income needed" at retirement**

The replacement ratio method operates based on the assumption that changes in the *cost of living* will be roughly echoed by changes in the *individual's income* over the years of his working life. In addition, this method assumes that the post-retirement income needs of the client can be estimated from the individual's pre-retirement income.

The method also assumes that the standard of living enjoyed by the client during the pre-retirement years will be the determining factor for the standard of living during the retirement phase. In applying this method of estimating the retirement income need, the closer the individual is to the age of retirement, the easier it will be to determine the desired sum. If a younger person is involved, there is a need to estimate a figure that will be close to his salary at retirement – often called the last drawn salary. The last drawn salary is obtained by projecting the growth of his salary till the retirement age is reached at an assumed rate. Often, the inflation rate is used.

The expense method requires the construction of a budget for post-retirement living. This involves estimating the amount that will be needed to meet the cost of housing, clothing, food, transportation and other necessities, medical expenses, etc. The creation of a cash flow statement is the first step towards mapping the future expenses.

Again, it is easier to determine the amount needed if the retiree is closer to retirement age. Unlike the replacement ratio method, the expense method requires that the post-retirement inflation be taken into consideration. Time-value techniques are used in computing the retirement needs

- **Stage 2: Determining the "lump sum required" at retirement to fund income need (with or without residue for distribution) during the retirement period.**

Essentially, there are two techniques that can be used to compute the lump sum retirement needs of the retiree. One is the Capital Liquidation Method [or Asset Utilization Approach] and the other is the Capital Conservation Method [or the Asset Preservation Approach].

Basically, in the **capital liquidation method** [or **asset utilization approach**], the assets are progressively liquidated to meet the needs of the retiree over the period of his retirement. There is *no* residual amount expected at the end of the retirement period for the purpose of distribution to heirs.

When using this method, the accuracy of determining the number of years in the retirement period is very important. If not, the retiree faces the risk of running out of funds to support the balance of his living years should he live longer than assumed. It would be prudent, therefore, to project the numbers of retirement years more generously so that this risk is reduced.

Generally, the amount needed to fund the retiree is lesser, if this method is chosen over the Capital Conservation Method. However, if the projected retirement years get longer, the amount gets closer.

Using the **capital conservation method** [or **the asset preservation approach**] requires the retiree to have at retirement an amount that is large enough to generate a stream of income sufficient to sustain the chosen lifestyle and still leave behind a *"targeted amount"* (AC) of money for distribution at the end of the retirement period.

Needless to say, the twin function of having to generate a sufficient income stream to finance retirement needs plus a lump sum preserved for future distribution to heirs will require the accumulation of a larger fund at retirement. Unless, the individual is wealthy enough, the capital conservation method is not viable.

- **Stage 3: Determining the current and future resources destined for retirement purpose.**

This stage involves identifying the current available assets and cash savings/regular investment plans, which are labeled for retirement and catalogued in a list with their values stated. To save time, this activity can be done on a worksheet. It is important for the financial practitioner to segregate the income-producing assets from those that are non-income producing.

Non-income producing assets or personal-use assets may include assets such as his retirement home or a piece of unproductive land. Unless, the home is targeted for downsizing or to be sold at retirement to spin out additional retirement resources, they are excluded in the computation of available resources at retirement.

In addition, those assets or income stream that will be depleted or terminated before the client retires should be noted and omitted in the final computation of the available assets for retirement purpose. The construction of a balance sheet and income statement would be useful to help in the identification

- **Stage 4: Converting the value of the current resources to their value at retirement.**

The current resources meant for retirement, i.e. the current available assets and cash savings/ regular investment plans, are converted to "current resources at retirement" and "accumulated savings/regular investment plan value at retirement" using time value of money (TVM) techniques. The figures are computed on a worksheet. The total amount derived is the "funds or resources available" at retirement. Sometimes this is called the *retirement-resources status (RRS)* of the client.

- **Stage 5: Finding the lump sum retirement gap or the deficit/surplus amount**

  Once the retirement-resources status (RRS) is determined, it is time to calculate the lump sum “retirement gap” or RG, which is the fund deficiency at retirement. The “funds needed” at retirement less the “funds available” at retirement (Step 1 minus Step 4) will identify the lump sum retirement gap. The design and recommendations made in the retirement funding plan are made with the lump sum retirement gap in mind.

- **Stage 6: Determining the funding needs during the pre-retirement period to meet the lump sum needs at retirement.**

  Once the deficiencies are identified and the lump sum retirement gap is determined, the financial practitioner can proceed to choose a funding method to meet the deficiency. There are three ways of doing the job.

  The first is through the **annual funding need (AFN) approach** to meet the deficit and fill the gap. In this approach, the annual funding needed is determined using a formula.

  The second way is to use a **lump sum funding need (LSFD) approach**. The lump sum approach is seldom used because the client’s total resources at retirement are already shown when his retirement resources status is computed. In any case, the client still needs to know what the lump sum amount is needed to fill the deficiency at retirement because he may get a windfall along the way or somehow is able to get the needed amount.

  And finally, the third way is to use a **combination funding approach**, which is a combination of the above two approaches. The client will determine what lump sum amount he currently has that is allotted for his retirement. For instance, he may strike a lottery a couple of months later and wish to allot some of the winnings for retirement purpose.

  The future value of the *new* lump sum available is computed to determine the ***new* retirement gap**, which is then funded through the annual funding method.

Step 4: Designing and recommending a retirement plan

Once the analysis of the client’s situation is completed, the financial practitioner can start construction work on the retirement plan.

If we refer to the analysis done in step 3, there are basically five broad areas to consider when building a retirement plan. (For our purpose, only the financial aspects are considered). These five areas would cover most of the zones required to ink a clear roadmap leading to a satisfactory retirement for the client.

- **What does the client want at retirement?** The **first** would be to identify the type of lifestyle the client would want to be in when he finally retires. No matter what lifestyle is chosen, the basic requirements are to have a roof over the head, sufficient income to live out the retirement

years and have money to pay for unexpected expenses. These three needs are basal to all retirement plans.

