KEMENTERIAN SAINS,
TEKNOLOGI DAN INOVASI
MINISTRY OF SCIENCE,TECHNOLOGY AND INNOVATION

NUKLEAR MALAYSIA

TARIKH	KHAMIS, 2 FEBRUARI 2023
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From FIRE to mere embers

It's tougher for youths to plan for early retirement but experts have some suggestions

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Cost of living

PETALING JAYA: Trying to achieve the "financial independence, retire early" (FIRE) ideal is already an uphill task, but trying to achieve FIRE in Malaysia comes with extra challenges, say economists.

These include the scarcity of high-paying jobs, the rising cost of living and low salaries.

However, there are still ways for young Malaysians to live the dream.

Sunway University professor of economics Dr Yeah Kim Leng said a 20-year-old who wanted to retire at 50 with about RM1mil in savings would need to set aside RM1,500 a month for the next 30 years.

The savings would need to generate an average return or investment income of 4% per annum, he said.

"The required return on the savings would need to add to the inflation rate to maintain the purchasing power of the RM1mil at the end of the 30-year period.

"The 20-year-old FIRE aspirant will likely require extra jobs or supplementary income sources to set aside RM1,500 a month," he added.

In September 2022, the Employees Provident Fund (EPF) told *The Star* in an interview that Malaysians retiring in 20 to 30 years would need at least RM900,000 to RM1mil.

Prof Yeah, however, said that due to limited high-paying jobs and profitable entrepreneurship opportunities, the FIRE movement would be more bushfires rather than forest fires.

To spread like forest fires, most of the economic sectors would need to generate high-income and high-salaried jobs, he said.

"These can only come about through a sustained shift to high-value activities and rapid productivity and innovation-led growth of the various industries, coupled with a low inflation environment," he said.

Prof Dr Chung Tin Fah of HELP University said it would not be easy for Malaysians to retire early and they would need to save as soon as they entered the job market.

Leakages such as withdrawals for housing and medical needs would set back their target to retire early, he said.

"For those who are disciplined to save from the beginning, it is possible for a graduate to have RM900,000 to RM1mil by the time they retire on their starting salary of RM2,500 to RM3,000 per month. The problem is we are not disciplined enough and our salary level is low," he said.

Prof Chung said the low salary would force many to look for additional work.

The Covid-19 pandemic and higher inflation have also affected a lot of early retirement plans and many would have to continue working for their survival, he said.

Socio-Economic Research Centre executive director Lee Heng Guie said FIRE required detailed financial planning and wise investments.

He acknowledged that FIRE was not a one-size-fits-all goal.

"It depends on how much an individual is willing to save each year and what they plan to do and how they want to live in retirement.

"With income growth for lower- and middle-income wage earners not catching up with the rising cost of living, this presents a challenge for them to reach financial independence sooner," he said.

He said the pandemic had also significantly regressed the household incomes of the B40 and M40.

Prof Dr Geoffrey Williams of the Malaysia University of Science and Technology said for those in their 20s or 30s, it was just about possible for them to save enough – provided they do so consistently, do not withdraw, and that they get good returns.

Often this would be difficult if they have unstable jobs or face a crisis such as an illness, he said.

"So it remains a best-case scenario and a steady, well-managed fund like the EPF remains the best option," he said.

Despite the challenges to achieving FIRE, Prof Williams said a good way of maximising the success of one's personal pension strategy was first to try to have multiple income sources, one for day-to-day spending and another for saving and other expenses or even treats.

"This means you can top up your pension (EPF) fund using the RM100,000 Voluntary Contributions scheme so you get to your target quicker.

"Second, you must not withdraw – so, if you want to protect against a crisis such as a medical emergency, you should get insurance," he said.

He pointed out that insurance would cover emergencies so there was no need to fall back on EPF.

For other financial needs such as education or housing, he said one should save separately and not withdraw from their retirement funds.

The third and most important thing is to plan ahead and not ignore one's retirement income needs, he added.

"We will all get old and we should look forward to retirement, but many fear it because they will be poor.

"So, planning is important – otherwise you might not have enough or you might be forced to sell your house, work until you drop, or struggle through illness unnecessarily," said Prof William.

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