



Islamic Wealth Management Towards Retirement Planning Among Private Sector Workforce in Malaysia

Mohd Sadad Mahmud, Hazimi Foziah, Puspa Liza Ghazali, Nik Mohd Nurfadzilah Nik Mohd Rashid, Ahmad Shukri Yazid

Abstract: Rapid ageing population around the world makes people to live longer, but necessarily not guarantee people with happier or healthier. As developing country, Malaysia has no exception to experience the phenomena of ageing population. Malaysian people still lack of awareness towards retirement savings preparedness. As the mainstream retirement scheme in Malaysia, Employees Provident Fund (EPF) in Malaysia has reported that most of the retirees in Malaysia have inadequate retirement savings to sustain their life when retire. In this regards, Islamic wealth management would have a great role in ensuring the sustainability and well-being of financial planning among the Muslims, especially for retirement savings purposes. Therefore, the study aims to investigate and explore the concept of Islamic annuity to be executed by the authorities such as EPF institution and other financial institutions.

Index Terms: Islamic Wealth Management, Retirement Planning, Personal Finance, Pension Schemes, Annuity

I. INTRODUCTION

All of the countries over the world have facing the phenomena of ageing population [1]. This trend is due to retirement by baby boomers which affects towards the increment of elderly share population of the countries [2]. Consequently, the ageing population has the impacts on future productivity as well as economic growth of the country

[3]. Furthermore, according to United Nation, all the country around the world are facing the phenomena of increment number of elderly person in their population, which in turn impacts all society sectors likes labor and financial markets, good and services such as home, transportation and social protection, and changes in the family structures [4].

This rapid ageing population also affects Malaysia country, whenever Department of Statistics Malaysia [5] has reported that people at the age 65 years in Malaysia are estimated to live for 15 and 17 years with respect to the male and female gender. Moreover, the total elderly population in Malaysia at the age 65 years and above showed an upward trend through the years, which indicated at 5.6% to 5.8% in years 2014 and 2015 respectively, and expected to jump for 6% in 2016 in which nearly reached 7% of total population of elderly for ageing country status [6].

Regarding this scenario, having a good retirement savings is a must to ensure the financial protection during the golden age. In fact, it is an alarming issue whenever the most prominent retirement institution in Malaysia, Employees Provident Fund (EPF), has revealed that 69% of the EPF members who will retire next year having total retirement savings of RM50,000 in their EPF account, and more serious case when 50% of the EPF retirees have depleted their retirement funds just within 3 to 5 years after getting full withdrawal at the age 55 years [7].

Thus, as a developing country, Malaysian government needs to give a great attention pertaining to the inadequacy retirement wealth among the elderly in Malaysia, since 52% from the total labor force in Malaysia are covered by the EPF institution for their retirement savings scheme [8]. Accordingly, there are many alternatives retirement schemes offered in Malaysian market likes Private Retirement Scheme (PRS), 1Malaysia Retirement Savings scheme and various type of annuity scheme to facilitate Malaysian people in having an additional savings for their retirement plan [9].

Nevertheless, the demand those schemes still at low level due to lack of awareness on preparation for retirement savings among Malaysian people [10]. In addition to this, Foziah has added that the lack of demand towards certain retirement products would probably the existing plans do not attract the public to purchase the contract [11].

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* Correspondence Author

Mohd Sadad Mahmud*, Faculty of Business and Management, Universiti Sultan Zainal Abidin, Terengganu, Malaysia. Email: mohdsadad@unisza.edu.my

Nik Hazimi Mohammed Foziah, Faculty of Business and Management, Universiti Sultan Zainal Abidin, Terengganu, Malaysia. Email: nikhazimi@unisza.edu.my

Puspa Liza Ghazali, Faculty of Business and Management, Universiti Sultan Zainal Abidin, Terengganu, Malaysia. Email: puspaliza@unisza.edu.my

Nik Mohd Nurfadzilah Rashid, Faculty of Business and Management, Universiti Sultan Zainal Abidin, Terengganu, Malaysia. Email: nikmfadzilah@unisza.edu.my

Ahmad Shukri Yazid, Faculty of Business and Management, Universiti Sultan Zainal Abidin, Terengganu, Malaysia. Email: shukri@unisza.edu.my

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II. LITERATURE REVIEW

Malaysian retirement system should revamp it into annuity based scheme [12]. Indeed, the annuity based model can discipline the Malaysian to manage the spending behavior using their retirement savings fund and extending the balance of the funds into certain more periods.