- **What are the client's financial retirement resources?** The **second** is to determine the client's current financial standing in relation to his retirement goal. The *retirement-resources status* discussed earlier should reveal to the financial practitioner the client's situation at retirement. The status should be stated clearly in the plan.

- **What is the income needed to sufficiently fund the lifestyle chosen?** The **third** area is to determine the sort of income needed to sustain the client's chosen lifestyle. The quality of the lifestyle will depend on the income available when the client retires. To achieve this objective, the financial practitioner must, as accurately as possible, compute the amount of income required to meet the objective. Then amount is then capitalized using TVM techniques (refer to step three of the retirement planning process).

- **What is the *additional* lump sum amount needed (fund deficiency) to fill the client's retirement needs?** The fourth area is to find the lump sum retirement gap. The *projected lump sum needed* at retirement less the *projected retirement resources* will give at the *lump sum retirement gap*.

- **What must the client do from now on in order to meet his retirement funding shortfall?** And finally, the fifth or last area of consideration, a *retirement funding blueprint* must be developed to ensure the retirement goal can be achieved. The blueprint will outline the investment options and strategies that have to be adopted for the client to meet his retirement goals.

The financial practitioner should be reminded that the laws and regulations governing plan qualification also help to determine the design of the retirement plan. Tax laws are in particular an important determinant. Other factors being equal, those investment vehicles in the plan that are chosen based on available tax incentives will produce a greater yield than those that do not. For instance, life insurance products qualify for certain amount of tax deduction according to the Income Tax Act.

● Step 5: Implementing the retirement plan

The implementation of the retirement plan starts once the consent from the client is obtained. The key element of this step that the financial practitioner must follow is to ensure he selects appropriate products and services that are in line with the client's goals, needs and priorities. The implementation responsibilities must be clearly defined and they should be consistent with the scope of engagement agreed on earlier. Usually the financial plan starts with an *opening or introductory letter* to the client.

● Step 6: Monitoring performance and reviewing the retirement plan.

Depending on the scope of work agreed upon between the financial practitioner and the client, the financial practitioner may have to monitor changes in the environment, the laws and regulations, and other factors that may impact the performance of the client's investments. Usually, this is done

with the help of other professionals if the financial practitioner himself is not sufficiently competent in handling the function.

The monitoring function may involve rebalancing the assets in the portfolio. If for instance, the value of the client's share portfolio surges from says the allocated 25% to 50% due to growth, this indicates that the portfolio should be rebalanced to the chosen allocation of 25%. Of course, if the client circumstances have changed and the client is comfortable with the increased risk, then no adjustment is needed.

Review of Investments

For the following reasons, it is imperative that the financial practitioner reviews the investment performance of the client's retirement portfolio periodically:

- Checking the performance of the investments in the portfolio and reporting them to the client.
- Checking the current relevancy of the investment in meeting the retirement goals
- Revising the earlier projections to ensure it reflects the current situation
- The manifestation of new investment instruments that may be better than the current ones for meeting the objectives of the client

Scheduling the Review Sessions

There are no hard and fast rules regarding the time between reviews and events that trigger a review from the time of the plan implementation, but the following three types of reviews are commonly practiced.

- Initial Review: The first review usually takes place one month after the strategies outlined in the plan are implemented. This review is to make certain that the performance of the investment and other non-investment activities are in accordance with expectations and are in alignment with the goals and objectives that have been set. If the results show that these activities are not performing as planned or are out of alignment, they should trigger actions to carry out adjustments, either to the goals and objectives or to the activities or both.
- Yearly Reviews: The first annual review is carried out twelve months after the plan is implemented, and thereafter, annually. Again, the review is to ensure that the performance of the investment and other non-investment activities are in accordance with expectations and are in alignment with the goals and objectives that have been set.
- Impromptu Reviews: These are reviews that are triggered by unexpected events or where the client requisitions for one because he has a change of plan with regard to issues concerning

his retirement or estate. For instance, a financial crisis that affects investment returns severely should immediately trigger an impromptu review of the plan.

Individual Attitudes Towards Retirement

A recent survey by MDRT of 1,000 Americans shows the workers of today are accepting more personal responsibility for their retirement than those currently retired. In fact, 73 percent of future retirees identify themselves as most responsible for their retirement as compared to only 58 percent of current retirees. This shift can be linked to a growing concern among workers that outside parties, such as employers and the government, will not be able to provide the level of income necessary for a comfortable retirement. In fact, 77 percent of retirees say they are confident in the Social Security program, while only 43 percent of future retirees express such confidence.

The survey also found that more than two-thirds of retirees wish they had done something differently in their retirement planning. Fifty percent of retired Americans say they wish they had started planning earlier; 47 percent of Americans wish they had more saved; and 25 percent say they should have gotten more guidance.

(Source: MDRT consumer website <http://www.soundfinancialplan.com/survey/retirement/index.html>

Viewed: November 19, 2003)

The results of the survey can be found at the Appendix 1

Obstacles to Retirement Savings

1. **Tendency to overspend**

   Many working adults tend to spend the full after-tax income to support their current standard of living. This has resulted with nothing left for saving towards retirement. It is for this reason that all clients should be taught at a young age to follow a budget that assists them to live within their means and also provide for their retirement savings.

   Planners should emphasize that a spending ratio of not more than 90/10 is generally desired. Under the 90/10 ratio, 90 percent of the clients' after-tax income is used to maintain the current standard of living and the 10 percent is directed to other long-term financial objectives such as the clients' children education and their own retirement.

   Furthermore, planners should recommend that when income increases, the percentage spent on current standard of living should decline.

2. Unexpected expenses and unexpected reduction in income

Unexpected expenses like cost of major repair to the house and expenses due to inadequate insurance and unexpected reduction in income either through pay reduction or unemployment do occur from time to time.

The client should set up an emergency fund consisting of 3 to 6 months' of his/her income. In addition, the planners should conduct a thorough review of their clients' insurance needs to ensure they are covered adequately.

