

Issues in Retirement Confidence among Working Adults in Malaysia: A Conceptual Paper

Arunagiri Shanmugam¹, Faudziah Zainal Abidin², Habibah Tolos³

¹(School of Economics, Finance and Banking, College of Business, Universiti Utara Malaysia, Malaysia)

²(Islamic Business School, College of Business, Universiti Utara Malaysia, Malaysia)

³(Department of Banking & Risk Management, School of Economics, Finance and Banking, College of Business, Universiti Utara Malaysia, Malaysia)

Abstract: The paper aims to review and discuss on the issues of retirement confidence among Malaysian working adults both in the public and private sectors. Retirement confidence will only exist if there is proper retirement preparation among individuals. The method utilized for this conceptual paper is based on literature reviews from published journal, theses, conference proceedings and report. Previous literature on retirement studies supported that across countries around the world, individuals have little or lack of planning for their retirement. Malaysia as one of the developing nations is also currently experiencing the same situation where a majority of Malaysians are not prepared for retirement which eventually will influence their retirement confidence. A Through the review of past research showed that , there were many factors are associated with retirement confidence namely socio-demographic factors, expected age of retirement, attitude towards retirement, goal clarity of retirement, financial literacy, financial practices, financial socialization, and insurance planning. The Theory of planned behavior was suggested to be utilized in and incorporated into the proposed research framework.

Keywords: Behavioral Finance, Retirement Confidence, Theory of Planned Behavior.

Date of Submission: 29-11-2017

Date of acceptance: 11-12-2017

I. Introduction

Generally an individual would prefer to live a convenient and comfortable life upon retirement. However, preparation towards retirement is rather an option and not compulsory for any individual and it depends on their life cycle. Tuan et al., (2011) mentioned, an individual should focus on the methods to strategize financial activities such as saving, investment and spending behavior in facing their post retirement life. Furthermore, research findings from Joo and Grable (2005) further elaborated that not every individual is prepared financially for their retirement life due to limited savings as well as less ownership of assets. In addition, the growth of aging population in many countries in the world will impose challenges to these governments in terms of preparing them a good pathway for retirement. In this context, Malaysia is one of them whereby, the ageing population is expanding rapidly and the growth rate is much higher compared to other western countries.

Table 1.1: Population projection by age group, Malaysia, 2010 - 2040

Year	Age Group						TOTAL POPULATION (' 000)
	0-14	%	15-64	%	65+	%	
	('000)		('000)		('000)		
2010	7,822.10	27.40	19,341.40	67.60	1,425.10	5.00	28,588.60
2015	7,733.40	25.40	20,971.90	68.80	1,779.90	5.80	30,485.20
2020	7,780.70	24.00	22,445.90	69.20	2,214.60	6.80	32,441.20
2025	8,009.50	23.40	23,533.40	68.60	2,751.30	8.00	34,294.20
2030	8,087.90	22.50	24,542.00	68.20	3,335.70	9.30	35,965.60
2035	7,893.40	21.10	25,606.10	68.50	3,889.90	10.40	37,389.40
2040	7,537.20	19.60	26,615.60	69.00	4,405.10	11.40	38,557.90

Source: Population Projections 2010 – 2040, Department of Statistics, Malaysia

Based on the table 1.1 above, Malaysia's population in 2010 was 28.6 million and is projected to increase by 10 million to 38.6 million in 2040. Thus by the year 2020, 9.5 percent of the Malaysian population will be 60 and above. In addition, there will be an increase of three times more than in year 2010 for the population aged 65 years and above. Therefore, Malaysia is in a situation to become an aging population in the future. This scenario is mainly due to an increase in life expectancy in Malaysia from 59.42 years in 1960 to 74.7 years in 2016 (Department of Statistics, Malaysia, September 2016). Based on this data, the Malaysian ageing population should be planning and preparing themselves to face their retirement life confidently.

II. Retirement Confidence Scenario In Malaysia

The scenario of retirement life in the developed economies was more of a resting period after years of hard work during 1960s and 1970s. This situation has changed in 1980s, which it was more towards funded leisure period due to globalization and better status in personal wealth. Meanwhile, in Malaysia as a developing economy, there were slight changes among its people whereby they are looking forward to work during old age. About 50 percent of Asian people are striving to continue to work after retirement (Azli Jamil, October 2013). This could be due to people exposed to work practices of developed economies and even they might have certain financial constraints which they need to go through. This is further supported by Bernheim & Scholz (1993) and Lusardi (1999) whereby people in their 50s and early 60s have insufficient amount of savings even though they are nearing retirement age.