Since, most of the EPF members are consist of Bumiputra and Muslims, the Islamic retirement model can be the best model to be proposed in this study. Therefore, Islamic wealth management in retirement savings will be the major concern of the study.

The objectives of the study will be a two-fold research. First is to investigate the previous Islamic wealth management model applied into retirement planning. Second is to examine as the models discussed can sustain the financial position of retirees life as for at least the projected age of Malaysian life expectancy of 75 years old.

Islamic Wealth Management in Retirement Planning

Islamic wealth management is part of Islamic finance which essentially *Shariah* compliant discipline that is legalistically to perform due to the adherence toward certain prohibitions, known as *riba*, *gharar* and *maysir* [13]. In the meantime, Islamic wealth management should not merely stress on prohibition of *riba* and non-*Shariah* compliant investment, but the focus now should be given to the application of *Maqasid al-Shari'ah* into the every aspect of implementation Islamic wealth management [14]. As referred to the article written by Muhammad Umer Chapra, Imam Abu Hamid Al-Ghazali has classified the *Maqasid al-Shari'ah* into five major aspects [15]:

“The very objective of the *Shari'ah* is to promote the well-being of the people, which lies in safeguarding their faith (*dīn*), their self (*nafs*), their intellect (*‘aql*), their posterity (*nasl*), and their wealth (*māl*). Whatever ensures the safeguard of these five serves public interest and is desirable, and whatever hurts them is against public interest and its removal is desirable.”

It is confirmed that the preservation of wealth is essential in Islam instead of safeguarding of other four aspects in order ensure the human well-being. The preservation of wealth would also deem as one of the five important elements in *Maqasid al-Shari'ah* that classified it as *daruriyyat*, although it is placed in the last part of *Maqasid al-Shariah* [16].

In relation to this, Islamic wealth management essentially comes from the basic concept of Islamic wealth in ensuring the sustainability and well-being which extends towards Islamic financial products, asset allocation, portfolio management and financial planning [17]. In having a complete service of Islamic wealth management, it should cover for wealth creation, wealth protection, wealth accumulation, wealth distribution and wealth purification.

These aspects are closed related to the retirement management planning. In this case, annuities would be the most common tools of retirement product to manage the risk associated with ageing population, known as longevity risk [18]. The annuities basically provide a regular income stream with a fixed amount for the whole life of annuitants. Thus, the annuitization is prohibited for these reasons [19]. Therefore,

it would be a challenging part to bring a *Shari'ah* compliant annuity related product to the Muslim society.

III. METHODOLOGY

The research investigates the existing *Shari'ah* compliant annuity model by reviewing the main literature related to the Islamic annuity model and discussed in the next section.

IV. FINDINGS AND DISCUSSIONS

A. Proposed Model of Islamic Annuity

Basically, in year 2000 EPF has launched both conventional annuity scheme and Islamic annuity scheme known as *Takaful* annuity scheme as a choice to the EPF members. Unfortunately, both schemes have been withdrawn from the market just within 18 months after launching due to negative pressure from the Trade Union for the conventional annuity of the scheme. Even though there is negative press about the scheme, both of the schemes have been succeeded to accumulate nearly USD 1.5 billion, from over 200,000 EPF members [20]. Figure 1 represents the mechanism of the *Takaful* annuity scheme.