3. Other competing long-term financial objectives

Down payment for a residential home and education of children may consume whatever long-term savings one has. Usually these objectives are more immediate than the retirement savings. Although these objectives are important, planners have to remind the client to set up a dedicated fund specially for retirement purpose.

4. Divorce

Divorce often leaves one or both parties with little or no accumulation of private retirement income. The problem is compounded by additional expenses incurred when one has to live on his or her own.

Retirement Issues for the Employees

An employee can be rewarded for his services in many ways. The cash-based remuneration like salaries, wages, commissions and bonuses paid to employees (including owner-employees) are probably the most significant portions of the income package paid as reward for their contribution to the business. As long as these payments are realistic, reasonable and within the confines allowed by the tax code, they rank for full deduction as ordinary and business operational expenses. There are also cases where the owner-employee and their relatives who receive reward far in excess of the type and degree of services rendered to the business. In such situations, the DGIR has the power to disregard such payments as tax deductible or to bring them in conformity with commercial practices.

Tax Issue: Compensations that are not Tax Deductible

Generally, all payments made in respect to services rendered by the employees and which are in accordance with the service agreement are allowed as tax deductible expenses to the business. However, there are some types of payments made to or on behalf of the employees which are not allowable or can become a contentious issue with the IRB. Hence, in planning the compensation structure for the business owner, the planner must be familiar with the type of payments that may give problems. The following are some of such payments:

- Non-contractual rewards like gratuities or voluntary rewards for services rendered may be disallowed unless the IRB is satisfied that it is the enterprise general policy to make such payments and the amount of such payments are reasonable by commercial standards. The situation is the same where ex-gratia payments are made to beneficiaries of a deceased employee.

  Expenses must be wholly and exclusively incurred in the production of income.

- Payments given to a terminated employee to prevent him from exercising a similar employment elsewhere are in the nature of goodwill and are not tax allowable deductions. The amount received by the employee is likewise not taxable in his hands. This would be the treatment is the payments are considered capital. However, compensation for loss of income is taxable as gross employment income under section 13 (1) (e). However, an exemption of RM 6,000 for each completed year of service is provided under Schedule 6 of the Income Tax Act 1967.

- Leave passages to employees are not allowable for tax deduction by the employer.

- Reimbursement of entertainment expenses and the payment of entertainment allowances which are related to sales are deductible by the employer. Other entertainment expenses will be given a 50% deduction. Both will take effect from the assessment year 2004.

- Insurance premiums or other contributions made for the benefit of an employee to an unapproved provident fund or scheme by the employer do not qualify for tax deduction.

- When the business is wound up, payments paid to employees to facilitate the winding up process are not deductible expenses as they are not considered as being incurred in the production of income for the enterprise.

- Payments made by a successor business in a re-organization to an employee for services rendered to the previous business are not deductible to the successor business. These could be payments arising from the take-over, such as pension payments, gratuities and bonuses.

Considerations for Picking a Benefit Scheme

There are various factors to consider when choosing an employee benefit scheme. Some of the more important ones are stated below:

- Contributory or non-contributory: Contributory plans require the employee to contribute a portion of the total contribution to the fund, while non-contributory plans are fully financed by the employer.

- Tax deductibility of contributions: Not all schemes enjoy tax deduction, and this affects the yield to the fund and final outlays by the contributors.

- Tax liability in respect of earnings of the scheme's fund: Only approved schemes enjoy tax exemption of the income earned by the fund.

- Pension or lump sum and the tax implications: Pension payments refer to a regular stream of payment, usually on a monthly basis while lump sum is a one time full payment of the benefit amount.

- Vehicle to use for the accumulation: This refers to the method chosen to accumulate the fund. An example would be using life insurance or unit trust scheme.

- Employee’s tax liability on receipt of the benefit payments: The type of funds and the timing of payment affect the tax liability on the amount received by the beneficiary.

Approved and Non-Approved Plans

The tax code under Sec. 150 provides that the DGIR can approve under certain conditions a pension or provident fund for income tax purposes. Such funds known as “approved funds”, allow the contributors to enjoy preferential tax treatment over others who contribute to the “unapproved” version of such funds. In fact, those plans that do not receive the blessings of the DGIR as an approved fund will be termed as an “unapproved fund”.

Currently, the tax code (Sec. 34(4), ITA) allows for deduction on the contributions made by the employer to an approved fund up to 19% of the remuneration of the participating employee. Since 12% of the 19% of employees’ remuneration is contributed to EPF as a compulsory requirement, only a maximum of 7% is left and can be applied to another approved fund set up by the employer. Employment remuneration that is subject to deduction for contribution purpose would include monthly wages, overtime pay, fixed allowances, commissions and contractual bonus, but exclude discretionary ex-gratia payments and director fees.

For determining the amount deductible as an expense to the employer, the deduction will be restricted to the lesser of:

a. $$\frac{\text{Total Contributions} \times \text{Deductible Remuneration}}{\text{Total Remuneration}}$$

Approved Plans

The main advantages accorded to approved plans are the various tax benefits on the contributions made to the fund and on the withdrawn amount. These benefits are discussed below.

Tax Benefits of Approved Plans

One of the reasons for setting up an approved plan is in the area of accumulation. The tax benefits for approved plans can be substantial for the contributors and the recipient of the plan. These benefits may be summed up as follows:

- Contributions made by the employer are tax allowable, subject to the limit set by the tax code, which is adjusted from time to time.

- Contributions made by the employee are taxable but the resident individual will get a personal relief of RM 6,000 for the combined contributions towards EPF and a life insurance policy on his life or his wife's life or both their lives.

- Withdrawals from the funds by the employee are not considered taxable income in their hands.

- Under the same circumstances, the accumulation of the fund is faster compared to unapproved schemes because the income of the plan or fund is tax-free. In most countries this is all the benefit they get. The approved funds in Malaysia can accumulate income, tax free and further distribute them tax free.

