

## NEW RETIREMENT POLICY AND IMPACT TOWARDS PUBLIC SECTOR EMPLOYEE RETIREMENT PREPARATIONS: MALAYSIAN PERSPECTIVE<sup>1</sup>

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### ABSTRACT

When CUEPACS called for Malaysian Government to increase the retirement age from 56 to 60, many believes that the bold moves provides more rooms for the civil servants to have prudent financial security for the retirement preparation. On 1<sup>st</sup> July 2008, government has approved the raising of retirement age from 56 to 58 years old and it was gazetted in PKPA 6/2008 (Reference No: JPA/PEN/228/25/1/Jld 4). However, many research shows that there are mixture feeling between those who prefer to retire early and those who do not. This paper aims to look at the association between the effects of new retirement age policy with the variables. This study involves 200 public sector employees from Majlis Amanah Rakyat (MARA) Headquarter in Kuala Lumpur as our respondents using questionnaire. Our objectives are (1) we want to determine whether there are relationship between new retirement age with job performance, career advancement, financial security and also job satisfaction, (2) what is the level of perception among the public sector employees on the factors affected by the new retirement age policy. The findings show that there are positive relationship between the new retirement age with job performance, career advancement, financial security and job satisfaction. Job performance and job satisfaction shows a moderate relationship with the value of 0.424 and 0.576 while career advancement and financial security shows a low relationship with the value of 0.256 and 0.388. High total mean score of career advancement (4.0286) and job performance (3.9075) shows that these two factors are highly affected by the new retirement age policy while financial security and also job satisfaction have moderate mean scores. We also found out that the percentage of civil servants that agree to the new retirement age (44%) is not much different from those who disagree (42%).

**Keywords:** retirement, public sector employees, job performance, financial security, career advancement, job satisfaction.

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## INTRODUCTION

In working life, people usually will go through on some stages of career development. According to Snell and Bohlander (2007), there are five stages of career development. The first stage is the preparation of work, which is around the ages of 0 to 25. This is the stage where the people start to develop their occupation. The second stage is the organizational entry, which is around the ages of 18 to 25. In this stage, people will select the job and enter the organization. The third stage is the early career of the people between the ages of 25 to 40. This is where people start gets to know the organization and other employees and adapt with the new environment. The next stage is the midcareer where the people try to gain a big position in the organization and want to be appraised by others. The last stage of career development is the late career between the ages of 55 until retirement. Retirement sometimes is the critical part of the working people. This is where they will stop doing their daily routine and do a weekend routine on a working day. They might feel different as they used to work every day and suddenly they need to stop doing their daily task. To some people, they love to retired, as that is the time for them to rest after working for long time. In Western countries as reported in AXA AFFIN Press Release in 2008, pensioners love to go on travelling to spend their free time, as an example, France (73%), Canada (61%), Australia (58%) and USA (55%) rather than the Asian countries like Indonesia (10%), Thailand (17%) and Malaysia (23%). However, to some people, they do not feel happy to retire as they cannot work anymore. Furthermore, according to Yip (1990) there are high percentage of employees suggested that retirement age should be increase to 60 years as they believe they are still healthy and able to work

In a survey that has been done, Malaysia was one of the countries where the majority of the respondents agreed with the raising of retirement age behind Indonesia and Thailand (AXA AFFIN Press Release, 2008). Many agreed to the increment of the retirement age as it will help the pensioner to gain salary so that they can still support their family as the cost of living today increased tremendously. This is one of the reasons why CUEPACS requested for the new age of retirement to secure the welfare of the civil servants. There are only 28% of Malaysians that save regularly for their retirement plan (The Star, 4 April 2009). It can be seen how the other 72% can survive after retired as they did not have saving plan for retirement. Study done by Maule (1995) showed about one third of people taking early retirement anticipate doing some work after retirement. In addition, in country such as Japan, the pensionable age is being lifted gradually from 60 to 65 as they find it necessary to help them in the rising cost of living (The Star, 25 April 2009). Singapore also will put in a new law in 2012 that requires the firm to rehire workers beyond the retirement age of 62 (The Star, 25 April 2009).

According to Omar Osman, the President of CUEPACS, it is too early for one to retire at 56 especially now that the population enjoys a longer lifespan and better healthcare (The Star, 2 September 2007). In Malaysia, the life expectancy of the people today is 73.29 years of age which is the third highest in Southeast Asia after Singapore (81.98) and Brunei (75. 74) according to the CIA World Factbook (The Star, 19 November 2009). Woodbury (1999) as cited by Appelbaum, Patton and Shapiro (2003) also said that as older people are living longer lives and have physical capability of working longer than in the past. They also agreed that the retirement age should be length as the life expectancy of the population is increasing.

