

The Important of Islamic Retirement Planning in Malaysia

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Abstract

This paper aims to discuss the important of Islamic Retirement Planning in Malaysia. As a part of Islamic wealth management, Islamic retirement planning can be considered as still new in Malaysia. The introduction of Simpanan Shariah, which the pioneer Shariah-compliant funds by Malaysian Employees Provident Fund (EPF), has embarked a new journey for Islamic retirement planning in Malaysia. As this country is very prominent in Islamic Banking and Finance throughout the world, the demand for Shariah-compliant retirement fund is expected. Muslims retiree now can ensure that their retirement income can fulfill the retirement objectives and also free from riba. Moreover, the readiness and existing Islamic equity market in Malaysia as well as global equity market becomes an important factor that would dictate the future path of Malaysian's Islamic retirement industry.

Islam encourages Muslims to plan their lives economically and financially in order to achieve the objectives of *Shariah (Maqasid al-Shariah)*. As Islam governs all aspect of life, Islam takes full cognizance on how Muslims spend their money and wealth. In *Surah al-Isra*, verse 26, Allah SWT regards those who spend their wealth wastefully as the brothers of evil. Therefore, the intention to conduct Islamic financial planning must be aligned with the guidance from *Al-Quran* and *As Sunnah* (the main source of *Shariah*). Association of Malaysia and Islamic Banking and Finance Malaysia (FPAM 2009), asserted that the foundation of Islamic financial is *Shariah* as the comprehensive guide for Muslims to manage their lives in this world and for redemption in the hereafter.

Retirement planning is one the facets of Islamic financial planning and wealth management. Retirement planning is a process which includes a comprehensive review and analysis of retirement income, retirement goals and investment strategy. The goal of retirement planning is to coordinate the financial resources available so an individual can plan for a financially secure retirement or to reduce financial risk during retirement. Islamic perspective, Allah SWT is the owner of wealth. Man is merely a trustee entrusted to managed and administer the wealth bestowed to him. The measurement of wealth, which is to gain the pleasure of Allah or to gain *barakah* (Bahari, 2014). Therefore, Islamic retirement planning should always comply with *Shariah* which not only free from *riba*, gambling and *gharar* but also intact with *maqasid al-Shariah*.

In general, there are three steps in *Islamic* retirement planning. The initial process start with assessment of future income needs of an individual. The financial objective need to be established so that the retirement plan would have a clear target on how much future come need to be achieve. Type of retirement plan must align with the projected future income. The second step is to designing the retirement plan that able to fulfill the financial objective. The plan needs also to be practically implemented. Here, the issues of *shariah* compliant must be taken into account. This is important to make sure retirement plan is free from prohibited elements especially *riba*. The third step involves the determination of the payment mechanism to the retiree. This is the issues whether the retirement plan would pay in form of annuity payment or a lump sum.

In Malaysia, Retirement Planning scheme are offered by few financial institutions. However the most prominent one is Employees Provident Fund (EPF). The Employees Provident Fund (EPF) is Malaysia's national provident fund which aims to provide financial security for its member's retirement purpose. EPF is a compulsory program and managed by a social security organization that provides retirement benefits to private sector employees and non-pensionable public service. As at September 2018, EPF has a total of 14.09 million members. The total number of active and contributing members is 7.19 million. EPF is governed under the Employee Providence Fund Act 1991 (Act 45).

Islamic Retirement Planning has exploded in Malaysia when Simpanan Shariah has been introduced by EPF on 8 August 2016. This *Shariah* fund has provide all EPF members (including non-muslim) the option to have their account to be managed and invested according to *Shariah* principles. Simpanan Shariah is managed and invested based on *Akad Wakalah*, and Shariah Advisory Committee (SAC) has been appointed to ensure the investment and the management is in line with *Shariah* principles. Dividend rates for Simpanan Shariah are based on actual performance of Shariah-compliat investments. Since it is Shariah-compliant, there is no guarantee of minimum dividend rate.

Before the introduction of *Simpanan Shariah* in 2016, all members of EPF solely invested in the conventional fund due to the unavailability of Shariah-compliant fund. This has become a conundrum to *Muslim* members as the dividend from EPF (since 1952) is blended with *riba* elements. When the retirement arrives, *Muslims* has to "clean" or purify their income before they can enjoy their retirement income. Most of the retirees have to donate certain portion of the money to charity purposes. This situation somehow might jeopardize the retirement goals of the *Muslims* and put them into financial difficulty. The scenario became worsen as the education on retirement saving still very poor. The retiree will be running out money in couple of years since they receive a lump sum amount upon retirement (Ibrahim, Isa and Ali, 2012)

Importantly, *Simpanan Shariah* is a retirement plan that gives a solution the *Muslims* to enroll in Islamic Retirement Planning. It is what the *Muslims* been demanded for since the

awareness about the prohibition of *riba* has spread in Malaysia with the establishment of Islam Banking. As Islam urges the *Muslims* to secure their income from *riba*, workers how are planning for retirement has no worry about the management, investment strategy or the assets selection of the fund. Retirement income would surely be guarantee it's compliant to *Shariah* and retiree later can reap the full benefit of their own retire income to meet the goals of retirement.

The development of Islam equity market has become a phenomenal over the years. At the end of 2014 the total value of Islamic capital market was about RM1.5 trillion, accounting for 57 per cent of the total market capitalization in Malaysia and represented a 10-year compound growth rate of 11.3 per cent. On Bursa Malaysia, more than 70 percent of the stocks are classified as shariah-compliant by the *Shariah* Advisory Council of Securities Commission (SC) and there are about 200 unit trust fund across assets classes. (Phuc, 2017, Feb 18). Notably, it is important for Islamic Retirement Plan to capitalize on existing Malaysia equity market. The growth prospects of the equity market promises bright future for EPF's *Simpanan Shariah* or Islamic Retirement Fund in general. There is a huge growth opportunity to be explored and wide ranges of asset classes are available to the fund managers to develop more effective Islamic portfolio that can deliver sound dividend to the retirees.

To sum up, the introduction of *Simpanan Shariah* by EPF is a blessing to members of EPF particularly the *Muslims*. Although in 2018, the dividend of *Simpanan Shariah* is slightly lower than the conventional fund but a factor for Muslims to be doubtful of the shariah fund. The main focus should be how the retirement income is now guaranteed to be shariah-compliant. Upon retirement, *Muslim* retirees can fulfill their retirement objective by fully utilizing retirement benefit. Moreover, there is a huge opportunities waiting for Islamic retirement planning in Malaysia. The massive and growing equity market, supporting government policies and even the promising global market for Islamic equity would open up a new chapter in Islamic retirement planning.

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