Employees' Provident Fund (EPF)

In Malaysia, all employers are legally compelled to contribute to an approved fund called the Employees' Provident Fund (EPF) for their employees' benefit. EPF may thus be considered a compulsory retirement scheme. As the contribution is defined as a percentage of earnings or a fixed sum, the EPF is a defined contribution scheme. Because of this ruling that compels employers to contribute to the scheme for all its employees, Malaysian employees with no retirement program are virtually non-existent.

The EPF is currently the largest of the retirement funds in the country and is probably the most important retirement fund for most of the employees living here. The operation of the Employees' Provident Fund is controlled by the Employees' Provident Fund Act 1991, which became effective on 1 June 1991. This Act superseded the Employees' Provident Fund Act 1951, which has become outdated over the years.

Basically, the EPF is a Statutory Board and is empowered to appoint a Manager, a Deputy Manager, a Secretary and an Accountant and such officers as essential to administer the legislation passed by Parliament. The Board makes decisions on the investment policy of the fund and makes adjustment from time to time as needed.

The term "employer" is defined in Sec 2 of the EPF Act to include the following individuals:

- A manager, agent or person responsible for the payment of salary or wages to an "employee";

- Any body or persons, whether or not statutory or incorporated; Federal and State Government Statutory Boards.

The EPF Act specifies certain responsibilities and rights of the employer as a contributor and as an agent of the employee, which must be adhered to strictly. Employers, who flaunt the rules, may be prosecuted by fines and imprisonment. The rules set out by the EPF Act are as follows:

- Every corporation incorporated or registered under the Companies Act 1965 must notify the Board within 30 days of its incorporation or registration.

- Every employer must register with the Board.

- Every employer must prepare and furnish a statement of wages to each employee.

- Although it is not necessary to inform the EPF Board when a new employee is engaged, the employer is required to obtain an EPF certificate of membership for the employee and completed it in all respects (Form EPF 5).

- The employer is not required to make any contributions in respect of a new employee unless the latter has completed one calendar month of service.

- The employer shall notify the Board of any change of his address within seven days of the change.

- The employer must inform the Board within fourteen days when he ceases to become liable to contribute.

- The employer is liable to pay the contributions payable both by himself and by the employee.

- The employer is entitled to recover from the employee the amount of the monthly contributions paid on the latter's behalf to the EPF.

- With effect from 1 January 1993, the rate of contribution by employers to the EPF is 12% of its employees' remuneration. (Note: Under the Income Tax Act 1967 employer can contribute up to 19% of the amount and enjoy tax deduction for the contributed amount.)

The employee as defined in the Act refers to any person who is employed under a contract of service or apprenticeship. This definition would practically cover every employee in the country. The service contract between the employer and employees need not necessarily be in writing. Unless specifically exempt, every employee is liable to pay contributions unless he has withdrawn his credit from the fund. From 1 January 1996, the rate of contribution by employees to the EPF is 11%.

An expatriate employee is not liable to EPF contributions. However, if he so chooses, he may contribute to the Fund by giving one month's notice to the EPF Board and his employer and begin contributions. An expatriate employee is defined as one who is domiciled outside

Malaysia and who is in Malaysia temporarily on a work permit.

In the case of sole proprietors and partners in a registered partnership, they are not compelled to contribute to EPF. This rule applies to all self–employed persons, including pensioners. For self-employed person or a pensioner, they may choose to contribute a single monthly amount of up to RM 500/- to the EPF. As for directors of companies, irrespective of whether they are owners or otherwise, they are liable for contribution to the Fund if they receive remuneration under a contract

of service. They are not liable on directors' fees as these payments are specifically excluded from the definition of wages in the EPF Act.

To encourage more people to save for their retirement, the EPF participation program is widened to allow for more people to be eligible to contribute to the Fund. With effect from 1 August 1995, any person who is not an employer or an employee within the meaning of the Employees' Provident Fund Act 1991 may elect to contribute voluntarily to the fund at the prescribed rate if he so chooses.

Several key changes have been introduced into EPF. They are as follows:

Date	Change
1 January 2007	A. Restructuring of members accounts
1 November 2007	B. Flexible age 55 withdrawal
	C. Withdrawal of savings in excess of RM1 million
	D. Administrative streamline: - Death benefit claim - Incapacitation benefit claim - Submission of forged documents for withdrawal by members - Dispute on the authenticity of withdrawal amount - Dispute on the authenticity of withdrawal
1 January 2008	E. Housing loan monthly payment withdrawal
1 February 2008	F. Restructure of members' Investment - Introduction of basic savings
	G. Contribution: - Extension of liability to contribute from age 55 up to age 75 years - Two Tier contribution rates - Dividend payment up to age 75 years - Savings not withdrawn at age 80 years to be transferred to the Registrar of Unclaimed Monies.
1 June 2008	H. Critical Illness Insurance policy withdrawal
	I. Top – up savings In Account 1
	J. Matrimonial property claim on members' savings
	K. Mandatory for large employers to contribute via electronic mode
1 January 2013	L. Changes to age 50 withdrawal

Current situation

There are three accounts:

Account 1: Contains 60% of all contributions. From this account you can draw the full amount upon reaching age 55. You can also use the contributions in this account to make investments in approved list of fund managers.

Account 2: This account holds 30% of the contributions. From this account you can withdraw money for housing, education and for full withdrawal at age 50.

Account 3: This account holds 10% of the contributions. From this account you can withdraw for critical illness.

The new structure is as follows:

New Structure
(w.e.f. 1 January 2007)

Account 1 (70%)	Account 2 (30%)
• Retirement (Age 55 years) • Members investment choice	• Housing • Education • Age 50 • Critical illness

- On 1 January 2007, members savings in Account 3 was transferred to Account 2
- New contributions received after 1.1.2007 will be apportioned 70% into Account 1 and 30% into Account 2

FLEXIBLE AGE 55 YEARS WITHDRAWAL

Objective:

- To encourage members after 55 years to withdraw their savings periodically over a longer period.

Introduce flexible withdrawal options

- Monthly Payment (Minimum RM250 for a period not less than one(1) year)
- Withdrawal at anytime subject to a minimum amount of RM2,000 at intervals of, at least, 30 days
- Members may purchase an Annuity, Private Pension or invest in other approved investments.
- Members may choose any one or more of the payment options stated above).