According to Samad and Mansor, (2013), about 40 percent of Malaysians on average have a low average household income of RM1440 which indicates that they have very limited amount of savings. The adequacy of retirement income or savings will determine the quality of life desired by retirees with the age group of 60 years and above. In line with that, a survey conducted by Abdul Samad and Kari (2007), found that the available amount of Employee Provident Fund (EPF) was insufficient to support the cost of living during retirement for Malaysians. Moreover, the extended family situation was no longer in practice as its use to be previously in Malaysia. The tradition of elderly people living under the care of their children is now slowly reducing (Tan and Folk, 2011). This findings is further investigated by Yip (2013) and found that there were only 38 percent of children are willing to look after them. Thus, in the future, the elderly Malaysians might need to be independent and not expect care and financial assistance from their children. This issue has attracted the attention of numerous parties such as the government, public and employers. As a result, this will eventually create socioeconomic challenges for the government such as more demand for nursing home for the elderly, demand for mental health care and other related allied health care services for the senior citizens.

Retirement systems can be categorized into a broader category, namely, social security. According to Scott (2003), social security can be described as a social welfare program which is inclusive of providing retirement income to the workers and their dependents. Meanwhile, Lee (2002) mentioned that social security programs are normally based on statute which protects individuals from loss of income and expenditures arising from injuries or death. Besides that, based on a study by Campbell (2009) indicated that pension plan is a long term financial contract to secure income for retirement life. From the Malaysian perspective, private sector workers are eligible for Employee Provident Fund (EPF) which is categorized and defined contribution (DC) plan. Under this plan, each employee is required to contribute 11 percent of their income for the fund on a monthly basis until their retirement age. At the time of retirement, the amount available in the EPF will be utilized for the rest of their life. Meanwhile, for civil servants in Malaysia, are given an option to choose either EPF or government pension plan (defined benefit plan) which will be provided through the Public Service Department (Mansor and Awang, 2002). Besides, the Malaysian government also introduced the Private Retirement Scheme (PRS) which reflects the International Labour Organization (ILO)'s view. This was further supported by Habibah et al., (2014) whereby PRS introduction is necessary as to create additional voluntary provision of retirement income for retirees in Malaysia.

According to a survey by Hongkong and Shanghai Bank (2013), among the financial priorities, retirement planning was poorly ranked in Malaysia. The surveys revealed about 43 percent of respondents were not prepared for retirement due to rise in the cost of living which is inclusive of owning a house (48 percent) for living as well as financing children's education. This was further supported by another survey by AFFIN Life Insurance company which shows that among 26 countries which participated in the survey, the percentage of Malaysian working adults involved in retirement planning declined to 38 percent in the year 2010 from 48 percent in the year 2007. Besides, 42 percent of Malaysians aged 48 and above is relying on their children for financial support after retirement. The findings also indicate that 42 percent of Malaysians aged above 48 expect to rely on their children for financial support after retirement (Manulife Financial Release, 2013). In accordance with that, individuals who are nearing retirement especially those people in the low income group with little savings are dependent on their children (Taha and Mat, 2003).

Based on past research findings which were discussed above, it is clearly shown that retirement preparation is still lacking among most people in Malaysia which will eventually affect their retirement

confidence. This is mainly because of a few reasons such as lack of awareness and knowledge on the importance of retirement life, fully dependent on the pension income or Employee provident Fund (EPF) as well as little amount of savings during the employment period. The scenario of poor retirement preparation which will lead to poor retirement confidence among Malaysian working adults is a very crucial matter that needs to be addressed. In order to solve this scenario, possible factors or determinants which are associated with retirement confidence has to be identified and further investigated as well as to recommend strategies in overcoming this alarming issue among Malaysian working adults.

III. Literature Review

3.1 Socio-demographic factors

There are four (4) socio-demographic factors associated to retirement preparation which leads to retirement confidence. Those factors are age, gender, education level and income. There are a number of studies indicated that age of an individual is always associated with retirement confidence. According to De Vaney (1995), age has always been a guidance for working adults who are involved in retirement planning. Furthermore, a working adults at different age level will tends to have changes in attitudes as well as perception towards retirement confidence (Joo and Pauwels, 2002). This is supported with research finding by Malroux, Y. L., & Xiao, J. J. (1995), whereby the income adequacy of an individual is different according to his or her age. Meanwhile, based on a study carried out by Lee and Law (2004), individuals will give priority for retirement preparation as they grow older.