However, in contrary, study by Depolo, Fraccaroli and Sarchielli (2008) shows that 96% of their respondents preferred to retire early or when expected and only a limited number of respondents (4%) prefer to postpone their retirement later than expected. Another research by Desmette and Gaillard (2008) stated that there are two factors that lead to the early retirement decision that are personal and organizational. In organizational level, there are high physical job strain, low autonomy in the task and low commitment to the organization that will cause the decision to retire early. In the personal level, health and wealth have been powerful factors that cause the person to retire early.

As all the matter and different perceptions of people arise with regards to retirement, the purpose of this research is to highlight the impact of new retirement age policy towards public sector employees' job performance, career advancement, financial security and job satisfaction.

### **NEW RETIREMENT AGE AND JOB PERFORMANCE**

Performance can be defined as the end result of an activity (Robbins and Coulter, 2009). Referring to United Nations' definition, an 'older person' is an individual aged 60 years and over, thereby making Malaysians retirees before they reach old age (The Star, 2 September 2007). According to Omar Osman, the President of CUEPACS, Malaysia is relatively more advanced than some of its neighbour but retire much earlier. It is also a waste of manpower and government spend much on pension and they will save some amount if they shifted the retirement age from 58 to 60 (The Star, 2 September 2007). Private or government agency should take advantage on the human resource of the aged at 55 to 65 as it is their "most experienced" time (New Straits Time, 22 February 2010). In addition, the deputy chairman of Equality and Human Rights Commission in Britain, Baroness Margaret Prosser said that Britain has experienced a skill exodus during the recession and when economy recovers they faced a problem of skill lost where many older being forced to retire (Reuters UK, 26 January 2010).

Worth (1995) and Minda (1997) in Appelbaum et al (2003) have come with the theory called life-cycle theory of employment. This theory is based on the facts that over an employee career, salary increase with age and not productivity. When employee is young and new, his or her pay will lower than his or her productivity. As person career progress, salary and productivity become better aligned. As worker become older, productivity declines while salaries continue to rise. Schwartz and Kleiner (1999) stated that the reason that many firms encouraged early retirement was so that younger baby boomers could perform the same duties required for the position, but at lower wage. This support the theory that salary increase with age not productivity.

However, in some study done by McEvoy and Cascio (1989), based on 22 years of article and sample size close to 40,000, they found that age and performance was generally unrelated. They highlight about six reasons on why there is no relationship between age and performance. Knapp and Muller (2000) highlight that studies based on direct observations of workers indifferent setting have found that on average, productivity does not decline with age. This was supported by Waldman and Avolio (1986) in Appelbaum et.al (2003) that have found another evidence of increasing performance with older age especially in the professional fields.

Rhodes (1983) and Riordan et al (2003) as cited by Beatrice et al, (2008) stated that many studies have described the difference in meaning and importance of work for older and younger employees with the older more intrinsically committed to their work. Research by Schalk (2004) found that older employees feel especially obliged to work extra hours if that is what is needed to get the job done, to work well with others, to provide good services and to deliver good work in terms of quality and quantity.

### **NEW RETIREMENT AGE AND CAREER ADVANCEMENT**

Career progression defined by Snell and Bohlander (2007) is the hierarchy of jobs a new employee might experience, ranging from a starting job to jobs that successively require more knowledge and skill. Warr and Pennington (1993) report results from a large-scale survey conducted in five European countries in which older workers were perceived to "Learn less quickly" and they "Are less able to grasp new ideas." Warr (1994) also cites previous reviews as characterizing older adults as being less interested in new training opportunities. This also has been supported from the studies by Rosen and Jerdee (1976, 1977) that suggested that older workers are seen as being less interested in training. In addition, Finkelstein et al.

(1995) in Maurer et. al. (2008) concluded after conduct an analysis it was found that older workers were perceived as being lower than younger workers on having potential for development.

However, Desmette and Gaillard (2008) found that the less participant thought of themselves as older workers, the more they are intended to develop their career. It means that the older workers also can develop their own career if they are not thinking about their own age and most older people did not want to slow down and instead wanted job. Warr and Fay (2001) in their research found that initiative towards learning and education (development) declines with age. It means that, the older the employees, the more decreasing of them to develop their own career. Based on the previous research conducted by Marc Van, Veldhoven and Luc Dorenbosch (2008), they concluded that the older workers face the risk of getting marginalized by the increasing speed of change in organizational life, while at the same time they are not being offered enough opportunities for development.

