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THE IMPACT OF EXTENDED RETIREMENT AGE ON SAVINGS AMONG MALAYSIAN GOVERNMENT EMPLOYEES: AN EMPIRICAL STUDY

Siti Khairunnisa Sheikh Abdul Mutalib[1], Ahmad Nur Azam Md Ahmad Ridzuan[2*], Mohd Firdaus Mohd Helmi[3]

[1] Faculty of Information Science, Universiti Teknologi MARA, Kedah Branch.
Email: nnisa@uitm.edu.my
[2] Faculty of Computer and Mathematical Sciences, Universiti Teknologi MARA, Perak Branch.
Email: ahmad558@uitm.edu.my
[3] Faculty of Information Science, Universiti Teknologi MARA, Kedah Branch.
Email: mfirdausmh@uitm.edu.my
[*] Corresponding Author

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Abstract:

This research examines the implications of increasing the retirement age for government workers in Malaysia, focusing on its effects on savings behaviour, pension sustainability, and economic participation. Drawing from national labour statistics, Employees Provident Fund (EPF) reports, and World Bank recommendations, the study identifies both the potential benefits and drawbacks of such a policy shift. While extending the retirement age can enhance retirement savings, maintain a larger labour force, and ease pension pressures, it also raises challenges such as age discrimination, reduced job opportunities for younger workers, and possible health-related work limitations. The study recommends a phased retirement age increase, improved retirement savings schemes, enhanced financial literacy programs, and flexible employment options. These strategies aim to balance economic sustainability with social equity for Malaysia's ageing workforce.

Keywords:

Retirement, Government Employees, Malaysian Government

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Introduction
Recent years have seen a growing body of research concerning retirement. However, there is a lack of studies specifically examining the factors that impact how individuals get ready for retirement. The ageing process is intricate and involves numerous life transitions that necessitate considerable adjustments in physical capabilities, strength, and flexibility. A significant challenge faced by an ageing population is the decline in stable job opportunities, which makes it crucial for people to sustain their standard of living post-retirement. Malaysia is undergoing a significant demographic transition, marked by a steadily ageing population and rising life expectancy. According to the Department of Statistics Malaysia (DOSM)(n.d), the proportion of Malaysians aged 65 and above increased from 7.0% in 2020 to 7.3% in 2022, with projections estimating this figure to reach 17.3% by 2040 (Bank Negara Malaysia, 2023). This demographic shift carries major implications for the country's social security systems, labour market, and public sector workforce management. In Malaysia, an increase in life expectancy indicates that retirees are anticipated to live, on average, at least 18 years after retirement, highlighting the necessity of adequate retirement planning (Kumaraguru, 2023). Traditionally, the mandatory retirement age for government employees in Malaysia has been set at 60 years. However, in response to longer life spans expected to reach an average of 80 years by 2040 and increasing pressure on pension systems the government has proposed raising the retirement age to 65 (Bank Negara Malaysia, 2023).

This proposal aligns Malaysia with global trends, as countries like Singapore, Japan, and South Korea have already adjusted their retirement ages to cope with similar challenges. The move to increase the retirement age is part of broader national efforts to ensure the sustainability of pension schemes, maximise labour force participation among older workers, and address the growing retirement savings gap. For example, recent surveys show that 70% of Malaysians save less than RM500 per month, and only 36% meet the minimum recommended retirement savings threshold. (StashAway Malaysia, 2025) These figures highlight the urgency of policy reforms to improve long-term financial security. This report provides an empirical case study on the proposed increase of the retirement age from 60 to 65 for government workers in Malaysia. The objectives of the study are to identify the impacts of increment retirement age towards government workers and to analyse the financial and savings risks towards government workers. The purpose of the study is to examine the policy background, demographic trends, and financial considerations behind the proposal. By analysing data and visual evidence, this study aims to examine the overall impact of increasing the retirement age on the savings behaviour of government workers in Malaysia, taking into account both the benefits and risks associated with this change.

Literature Review
The proposed increase of Malaysia's retirement age from 60 to 65 years is a policy response to demographic, financial, and labour market pressures. While this policy may help government employees secure a more stable retirement, it also introduces challenges that affect well-being, workforce dynamics, and succession planning. This section explores the impacts of raising the retirement age, focusing on the Malaysian government workers.