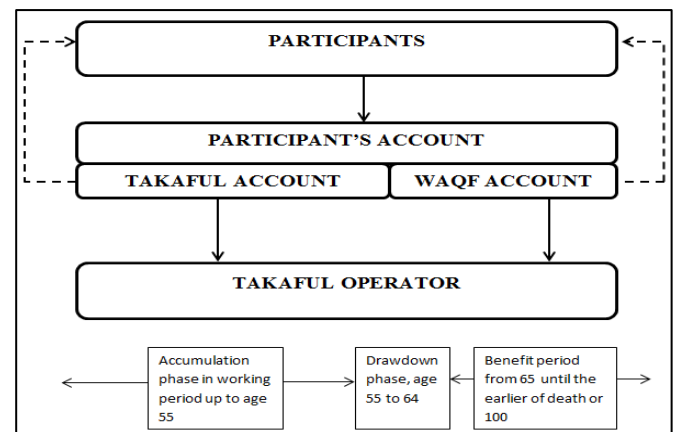


Figure 1: Model of Takaful Annuity Experience in Malaysia

Source: Kassim (2011)

Based on Figure 1, the participants who are from EPF member start to contribute to the scheme once they are working until reach age 55, called as accumulation period. At this stage, the participant’s account known as *Takaful* account, in which entitle them to get *Takaful* benefit during working period. In the drawdown phase of age 55 until 64 years, the participants have the option to withdraw from the scheme, until age 65, the funds will be put into *waqf* account in which to pay the participants for the whole life or reach age of 100 years, which ever come first.

The scheme is apparently no pain to the participants since the money is paid directly from their EPF account. Through this scheme, 2% with an average premium size of RM28,000 will be paid to the agents as commission.

Recently, another *Shari'ah* compliant model of annuity scheme which is based on the concept of *Wakalah* (agency) and *Hibah Mu'allaqah* (conditional gift) was proposed.



The *Wakalah* concept is used to manage and invest the annuity fund, while accumulated amounts of contributions and investment profits will be put into *Tabarru'* fund to begin the annuity payment through the concept of *Hibah Mu'allaqah*. Figure 2 depicts the proposed concept of *Shari'ah* annuity model by Ali et al [21].

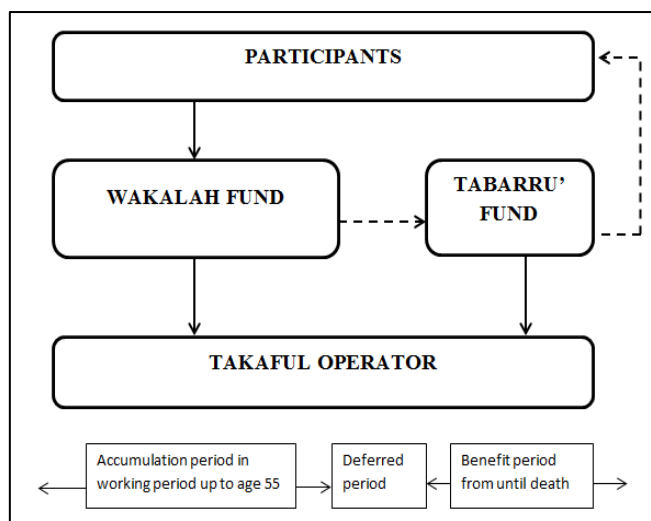


Figure 2: Proposed concept of *Shari'ah* annuity model
Source: Ali et al. (2014)

The operation of the scheme is as follows:

1. The participants of annuity agreed to join the *Wakalah* contract with *Takaful* operator, in which appoint the *Takaful* operator as agent to manage and invest the funds.
2. The participant can contribute with a lump-sum payment or by installments until reaching retirement age.
3. The maturity of *Wakalah* contract is until the end deferred period.
4. Through this *Wakalah* contract, the *Takaful* operator will get the *Wakalah* fees from the contribution amount.
5. In order to join the *Hibah* contract, the participants need to put their accumulated amounts of contributions and profit gains from investment into *Tabarru'* fund at maturity contract of *Wakalah*.
6. In this stage, all the participants of the *Hibah* contract have entitled to get the benefits from *Tabarru'* contract, which is the monthly income stream for until their death.
7. Again, *Takaful* operator will get the *Wakalah* fees from the management of the *Tabarru'* fund.

B. Challenges to the Application of Annuity Model

The basic concept of conventional annuity requires most of the retirement savings to be provided in bonds in ensuring a stable income stream and at the same time minimize the capital volatility. That concept still applicable to the Islamic wealth wisdom, as *Sukuk* could be deemed as the nearest equivalent to the bonds, but somehow it hardly available for the retail investor [22].