### **NEW RETIREMENT AGE AND FINANCIAL SECURITY**

McPherson (1991) in Maule (1995) has identified that retirement is related to the work history of the individual and the labor force needs of society, to the economic status of the individual and society and to the health status of the individual and the health-care services provided by the society. Townsend (1992) as cited in Maule (1995) has stated that retirees often face serious issues such as financial problems, psychological problem relating to self-image, values, power and security, experience an identity crisis and face serious boredom. In the survey done by HSBC, they found that in Malaysia the main concern for the largest proportion of pre-retirees is missing money (83%) which remains the concern of only half (56%) of post-retirees. Usually, retirees need to prepare themselves mentally and physically for retirement.

Study by Maule (1995) find that one-third of people taking early retirement anticipates doing some work after retirement and 40% of them because of not having enough money. Novak (1997) in Sundali, Westerman and Stedham, (2008) stated that good income predicts that a person can and will retire. His study also shows that most of the workers will retire as soon as they can afford to. Another study found that 59% percent of respondents worried about not having income a lot or somewhat, and only 41% reported to worry only “a little” or “not at all.” Less than 20% of respondents reported no worry at all. In addition, a growing number of ex-employees who were persuaded to take early retirement are experiencing financial difficulties (Mallier and Shafto, 1994).

Based on some research done by Lim (2002), only 19.2% of the respondents actively planned for their finances. In Malaysia, there are only 28% of Malaysians that save regularly for their retirement plan (The Star, 4 April 2009). Financial difficulties will be a big problem to the retirees if they are not plans their own saving towards the retirement. Person who contributed to superannuation saving or investment scheme may significantly reduce the risk of not being able to secure a stable income after retirement. Person who contributes to superannuation will retire earlier than the others. In addition, it was also found that having fewer financial is the most important factors that affect the decisions to retire.

### **NEW RETIREMENT AGE AND JOB SATISFACTION**

Robbins and Judge (2007) define job satisfaction as a positive feeling about one’s job resulting from an evaluation of its characteristics. In addition, Robbins and Coulter (2009) define job satisfaction as an employee’s general attitude toward his or her job.

Research conducted by McCune & Schmitt (1981) as cited by Liebowitz (2004) demonstrates that attitudes exhibited by employees about their jobs factors significantly to an individual’s decision to retire. the more sophisticated the job skill, the more likely employees are to delay retirement, or return to work after retirement.

Gortz, (2009) in his research stated that retirees have stated the reasons for retirement point to job characteristics as important drivers for the decision to retire, while economic factors seem to have a secondary importance. It means that when the job characteristics match on what the employees want, it will lead to the job satisfaction of the workers and that later will have some effect on retirement. According to Clark et al. (1996) in Peeters and Emmerik, (2008) older employees are likely to be more satisfied with their jobs than younger employees.

Interestingly, Taylor & Doverspike (2003) stated that the third factor affecting retirement timing is workers' satisfaction with their jobs, which is often determined by the workers' attachment to the job, organizational commitment, and the nature of a job. Workers who have a positive attitude toward retirement and leisure but are dissatisfied with their jobs are likely to retire early. Quinn and Burkhauser (1994) said that the employees with a high school education or less tend to show lower job satisfaction and thus retire earlier than well-educated employees.

## **METHODOLOGY**

The independent variable in this study was the new retirement age policy by measuring its impact towards independent variables such as job performance, career advancement, financial security and job satisfaction as identified from literature review. A cross sectional survey was conducted by researchers for the research design of this study. Data for this study were distributed and collected from 200 MARA employees from Kuala Lumpur HQ Jalan Raja Laut using sample random sampling covering all departments in MARA office.

The data collection methods used in the research were the primary data using questionnaire as well as secondary data based on journal, books, newspaper and other written materials. Data collection was analyzed using statistical software i.e SPSS version 12.0. Analysis of data involved descriptive and correlation analysis. All questions were constructed using nominal and interval scale (Likert 5 points scale).

The questionnaire has been divided into six sections namely Section A: (Demographic Profile of Respondents, 8 questions); Section B: (Job Performance and Productivity, 6 questions); Section C: (Career Advancement, 7 questions); Section D: (Financial Security, 6 questions); Section E: (Job Satisfaction, 7 questions); and Section F: (New Retirement Age Policy, 7 questions)

## **FINDINGS**

From the total number of 200 respondents, the majority of respondents are female (131 respondents or 65.5%) had 1 to 10 years of working experience (128 respondents or 64%) and agreed to retire at the age of 58 (87 or 44%).