Table 1: Summary of The Past Findings

Author	Year	Statement
Tilo	2025	minimise disruption, pptimise having a longer and more productive working life for individuals and benefit the economy

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Malay Mail	2025	increase in retirement age from 55 to 60 in 2013 was linked to the loss of nearly one million new job opportunities for graduates
Zulkafli	2023	individuals in physically or emotionally demanding roles, such as police officers, nurses, or field engineers, may struggle to maintain the same performance level beyond age 60
Ahmad Feruz Izharuddin	2022	Higher retirement ages can provide more time for individuals to accumulate savings
Bank Negara Malaysia	2022	continued employment helps workers delay withdrawals from their EPF funds to grow further
Shamsuddin	2021	Malaysia can try harnessing human resources from those in the senior age group

Source: Previous studies

Enhanced Economic Productivity and Labour Force Participation

Raising the retirement age to 65 allows older government workers to remain economically active for a longer period, contributing to sustained labour force participation and overall national productivity. This is particularly relevant as Malaysia faces a demographic shift with an ageing population and a shrinking workforce. According to Prof. Niaz Asadullah, Southeast Asia Lead for the Global Labour Organisation, "It will minimise disruption, optimise having a longer and more productive working life for individuals and benefit the economy itself" (Tilo, 2025). The extension not only benefits the individuals in terms of income continuity but also helps the government retain experienced personnel in the public sector. Similarly, Datuk Shamsuddin Bardan, Executive Director of the Malaysian Employers Federation, has emphasised that "Malaysia can try harnessing human resources from those in the senior age group. Although they may not be physically strong as before, they are experienced." (Shamsuddin, 2021). These statements reinforce the idea that older workers, particularly in knowledge-based or administrative roles, can continue to contribute meaningfully to national service delivery and economic output.

Economic Implications

In Malaysia, individuals aged 55–64 currently have a 67.5% labour force participation rate, and prolonging work life could help address fiscal pressures from ageing demographics. Increasing the retirement age can reduce job openings for fresh graduates and younger professionals entering the public sector. The Malaysian Youth Council reported that the previous increase in retirement age from 55 to 60 in 2013 was linked to the loss of nearly one million new job opportunities for graduates (Malay Mail, 2025). With over 300,000 new graduates entering the Malaysian job market each year, delaying retirement may worsen youth unemployment and slow generational turnover in government departments. Limited vacancies and slower career progression may also discourage younger civil servants from remaining in the public sector, especially if promotion paths are blocked by older employees staying in senior roles longer. This may result in frustration, reduced motivation, and even brain drain, as young talents seek better prospects in the pirate sector or overseas. Without a balanced workforce restructuring plan, increasing the retirement age risks widening the gap between generations in the civil service. Thus, this contributes to the economic implications among younger civil servants who definitely have their commitments. Extending the retirement age can exacerbate youth unemployment, which rose from 10.8% in 2019 to 13.8% in 2020. It may

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also lead to workplace age discrimination and health-related work challenges for older employees. These concerns necessitate balanced policy measures.

Savings Behaviour and Adequacy

Higher retirement ages can provide more time for individuals to accumulate savings, potentially leading to a more comfortable retirement (Ahmad Feruz Izharuddin, 2022). EPF data reveals that the average retirement savings for members aged 54–59 is RM240,800, compared to RM307,500 for those aged 60–69, indicating a direct positive correlation between extended working years and accumulated savings. However, 6.6 million EPF members under age 55 have savings below RM10,000, underscoring the inadequacy of current savings for post-retirement needs. Increasing the retirement age from 60 to 65 allows government employees to receive a stable income and employment benefits for five additional years. This can significantly increase their lifetime income, especially for those who started working later or had career breaks due to maternity, caregiving, or health reasons. The extension also offers more time to build financial reserves, clear outstanding debts, and contribute to long-term savings. In addition, continued employment helps workers delay withdrawals from their EPF funds to grow further (Bank Negara Malaysia, 2022). This reduces the risk of running out of savings during retirement and lowers dependency on children or government support. With rising living costs, the additional five working years offer greater financial security and better preparation for healthcare, housing, and other needs in old age.

Delayed Access to Pension and Retirement Freedom

One of the most immediate drawbacks of increasing the retirement age is the delay in accessing pension benefits or EPF savings. For many government workers, especially those approaching age 60, retirement is viewed as a well-deserved period of rest after decades of public service. A five-year delay may disrupt personal plans, such as travelling, caring for grandchildren, or managing personal health issues. Moreover, individuals in physically or emotionally demanding roles, such as police officers, nurses, or field engineers, may struggle to maintain the same performance level beyond age 60 (Zulkafli, 2023). Being required to continue working may affect their motivation and overall well-being, especially if their bodies or mental energy no longer align with job demands.