WITHDRAWAL OF SAVINGS IN EXCESS OF RM 1 MILLION

Objective:

- To encourage members' with excess savings to invest part of their savings on their own.
- A member whose savings has exceeded RM1million can withdraw the amount in excess of RM1 million at any time subject to a minimum withdrawal amount of RM 100,000.00 every three (3) months.

HOUSING LOAN MONTHLY INSTALMENT WITHDRAWAL

Objective:

- Help members to pay their housing loan installment.
- A member may withdraw their Account 2 savings for this purpose whereupon payment will be credited directly into member's bank account.

Note:

Changes introduced since 3 April 2006:

i. Yearly withdrawal to reduce housing loan whereupon payment is made to members' housing loan account.

i. Spouses who are not joint – owners of property allowed to withdraw their savings from Account 2 to help reduce their spouses' housing loan.

RESTRUCTURING MEMBER'S INVESTMENT CHOICE

Objective:

- To allow members at various age levels to invest part of their savings to enhance their retirement savings.

- Members may invest 20% of savings in excess of the 'basic saving' in Account 1 in approved investments through approved institutions.
- Investments in approved institutions shall be deemed withdrawn when a member attains age 55 years, even if he/she has not made full withdrawal. (1September 2007).

Before 1 February 2008:

Members can invest 20% of savings in excess of RM 50,000 in Account 1 through approved External Fund Managers.

Savings transferred for investments shall be returned to the EPF upon liquidation of investment if members had not withdrawn at age 55 years.

"BASIC SAVING"

Objective:

- A certain amount of savings in Account 1 at various pre-determined age so as to enable a member to accumulate a minimum savings of RM 120,000 at age 55 years.
- This amount would give a member a payment of RM500 a month for a period of 20 years (55 - 75 years).
- This amount shall not be withdrawn before age 55 years.
- This amount will be savings in cash with the EPF.
- The quantum of basic savings will be reviewed every five years.

Current Basic Savings level	
Age	**Basic Savings level**
25	9,000
30	18,000
35	29,000
40	44,000
45	64,000
50	90,000
55	120,000

A member needs to have the required amount of savings at the predetermined age levels. Amount in excess of the 'basic sum' can be invested in approved investments through approved Institutions

e.g.: How much can a member withdraw at age 30?

1. At age 30 years members should have basic savings	**RM18,000.00**
2. Member's actual savings in EPF Account 1	**RM30,000.00**
3. Amount in access	**RM12,000.00**
4. Member can withdraw 20% of amount in excess	**RM2,400.00**

CONTRIBUTION

i. EXTENSION OF LIABILITY TO CONTRIBUTE FROM AGE 55 TO 75 YEARS

Objective:

- To encourage members to continue to work after 55 years to enhance their retirement savings.

  Employees are liable to contribute to EPF up to age 75 years.

Before 1 February 2008:

Upon full withdrawal, employees cease liability to contribute but may elect to contribute.

ii. TWO TIER CONTRIBUTION RATES

Objective:

- To encourage continued employment for employees after age 55 and avoid burdening employers and employees with high contribution rate.

Employees below age 55 years:

11% by employees and 12% by employers.

Employees from age 55 years to 75 years:

50% of statutory rate of contribution of employees below age 55 (5.5 % by employees and 6% by employers)

Note:

- *Voluntary contribution: Self-employed and others (Minimum RM 50 & Maximum RM 5,000)*
- *Contribute in excess of statutory rate: employees or employers or both may choose to contribute in excess of 23% monthly.*

iii. DIVIDEND PAYMENT UP TO AGE 75 YEARS

Objective:

- To encourage members after 75 years to withdraw their savings.

  Savings not withdrawn after age 75 years shall be transferred to the Registrar of Unclaimed Monies after 5 years, that is, at age 80.

Before 1 February 2008:

- Dividend paid on all savings managed by the EPF
- Savings not withdrawn will remain with the EPF.

CRITICAL ILLNESS INSURANCE POLICY WITHDRAWAL

Objective:

- To provide some insurance protection for critical illness.

  A member can withdraw savings from Account 2 to purchase a Critical Illness Insurance Policy for himself and immediate family members through the Critical Illness Insurance Policy Withdrawals scheme.

TOP – UP SAVINGS IN ACCOUNT 1

Objective:

- To increase members retirement savings and to strengthen family values.
  - Children may top up parents' savings.
  - Members' spouses may top up each other's savings.
  - Top up of savings can be continued until a member attains age 55 years.

MATRIMONIAL PROPERTY CLAIM ON SAVINGS OF NON MUSLIM MEMBERS

The amount of claim against member's EPF savings brought about by way of a Court Order shall be paid to the claimant upon the claimant reaching age 55 years.

Not applicable to Muslim members following a Fatwa (Islamic religious decree) that the EPF savings is not a matrimonial property.

MANDATORY FOR LARGE EMPLOYERS TO CONTRIBUTE VIA ELECTRONIC MODE

Objective:

- To encourage large employers to contribute electronically as it is cost - effective, speedier and minimizes payment errors.

  - Will be made mandatory in phases starting with employers with 1000 and more employees.
  - In the meanwhile, the other employers may continue to make payments using the usual mode. However, they are encouraged to switch to the electronic payment mode.
  - Any employer who has been required mandatory to use the electronic mode but fail to do so shall be fined. The amount is to be determined.

