

MALAYSIA'S pension system was built on the promise of stability after years of contribution and service. Today, that promise is being tested by shifting demographics and new economic realities.

As living costs rise and Malaysians live longer, fulfilling that promise will require fresh ideas and shared commitment. The pace of these changes has outgrown the system's original design.

For many, the dream of a secure retirement still feels out of reach, yet it can be within our grasp if we choose to strengthen the system together.

The question is no longer whether change is needed, but how our various institutions—both public and private—can come together to build a pension framework that truly protects everyone, and not just a few.

The building blocks have long been in place. What we now need is the commitment and coordination to connect them into a cohesive system that is fair, adaptable, and inclusive.

Malaysia's demographic profile reinforces this urgency. With an ageing population and rising life expectancy, the nation faces growing pressure to ensure that older Malaysians can live with dignity and financial security.

Department of Statistics Malaysia (DOSM) data show that 4.7% of households headed by those aged 65 and above live in absolute poverty, a sobering reminder of the gaps in coverage, adequacy, and sustainability that persist within our pension system.

These figures are not abstract. They highlight the stresses within our current retirement and social protection systems.

The notion of a pension system for all Malaysians transcends theoretical debate—it becomes a national imperative. More importantly, reforming this framework is no longer optional. It is crucial.

Malaysia's evolving pension system landscape

The journey to establishing a sustainable retirement system in Malaysia began more than seven decades ago.

When the Pensions Ordinance was first introduced in 1951 (now known as the Pensions Act 1980), its primary purpose was to provide pensions, gratuities, and other benefits to public servants and their dependents.

In the same year, the Employees Provident Fund (EPF) was established as a parallel scheme for private sector employees.

This laid the foundation for Malaysia's retirement framework, which continues today. Yet this structure was built for a labour market very different from today.

A previous piece in this column, published on Oct 17, 2025, discussed this multi-tiered framework and the roles each pillar plays in providing old-age security. As the nation developed and demographics evolved, efforts were made to strengthen the system's long-term sustainability.

The Pensions Trust Fund, introduced in 1991, aimed to ease the government's pension payment burden and was later

A PENSION SYSTEM FOR ALL MALAYSIANS: CAN IT BE DONE?

incorporated into Kumpulan Wang Persaraan (Diperbadankan), or KWAP, in 2007.

At the same time, the mandatory retirement age, originally set at 55 in 1951, was gradually increased to 60, with ongoing discussions about extending it further to 65.

These policy shifts signal Malaysia's long-standing commitment to securing the nation's retirement readiness. The foundations have been laid over decades, but today's realities demand more than a system that simply exists.

As the population enters the next phase of ageing, the question has shifted from building the system to ensuring it reaches everyone who needs it.

Identifying these gaps should not be viewed as a setback but as an opportunity to future-proof Malaysia's retirement security for generations to come.

Gaps in coverage, adequacy, and sustainability

As the population ages, expanding coverage to ensure that every Malaysian enjoys a basic level of income security in later life becomes increasingly important.

According to DOSM, about 3.4 million own-account and unpaid family workers, including gig workers, microentrepreneurs, and freelancers, remain outside formal retirement arrangements.

The growing momentum in social protection discussions presents an opportunity to design mechanisms that better reach these groups.

Initiatives offered by EPF, such as the i-Saraan scheme, which allows self-employed individuals and gig workers to contribute voluntarily with a 20% special incentive from the government, demonstrate a practical pathway for widening participation.

Similarly, targeted assistance programmes, such as Bantuan Warga Emas (BWE), already play an important role by providing a platform that can be strengthened and expanded over time into a more structured retirement safety net.

A recent paper by the World Bank suggests that expanding social pension coverage, including BWE, while adjusting the eligibility age to 65 in line with rising life expectancy, could increase average benefits, particularly for those with limited earning capacity, and further enhance retirement security.