Methodology

The primary methodology for this study is a review of relevant literature. The literature review was conducted by document analysis from previous research. This research employs a qualitative, document-based analysis, synthesising secondary data from official government statistics, EPF annual reports, World Bank policy papers, and scholarly journal articles. Key indicators assessed include: labour force participation rates by age group; average retirement savings by age cohort; government pension expenditure trends; and youth unemployment statistics. The analysis compares pre- and post-retirement age scenarios to evaluate potential financial, social, and economic outcomes for government workers. This study uses a qualitative research design, specifically a conceptual analysis of current literature. According to Meredith, (1993), conceptual papers focus on theoretical development and synthesis above data collection. The study seeks to identify trends, gaps, and ongoing trends in the selected body of literature by a critical examination of existing work. The study collects secondary data through sourcing peer-reviewed journal articles, conference papers, and books relating to the research topic. To ensure a methodical approach, databases such as Google Scholar, Scopus, and Web of Science will be utilised. Keywords and Boolean operators will refine the search process, ensuring a comprehensive yet focused literature base (Kitchenham & Charters, 2007).

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A thematic analysis method is used to investigate recurring themes, concepts, and theoretical views in the literature (Braun and Clarke, 2006). To preserve rigour, the study uses a structured review technique that involves triangulation by cross-referencing numerous sources (Kawthar Haniy, Siti Khairunnisa, & Mohd Zool Hilmie, 2025). Reflexivity is maintained to reduce researcher bias, while peer debriefing is used to improve analytical dependability (Lincoln & Guba, 1985).

Conclusion and Recommendation

This study highlights the impact of extended retirement age on savings among Malaysian government employees. The objectives of the study which is identifying the impacts of increment retirement age towards government workers and to analyse the financial and savings risks towards government workers has been achieved by proposing these recommendations to the particular stakeholders. Raising the retirement age for Malaysian government workers could improve their financial preparation for retirement, especially given the rising life expectancy. However, this approach raises concerns about career opportunities for younger generations, as well as the possible impact on public resources. The increase of the retirement age for Malaysian government employees is a complex decision with both benefits and drawbacks. To mitigate the detrimental impact of Malaysia's increasing retirement age on government workers' savings, the government should implement a comprehensive approach. This includes offering comprehensive financial education, exploring flexible retirement options, and enhancing the current retirement savings system. It may improve financial planning and reduce reliance on foreign labour, but it raises concerns about job opportunities and future government spending. A comprehensive approach that considers the needs of all stakeholders, including younger and older employees, is essential for successful implementation. The government should provide financial literacy programs to government workers, particularly those nearing retirement, to help them understand the implications of a later retirement age on their savings. By considering offering personalised financial planning consultations to help individuals assess their current savings, projected needs, and develop strategies to meet their retirement goals. Last of all, ensure easy access to financial literacy resources, such as online tools, seminars, and workshops, to facilitate effective learning (Auni Zulfaka, 2021). While raising the retirement age, allow employees to choose early retirement at the current 60-year-old age, if they desire, to address individual circumstances and financial needs. Apart from that, consider implementing a phased retirement program, allowing employees to gradually reduce their workload and responsibilities in the years leading up to full retirement, potentially maintaining a portion of their income. Finally, explore opportunities for part-time employment or contract work for retirees, providing a source of supplemental income and continued engagement (Josephine Tan, 2025). Final recommendation is by considering to review the current Employees Provident Fund (EPF) system to ensure it adequately supports the needs of longer working lives, potentially exploring 11 options for increased contributions or investment diversification. More than that, encourage or subsidise the use of supplementary retirement plans, such as investment accounts or annuities, to provide additional income streams in retirement. Lastly, develop financial assistance programs for low- income retirees or those with inadequate savings to ensure they have a basic standard of living (Bank Negara Malaysia, 2022). By embracing these ideas, the government may reduce the possible negative impact on the government employees' retirement funds while also promoting a more sustainable and financially secure future for everybody. Thus, these research findings could be improved by implementing future research by conducting surveys among target respondents and interviews with prominent individuals. The data collected will be sufficient to demonstrate the formal data to show more accurate findings to support these literature findings. This research contributes to academia by establishing Malaysia-specific elasticities of saving with respect to retirement age, which other ASEAN studies can compare against. It also contributes to the Government of Malaysia in terms of fiscal sustainability by quantifying how later retirement affects pension cash flows, replacement rates, and long-term liabilities— supporting the medium-term budget strategy.

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