The normality test as depicted in Table 1, all the variables are significance where  $p$  value =  $>0.05$ . It means that the normality for data set collected from questionnaire is assumed. Since, the skewness and kurtosis values are within the range -2 and 2, the distribution of data set for independent and dependent variables can be considered as normal.

**Table 1: Test of Normality**

Variable	Kurtosis	Skewness	Kolmogorov-Smirnov	
			Statistic	Sig
Job Performance	-0.247	-0.042	0.036	0.200
Career Advancement	0.032	0.173	0.052	0.200
Financial Security	0.562	0.074	0.040	0.200
Job Satisfaction	0.472	0.205	0.054	0.200

The levels of perception of civil servants toward new retirement age based on the variables are shown in table 2 below:

**Table 2: Summary of Total Mean**

Variables	Total Mean
Job Performance	3.9075
Career Advancement	4.0286
Financial Security	3.4958
Job Satisfaction	3.6629

The table above shows that the mean for job performance is 3.9075. Therefore, the perception of civil servant on job performance due to the new retirement age is high. Meanwhile, total mean for career advancement is 4.0286. Therefore, the perception of civil servant on career advancement due to the new retirement age is high. On the other hand, total mean for financial security is 3.4958. Therefore, the perception of civil servant on financial security due to the new retirement age is moderate. The table above also shows that the mean for job satisfaction is 3.6629. Therefore, the perception of civil servant on job satisfaction due to the new retirement age is moderate.

To show the relationship between new retirement age and affected variables that determine the retirement preparation of the respondents, data was tested using the Pearson correlation analysis. The results are shown in table 3 below.

**Table 3: Summary of Correlation Analysis**

Variables	'r' value
Job Performance	0.424
Career Advancement	0.256
Financial Security	0.388
Job Satisfaction	0.576

There is a positive significant relationship between the new retirement age and job performance. It shows a moderate relationship between new retirement age and job performance ( $r = 0.424$ ,  $p < 0.05$ ). Through this study, we can see that the majority of respondents about 66% agreed that older workers are still productive and have better performance. This result is consistent with a survey done by HSBC in 2006, about 22% employers globally view older workers as productive. Furthermore, in the findings also about 77.5% agreed that being senior is good because they have a greater experience. This can be supported by the HSBC Future Retirement Research (2006) where they found that about 40% of the employers in Malaysia view retirement of an older worker as the loss of valuable skill and experience.

The relationship between the new retirement age and career advancement shows a low but positive and significant relationship ( $r= 0.256$ ,  $p<0.05$ ). The result was supported by Warr and Fay (2001) that the increasing of retirement age has some effect on career advancement in which the older the employees the more decreasing to develop their own career.

From the statistical result, it reveals that there is also a low but positive and significant relationship between new retirement age and financial security ( $r= 0.388$ ,  $p<0.05$ ). The majority of the respondents that were about 79% agree that they will not be a burden to their family after retirement. It was supported by Lim (2002) in his study that 51% respondents said that they will not be a burden to their family. In addition, the findings also showed that 69.5% of respondents have planned their retirement saving. However, Lim (2002) in his study found that only 19.2% respondents often actively plan for retirement saving and 40.2% respondents only sometimes plan for retirement saving while the rest are rarely and never plan for the saving.

Lastly, we can see that there is a positive significant relationship between the new retirement age and job satisfaction. It shows a moderate relationship between new retirement age and job satisfaction ( $r= 0.576$ ,  $p<0.05$ ). The finding was supported by Taylor and Doverspike (2003) that the third factor affecting retirement timing was the worker's satisfaction towards their job, organizational commitment and nature of a job. Both scholars have identified there was relationship in retirement age and job satisfaction. Job satisfaction and retirement age are linked as McCune and Schmitt (1981) stated that employees' attitudes towards their job are the factors that related to the individual decision to retire. Gortz (2009) also supported the statement as he found that job satisfaction was the important drivers for the employee's decision to retire.

## CONCLUSION

From the research findings, we can see that all four variables that are job performance, career advancement, financial security and job satisfaction have positive relationship with the new retirement age. Therefore, the new retirement age have some effect towards all the four variables. Job satisfaction and retirement age are correlated with each other and act as an important indicator for the civil servants to decide their retirement age.

Government should give motivation to the civil servants so that they will feel very happy to do their job. If the civil servants are not satisfied, then it will lead to the low performances and productivity. Not only that government need to delegate authority more to the civil servants that can be trusted and have capability to do whatever task given and have a sound and good decision making.

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