Soualhi addressed that in developing Islamic annuity product or called it as *Takaful* retirement annuity plan would have a various challenges, which include the downsizing of the *Sukuk* market, the scarce of long-term *Sukuk*, longevity risk and risk-based capitalization [23].

V. CONCLUSION

In conclusion, the retirement planning has been dealt under Islamic wealth management through the concept of *Maqasid al-Shari'ah*. As being proposed by previous study, annuities could be the most common tools of retirement product to deal with the risk of ageing population. In fact, the annuities basically provide a regular income stream with a fixed amount for the whole life of annuitants, which is prohibited by Islamic rulings.

Alternatively, there are Islamic concepts to be adapted into annuity scheme through the concept of *Takaful*, *Wakalah*, *Waqf*, and *Hibah* to bring the *Shari'ah* compliant annuity scheme [24], [25], [26], [27], [28], [29]. Although, the concepts are still attach with a several issues to be dealt. All in all, it is the good start for the authorities likes EPF institution or any other financial institution to bring the *Shari'ah* compliant annuity product because Muslims consumers nowadays are getting more financial savvy and *Shari'ah* compliant annuity will be the best product to tap into the market.

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Associate Professor Dr Puspa Liza Ghazali has a Phd in Mathematics from Universiti Malaysia Terengganu, Malaysia. Previously, she served as a teacher in secondary school taught for additional mathematic for a few decades. After graduating from Doctor Philosophy degree in Mathematics in 2013, she became a senior lecturer at Faculty of Business and Management in Universiti Sultan Zainal Abidin. Along her career as an academican, she has successfully published many books and articles related to financial mathematics. She managed to graduate many students in Master and PhD levels during her academican career. Her research interests are in Statistical Modelling, Financial Mathematics, Insurance, Islamic Insurance, Takaful, Teaching & Learning and Mathematical Sciences.



Dr Nik Mohd Norfadzilah Nik Mohd Rashid has a PhD in the Forensic Accounting from Universiti Teknologi MARA, Malaysia. He is an expert in the Financial Fraud and Tax Planning studies. Previously, he was the Head of Accounting School in the University of Sultan Zainal Abidin, Terengganu and currently is the Deputy Dean of Research in this university. He is also serves a member of the Deans Accounting Counsel in Malaysia promoting new development in accounting studies for a Tertiary Education level in Malaysia. He has published numerous scientific articles related to the Financial Fraud and Tax planning issues



Professor Dr Ahmad Shukri Yazid has a PhD in Rist Management from Glasgow Caledonian University, Scotland in 2001. Previously, he served as an Assistant Vice Chancellor under Income Generation & Commercialization at Universiti Sultan Zainal Abidin, Terengganu, Malaysia. Currently, he has appointed as Director of Center of Income Generation and Commercialization Management in the same university. As an academican profession, he has managed to publish numerous books and articles in high impact journal and supervised many postgraduate Master and Doctor Philosophy degrees' student in the university. His skills and expertise are in financial risk management and enterprise risk management.

AUTHORS PROFILE



Dr Mohd Sadad Mahmud has a PhD in Islamic Finance from University of Malaya, Kuala Lumpur, Malaysia. Previously, he was the Deputy Dean of Student Affair and Alumni in the Faculty of Economics and Management Sciences, currently known as Faculty of Business and Management at

Universiti Sultan Zainal Abidin, Terengganu, Malaysia. He has managed to publish numerous articles related to Islamic Finance, Criminology, Management and Electoral Forensic issues in many journals. Currently he is supervising postgraduate's student ranging from Master and PhD from various countries in the world. He is also got the research grant more than five million Ringgit.



Universiti Sultan Zainal Abidin, Terengganu, Malaysia. He began as an academican since 2011 as a Fellow Academic, and later on became an assistant lecturer in 2014. Currently he served as a senior lecturer in the same university he graduated for Doctor Philosophy degree in the Faculty of Economics and

Management Sciences. Along with the academic's career, he has published numerous articles in related to the Islamic Finance, Financial Mathematics, Business Management and Wealth Management. His research interests are mainly on Islamic Wealth Management focusing on retirement planning.