CHANGES TO AGE 50 WITHDRAWAL

Objective:

- To ensure that members have at least RM 120,000 at age 55 to sustain through their retirement.
  - Members who have the basic savings in Account 1 may withdraw their savings in Account 2.
  - Members who do not have the basic savings in Account 1 must meet the requirement before they can be allowed to withdraw savings in Account 2. *[Will be in force on 1 January 2013]*

Meaning of Wages

The meaning of wages is stated in Sec 2 of the Employees' Provident Fund Act 1991 (as amended by the Employees' Provident Fund (Amendment) Act 1995). It defines wages as "all remuneration in money, due to an employee under his contract of service or apprenticeship whether agreed to be paid monthly, weekly, daily or otherwise and includes any bonus or allowance payable by the employer to the employee whether such bonus or allowance is payable under his contract of service, apprenticeship or otherwise". The Section excludes service charge; overtime payment; gratuity; retirement benefit; retrenchment, lay-off or termination benefits; any traveling allowance of the value of any traveling concession; or any other remuneration or payment as may be exempted by the Minister. The above definition is fairly broad and covers all cash rewards that flow from an employment, such as commissions, bonuses and all types of allowances.

On 1st July 2000, further changes were made to the EPF. An EPF annuity scheme was introduced so that those who participated could enjoy a lifetime income instead of taking a lump sum on their retirement. However, due to some "opposition" from certain parties, this scheme was put on hold in 2001 as far as new applications were concerned. With rapid changes coming to the administration of the Fund, it is the duty of the planner to update himself regularly on changes made. This will enable him to give proper advice to the business owner-client he is planning for.

Types of Benefit Schemes

There are multitudinous types of benefit schemes available here and more may be evolved in the future to meet changing needs of the populace. For our purpose, we shall examine here some of the common ones.

Pension Schemes

Essentially, a pension is a recurrent payment, voluntary or contractual, made to an individual who no longer holds office or has retired from employment. The receiver of the pension payment could be the retiree, his wife or child or to any other relative or dependant of the pensioner. The stream of payments could be made by the employer or by the successor of the employer, or by arrangement by an insurance company or by the trustee of a provident fund. Pensions are also sometimes paid by the government to retired civil servants.

Pension schemes may be differentiated by the concept behind the method used to provide a retirement benefit. There are basically two concepts of pension schemes, i.e. defined-contribution and defined-benefit schemes.

a. Defined-Contribution Pension Scheme

In the case of a defined-contribution scheme, retirement pensions are obtained through the contributions to the fund by both the employer and employee. Usually an account similar to a bank account is contrived to accumulate money for the pension scheme. This method of accumulation for the pension scheme is sometimes called "money-purchase pension scheme"

because the participant's accumulation in the account is traditionally employed to procure an annuity from an insurer to provide the pension payments on his retirement.

The salient features of a defined-contribution scheme are summed up below:

- The contribution to the fund is defined as either a percentage of salary or based on a fixed sum. As the contributions and the earnings for the fund fluctuates from inception to the time where the pension is paid, the benefits cannot be pre-determined.
- Often, the contribution to the fund is participated by both the employee and the employer. Each will contribute a pre-determined portion.
- The risk of pre-retirement inflation, investment performance of the funds, and the adequacy of the income from the fund at retirement is wholly borne by the employee.
- The administration process is more straightforward and can be communicated to the employees readily.
- Since the service of an actuary is not needed, this method of accumulation is more cost effective for the employer.
- If allowed by the service agreement or by law, the fund is more easily portable when employee changes job. Portable means the employee can continue with the scheme with the new employer when he switches jobs.

b. Defined-Benefit Pension Scheme

As for a defined-benefit pension scheme, the key feature is that the pension benefit of the scheme is pre-determined on the inception, taking into consideration the post-retirement standard of living of the potential retiree. For this reason, this type of pension scheme is considered more desirable for the employees. But from the employer's standpoint, this method of accumulation is regarded as administratively cumbersome, complex, technical and riskier.

This type of scheme also has some common attributes which are stated below:

- For this type of pension scheme, the employer has more responsibilities. The business must consider the pre-retirement inflationary trend and the income adequacy of the pension paid to the employees on their retirement when designing and administering the scheme.
- Because the benefit has been pre-determined, the employer assumes the investment risk of making sure the fund is at all times adequate to meet the payment responsibility to employees on their retirement.
- An important plus point of this scheme is that it allows the employer to take into consideration the past service contributions of the employees in terms of time and productivity.

- As constant computation and adjustment to the contributions have to be made to ensure the funds can match the payment to be made on the participants' retirement, the service of an actuary is needed. This would increase the cost of administration of the fund.

Advance funding requires the putting aside of funds for the payment of pension benefits in advance of its due date. In the case of defined-benefit pension schemes, the cost of providing the benefits must be estimated years in advance. To determine the contribution amount each year and estimate the pension costs, the actuary will take the following factors into consideration:

i. The retirement age of the participants, which is currently at age 55/58;

ii. The projected mortality of the participants of the pension scheme: The lower the mortality, the more will be the payments made to them;

iii. The current monthly salary level of the participants;

iv. The anticipated salary level of the participants in the future;

v. The forecasted number of participants who will die or have left before receiving the pension benefits;

vi. The interest earnings of the fund;

The final pension cost of a defined-benefit pension scheme is often assumed to be equal to the benefits paid out, plus the cost of administration, less the earnings (including the capital gains and losses) of the fund for the purpose. This, however, does not mirror the real cost to the employer.

The real cost can only be estimated by taking into consideration factors like decreased employee turnover, retirement of incompetent employees, enhanced morale, and other difficulties to quantify benefits. Since it is impractical to evaluate these factors, the net financial allocation ordinarily is accepted to portray the cost of the scheme.

Product and Service Support for Pension Schemes

Pension schemes can generally be grouped into three types, namely:

i. Completely insured schemes,

ii. Non-insured schemes; and

iii. Split-funded schemes.

For insured plans, the life insurers have several suitable products to offer. Since the main characteristic of a pension scheme is to provide a regular monthly income to the retiree, an annuity plan can be purchased for the purpose. An endowment or pure endowment or an investment-

linked plan can provide a lump sum at retirement of the participant and can be used to purchase an annuity. In Malaysia, annuity payments from life insurers and takaful companies are exempted from tax in the hands of the recipient.

