Freelancers will have little savings when they retire

These workers will not have social and financial safety nets, unlike salaried workers, warn experts

by SULHI KHALID / pic by BLOOMBERG

THE allures of being independent, the freedom to work at their own pace and the absence of supervision are pushing more Malaysians to choose self-employment, but these workers could end up with little or no savings in their old age.

Many freelancers and part-timers are embracing what is termed as the “gig economy”, allowing them to become independent contractors and seek project-based jobs from anywhere around the world.
Younger Malaysians are also shunning routine desk jobs and opting for the exciting digital economy path—from being a baker, to selling goods online, to offering lodgings via Airbnb, being Grab drivers or delivering food on bikes.

It is estimated that there are about 200,000 e-hailing drivers in Malaysia alone with the sector’s value expected to hit US$855 million (RM3.57 billion) this year.

According to the recent data released by the World Bank, about 26% of country’s workers are freelancers and the number is expected to grow in the future.

In developed economies, the trend is more prevalent. In the US, 36% or 57 million workers are part of the gig economy. International firm PricewaterhouseCoopers expects the gig economy to be valued at US$63 billion by 2020.

But experts warned that these workers will not have social and financial safety nets, unlike salaried workers who have mandatory monthly deductions into retirement schemes.

Malaysian Employers Federation ED Datuk Shamsuddin Bardan said the difficulty to secure work and the emergence of various online job platforms have made it easier for people to freelance and opt for multiple income streams.

He said while this trend will contribute to the nation’s economy in the long run, there are risks and insecurities that come together with such jobs.

"Despite the flexible working hours and lucrative remuneration from freelancing, it is imperative for these people to have adequate savings for retirement as they are currently not active Employees Provident Fund (EPF) contributors," he told The Malaysian Reserve recently.

Adequate savings after retirement has been an issue as cost of living and inflation continue to rise, weighing on the amount of money required for one to retire comfortably.

The EPF had highlighted that more than two-thirds of EPF members aged 54 had less than RM50,000 in their retirement savings.

According to the EPF, 70% of its members who withdraw their funds at age 55 use up their savings less than a decade after retiring. With cost of living remaining the bane for many Malaysians, figures revealed that an individual will require at least RM240,000 when they reach the age of 55 to retire comfortably.

Presently, it is estimated that there are seven million active contributors to the EPF retirement schemes.

The country’s largest retirement fund previously warned that the number of contributors to the scheme would dwindle in the future as more people chose freelancing.

Freelancers, self-employed and digital economy workers are exempted from making mandatory contributions, heightening the financial challenges they will face in their old age.

The government had launched the i-Saraan scheme (previously known as 1Malaysia Retirement Savings Scheme or SP1M) to help self-employed workers to achieve a certain level of savings upon reaching retirement age.

The scheme, which has a guaranteed dividend of 2.5%, is open for retired and non-earning individuals.

Shamsuddin said there is a need for these freelance gig economy workers to be registered and supervised by the relevant authorities in order to safeguard their interest and recognise their contribution to the country’s economy.
“Currently there are about 1.7 million people identified in this gig economy, and to date, there are no clear tax mechanism and platform for them to express their rights,” he added.

Shamsuddin said the authorities must step in to avoid problems in the future.

“As these freelancers and online entrepreneurs are being left out of the social security coverage, there is a need for a law and enforcement to require them to make a monthly contribution to the EPF.

“More importantly, the millennials need to understand the importance of having a clear retirement plan,” he said.