When it comes to adequacy, the challenge lies not only in how much people save but in how those savings can sustain them throughout longer lifespans.

EPF data show that 24% of members currently meet their age-specific basic savings target, highlighting opportunities to further enhance financial literacy and promote consistent contributions.

Encouraging smarter, long-term saving habits supported by



Malaysia can build a pension system that includes everyone, but it will require deliberate, thoughtful reform.

decent wages and retirement-readiness policies will help Malaysians better prepare for the years ahead. The goal is to enable every retiree to live with dignity, independence, and peace of mind, and not merely to avoid financial hardship.

A resilient pension system also depends on its long-term sustainability. As Malaysia's demographic profile shifts, Malaysia must find a balanced approach that supports older citizens without placing excessive strain on any single stakeholder, be it the government, employers, or individuals.

This requires forward planning, sound governance, and transparent communication so that the public understands both the challenges and the shared solutions and trade-offs involved.

With stronger collaboration and effective coordination involving key stakeholders, Malaysia can build a pension ecosystem that is sustainable and remains strong for generations.

Charting the way forward

To enhance participation of informal workers, one approach worth considering is automatic enrolment with an opt-out option.

New Zealand's KiwiSaver scheme makes auto-enrolment a key design feature. Once enrolled, members are more likely to stay in than opt-out.

This has proven successful, with 3.4 million individuals enrolled in the scheme currently, an increase from 2.5 million in June 2015.

For Malaysia's gig workers, partnerships with gig platforms, where automatic deductions of earnings are made unless one opts out and are supported by matching government incentives, could be one appealing proposition.

Digital solutions also offer promising avenues. Integrating pension systems with digital channels like e-wallets could make it simpler for the self-em-

ployed to contribute small, flexible amounts, better known as micropensions, at their convenience.

This form of convenience must translate into consistent contributions to have meaningful impact. For instance, the Philippines' Social Security System mobile app enables self-employed and overseas workers to make contributions using e-wallets like GCash and PayMaya.

This kind of integration could make retirement contributions more seamless, while also helping to normalise saving for retirement as part of everyday transactions. Strengthening financial literacy should also go hand in hand to highlight the importance of long-term financial planning and retirement readiness.

This may involve nationwide awareness campaigns, financial education in schools, and community outreach. Another potential pathway is a contributory national pension scheme.

By combining elements of social protection with individual responsibility, such a framework would allow both employers and employees to contribute a small percentage of earnings to guarantee a basic monthly income in later life.

This approach offers a pragmatic middle path, broadening old-age income coverage without placing undue burden on any single party.

More than that, it reflects a principle of shared solidarity, where those who are able to contribute more help strengthen the foundation of support for all.

For example, the Canada Pension Plan makes it mandatory for the employer and employee to each contribute 5.95% of earnings to the plan. Upon retirement, one will receive a monthly payout, averaging CAD899.67 currently, or capped at CAD1,433, which will help cover basic necessities.

This could mean pooling a small portion of contributions into a shared fund that guarantees every retiree a minimum

level of income. Such a model, if adopted, not only promotes fairness and strengthens equity, it could also serve as a foundation for broader reforms and provide a stronger safety net for those outside formal employment.

Building a pension system that works for everyone

Every Malaysian, whether they are in formal employment, self-employed, or contributing through unpaid care, deserves the assurance of ageing with dignity and peace of mind.

The goal is to build a system that leaves no one behind, where old-age income security is recognised as a shared responsibility, not a privilege.

Can Malaysia build a pension system that includes everyone? The answer is yes, but it will require deliberate, thoughtful reform. A phased, multi-tier approach must go beyond providing income to promoting and upholding overall well-being in old age.

Achieving this vision demands honest assessment, sustained collaboration, and the collective will to act. As the country continues to age, an inclusive pension system is no longer an aspiration but a national necessity.

Every long-term transformation begins with a decisive step and Malaysia now stands at a pivotal moment to seize this opportunity and make that bold step today.

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