Non-insured schemes are often referred to as *self-administered* or *trusteed* schemes. Although, such schemes are relatively uncommon in Malaysia, there is a number of such trust corporations that are set up by the banks to meet this business need. Usually, under a non-insured defined-benefit pension scheme, an actuary or an actuarial firm is hired to make estimates of the contributions that should be made to the trust corporation. The trust corporation will manage the investment of the funds deposited with it and when an employee retires, the trust corporation pays out a monthly cheque or lump sum to the employee on the instruction of the employer.

For such schemes, the employer is considered a self-insurer. The business assumes all the risks – investment, mortality, and the expense – under a trusted defined-benefit pension scheme. This type of scheme is not recommended for small businesses where they do not have the advantages of the large companies to self-insure the pension risk, unless the investment of funds is given to insurance companies who can guarantee a certain minimum rate of return. Even though, involving the insurers do not make the contract an insured pension scheme, these arrangements have proven to be an important source of business for the insurance companies in some overseas countries like the United States.

Another way to design pension program is to use two or more types of contracts combined to provide the benefit payments to the employees. All these variations are termed split-funding contracts. This type of funding is practiced in some more advanced countries, where a bank and/or a life insurer are used. If a bank is used to hold and invest a part of the fund in the active life fund, the money in the fund may be moved from the bank to the life insurance company to provide guaranteed annuity income as the employee retires. If the life insurance company does not hold any of the moneys prior to retirement and receives money only as the employee retires, the arrangement is known as maturity funding contract. The complexity of such arrangement requires expertise of a high order that is quite scarce here. As such, this type of arrangement is still uncommonly found in local companies.

Tax Aspects of Pension Schemes

A pension is regarded as an income, and unless specifically exempted by law, is a taxable item to the recipient. Under Sec. 16, the tax code provides that any pension paid voluntarily to any person (or his beneficiary) who has permanently ceased to exercise an employment shall be considered to be gross income from that source liable to tax. A voluntary pension will be considered to have a Malaysian source if the person responsible for payment of the payment of the pension is resident in Malaysia for the basis period in which the pension is paid. Under Section 17, the ITA also provides that pensions paid out of schemes or funds which are administered in Malaysia, have a Malaysian source.

The provision for exemption of pension is stipulated in the tax code via Para. 30, Part I, Schedule 6. It states that a resident of Malaysia, who has reached the age of 55 or the compulsory retirement age or has retired due to ill-health, may have his pension received as a result of rendering services

in a former employment in Malaysia exempted from tax. This section also provides that pension paid out of an approved scheme is exempted from tax.

If the pension is commuted and is paid out as a lump sum, the payment would be considered a capital item and is not taxable to the recipient. Although specific exemption is not provided in the tax code, it is weighed that a good defense can be made against any action by the IRB to tax such proceeds, as there is a large body of case law that can provide support for the recipient.

Share Option Schemes

Share options are often offered to employee to purchase the company's shares at a certain price that has to be exercised before a particular future date. Such incentive schemes for employees are a recent development in Malaysia. If the take up price is lower than the market price, the holder of the shares will make a profit out of selling the shares. The tax code does not specifically provide for the taxing of share options. However, it is the routine of the IRB to attribute a benefit on the option right and levy tax on it. In attributing the benefit, the IRB has adopted the practice of assessing the benefit that arises to employees at the time the option is granted and not at the time the option is activated. Once the option has been exercised and the shares are in the hands of the employee, they will constitute a capital asset. When these shares are disposed of in the future, any profit and loss arising from such dealings will be on capital account.

Allotment of Shares to Employees

Sometimes an employer may allot to its employees some shares on the company to compensate them and to win their devotion. This form of compensation does not receive favorable tax treatment as they are a taxable benefit in the hands of the employees while they are not a tax-deductible expenditure to the company. For share allotment, the IRB considers that the company has not incurred any expenditure as it has only given out "paper shares" to employees.

Special Gratuities Schemes

Essentially, gratuities are payments and reward for services rendered to employees or owner-employees when they retire from active work in the company or to their heirs on their death, disability or ill health.

How to Overcome Inadequate Retirement Resources?

1. Readjust to simpler lifestyle

A simpler lifestyle will require less retirement income. Furthermore, a retiree has other competing needs like medical needs and a non-working spouse to support. Cutting on unnecessary expenses will go a long way to preserve the retirement resources for more pressing needs.

2. Relocation to a less expensive home

If a client is willing to sell his or her home and relocate to a smaller and less expensive home, the extra money can be an additional source of retirement income. From the financial viewpoint, a home is usually the biggest asset that most retirees possess. They should capitalize on this asset to free up additional fund to supplement their retirement income.

3. Delay retirement

Delayed retirement will enable the clients to have more time for accumulation towards retirement savings. The clients will also require lesser retirement income to live on in later years.

4. Engage in post retirement employment

Many retirees who engage in postretirement employment find that the extra money earned not only a good supplement to their retirement income but also help them to adapt psychologically to the changes retirement brings. This is all the more for clients whose self-esteem and sense of self-worth were tied to their previous career.

5. Maximize retirement fund

Negotiating with the employers to contribute part of the employees' salary increment up to 19% of the employers' portion to EPF instead of receiving all increment as salary. This will not only reduce the taxation of the employees' income but also have the compounding effect on the EPF accumulation since the employers' portion is tax exempted.

The alternate way is to through deferred compensation but it must be funded and creditors proof.

APPENDIX 1

MDRT Retirement Attitudes Survey

1. What are you MOST concerned about in regards to the financial aspects of your retirement?

	Total Public	Retired	Non-Retired
Cost of healthcare	45%	51%	44%
Not having saved enough or outliving what is saved	39	22	43
Possible failure of Social Security benefits	30	31	31
Having to postpone retirement or having to go back to work	18	6	22
Not being able to leave my children an inheritance	12	8	15
Any	87	77	90
Other	2	1	2
None	11	22	8
Don’t know	2	1	1

2. What actions, if any, are you taking to resolve your concerns?
(BASE: Those who are concerned about financial aspects of retirement)

	Total Public	Retired	Non-Retired
Increasing my personal savings	22%	9%	25%
Increasing retirement investments like 401(k) or IRA	20	1	24
Investing in the stock market	7	3	8
Meeting with a financial planner/advisor	4	4	4
Taking a second job/going back to work	3	4	2
Investing in CDs and/or money markets	3	3	3
Any	63	50	66
Other	18	31	16
None	35	48	32
Don’t know	2	1	2

3. Who do you believe is MOST responsible for providing for you during retirement?

	Total Public	Retired	Non-Retired
Yourself	70	58	73
The government	10	15	9
Your employer	8	9	7
Your current or former spouse/partner	7	10	6
Family other than your current/former spouse/partner (i.e., children, parents, grandparents, etc.)	3	5	2
Don't know	3	4	2

4. Assuming you have done some type of retirement preparation, what things, if anything, do you wish you had done differently?

	Retired
Started saving or planning sooner	50
Set aside more money	47
Used different savings/investment vehicles	25
Sought out some/more guidance	25
Created a contingency plan	23
Taken advantage of government-supported programs	19
Other	2
I wouldn't change anything about my retirement preparations	21
I haven't made any retirement preparations	3
Don't know/None	4

5. I am going to name several retirement options and programs. For each one, please tell me how confident you are that it will provide for you during retirement. Are you “very confident,” “somewhat confident,” “not too confident,” or “not at all confident?”

a) Social security

	Total Public	Retired	Non-Retired
Very confident	15%	38%	9%
Somewhat confident	35	39	34
Not too confident	24	9	27
Not at all confident	22	10	25
Don’t use this program	2	2	2
Never heard of this program	*	*	*
Don’t know	1	2	1

b) 401K

	Total Public	Retired	Non-Retired
Very confident	24%	15%	26%
Somewhat confident	35	16	40
Not too confident	6	7	6
Not at all confident	13	11	13
Don’t use this program	19	45	13
Never heard of this program	1	3	1
Don’t know	2	3	1

c) IRA

	Total Public	Retired	Non-Retired
Very confident	18%	21%	17%
Somewhat confident	38	25	42
Not too confident	10	12	10
Not at all confident	12	11	12
Don’t use this program	17	26	14
Never heard of this program	2	2	2
Don’t know	3	3	3

d) Stocks, bonds or mutual funds

	Total Public	Retired	Non-Retired
Very confident	16%	19%	15%
Somewhat confident	41	33	43
Not too confident	14	13	14
Not at all confident	15	16	15
Don’t use this program	11	15	11
Never heard of this program	1	1	*
Don’t know	2	3	1

e) Total Public Retired Non-Retired Employer pension

	Total Public	Retired	Non-Retired
Very confident	23%	33%	20%
Somewhat confident	34	21	37
Not too confident	11	10	11
Not at all confident	16	13	17
Don’t use this program	14	19	13
Never heard of this program	1	1	1
Don’t know	2	3	1

f) Personal savings

	Total Public	Retired	Non-Retired
Very confident	37%	34%	37%
Somewhat confident	41	38	42
Not too confident	10	9	10
Not at all confident	8	9	7
Don’t use this program	3	4	2
Never heard of this program	*	*	*
Don’t know	2	5	1

g) Annuities

	Total Public	Retired	Non-Retired
Very confident	10%	18%	8%
Somewhat confident	33	24	36
Not too confident	12	10	12
Not at all confident	16	17	16
Don’t use this program	21	26	19
Never heard of this progra	5	1	6
Don’t know	3	3	3

(Source: MDRT consumer website <http://www.soundfinancialplan.com/survey/retirement/survey.html> Viewed: November 19, 2003)

Self Assessment

1. In retirement planning, a financial planner must have concern for those who lived “too long” and in the process outlived their ability to

   a. survive socially

   b. survive economically

   c. survive spiritually

   d. survive physically

2. With increased awareness of health concept and improvement to the health care system, people are generally

   a. living longer then those of past generations

   b. uninsurable when they reach retirement age of 55 years old

   c. expecting to live till 90 years old or more

   d. not concerned about retirement planning

3. The first step in the retirement planning process is

   a. to determine how to accumulate retirement funds

   b. to ascertain how the accumulated funds be distributed

   c. to assess the future income need

   d. to invest in high growth shares for maximum return

4. The most common source of retirement funding in Malaysia is

   a. personal accumulation

   b. EPF

   c. private retirement scheme

   d. contribution by children

5. The various steps in retirement planning include:

    i. Planning the retirement accumulation
    ii. Planning the retirement apportionment
    iii. Assessing the retirement needs

    In constructing a retirement plan, the three steps in the correct order are:

    a. i, ii and iii
    b. iii, i and ii
    c. iii, ii and i
    d. ii, iii and i

6. In assessing the retirement income needs, the method that considers 70% of the last drawn salary as income needs is the

    a. expense method
    b. replacement ratio method
    c. fixed percentage method
    d. reduction method

7. In planning the retirement apportionment, the method that employs the accumulated capital sufficient to generate enough income is the

    a. capital retention
    b. capital liquidation
    c. capitalistic system
    d. communist system

8. According to the Malaysian tax code, insurance premiums or other contributions made for the benefit of an employee to an unapproved provident fund or scheme by the employer ____________ for tax deduction

    a. qualify
    b. do not qualify
    c. qualify up to two months of the employee's salary
    d. qualify only when the company makes very good profit

9. According to Section 34(4) of the Income Tax Act, deduction allowed on the contributions made by employer to an approved fund is up to ____________ of the remuneration of the participating employee.

    a. 19%
    b. 10%
    c. 12%
    d. 17%

10. The tax benefits for approved plans can be substantial for the contributors and the recipient of the plan. These benefits can include:

    i. Contributions made by the employer are tax allowable, subject to the limit set by the tax code which is adjusted from time to time
    ii. Contributions made by the employee are deductible from his taxable income, again subject to certain limit set by law
    iii. Withdrawals from the funds by the employees are not considered taxable income in their hands

    The best answer is:

    a. ii only
    b. i only
    c. i and ii only
    d. i, ii and iii

Answers: 1-B, 2-A, 3-C, 4-B, 5-B, 6-B, 7-A, 8-B, 9-A, 10-D.