Gender is another socio-demographic factor that influences retirement preparation which eventually determines retirement confidence (Tan, Folk and Fatt, 2012). This is due to different way of thinking by both male and female in every aspect in their life. According to the Department of Statistics, Malaysia (2016), there are about 54.3% of women who are involved in the labour force. Over the years, there are a lot of changes in terms of economic position among women in Malaysia. According to Lusardi and Mitchell (2006), compared to men, women tend to portray lower level of financial knowledge in terms of risk diversification towards investment activities. This was further investigated and it indicates that men are to be better prepared and face retirement life confidently compared to women (Lusardi and Mitchell, 2006). In addition, Glass and Kilpatrick (1998), mentioned that women are less prepared towards retirement than men due to insufficient financial resources. Furthermore based on a study by Grace, Weaven and Ross (2010), found that men and women do not perceive and act differently towards retirement preparation. Moreover, in a study by Sabri and Juen TT (2014), generally women attached to public sector in Malaysia display retirement confidence at a moderate level. However, in the same study, those women in the public sector with better financial status, financial literate as well as applying good financial management practice in their life show high retirement confidence.

Education level of an individual is another important socio-demographic factor that is closely related to retirement preparation and it was investigated by a few researchers. According to Devaney (1995), education level obtained by individuals influences their interest to initiate the retirement preparation. In other words, individuals who give priority towards retirement planning are those with high education level. Besides that, Joo and Powell (2002) mentioned individuals with higher education level tend to plan better for their retirement and eventually obtain higher retirement confidence. Moreover, education is a significant factor which has positive relationship with retirement planning (Lusardi, 2007). A few researchers found that education does play a role in exploring retirement planning (Hogarth, 1985; Devaney, 1995; Joo and Powels, 2002). According to research findings by Mansor et al., (2015), there is a strong relationship between the level of education and retirement preparation. This indicates that individuals with high level of education will have more chance to explore information pertaining to retirement.

Income level is one more important factor under socio- demographic variable. Income level of an individual is important from the perspective of having sufficient money as well as other wealth resources in preparing themselves for the retirement life (Richardson and Kilty, 1989). In line with that, research findings by Joo and Grable (2000), indicates income is a motivational factor for an individual to seek professional services in terms of retirement preparation which will lead to retirement confidence. Furthermore, the research findings also mentioned that higher income groups tend to seek advise regarding investment activities. Kim, Kwon and Anderson (2005), found that income is a significant measurement in relating to retirement confidence. This was further supported by Joo and Pauwels, (2002) and Moorthy et al. (2012) whereby if income is low, an individual will have less amount of salary to be kept aside as savings and eventually face poor retirement life. In addition to that, Mansor et al.,(2015) found that income level has significantly influenced retirement planning among health sector employees in Malaysia.

3.2 Expected Retirement Age

Retirement age is another possible determinant of retirement confidence. An employee who is expected to retire soon needs to ensure that there should be sufficient funds available for him or her during retirement life. Elder and Caspi (1990), mentioned that the age cohort for retirement will influence social change on individuals. If an employee is planning to retire at a later age, he or she might be in the work force for more years which will prepare him or her to accumulate funds for retirement. Tan et al. (2012) found that expected retirement age significantly influence retirement financial planning. In line to that, a study by Tung, C.L. and Comeau D.J. (2012), indicated that 86 percent of respondents agreed on the new retirement age by the Ministry of Human Resource, Malaysia. This is supported by a study by Ibrahim and Siri (2012), which indicated that the new government policies on retirement are reducing the financial burden of public sector employees or pensioners during retirement. Through this situation, our Malaysian government anticipates that there will be more than 6 million EPF active members who would benefit from the higher savings level (Jankowski, Kritzer and Rajnes, 2013).

3.3 Attitude towards Retirement

Attitude can be defined as an individual act which is reflected as either positive or negative effect in evaluating a certain behavior. From the perspective of retirement confidence, attitude is an important factor which influences the behavior of an individual in facing his or her retirement life. In a study by Lim K. G (2003), found that senior workers are uncertain in facing retirement life and are willing to extend the employment even at the old age. Besides that, Desmette and Gaillard (2008), mentioned that the old age social identity in organization had created negative attitude towards retirement among employees. Furthermore, according to Franca (2004) Executives in New Zealand and Brazil were displaying positive attitude in retirement towards leisure, cultural and investment activities which correlates with financial and health status. In the context of Malaysia, Folk, J. Y., Beh, L. S., & Baranovich, D. L. (2012) indicated that individuals show positive attitude towards retirement with condition of expected income to be high. Meanwhile, Lai and Tan (2009) found that financial planning is an essential element which influences Malaysians to show negative attitude towards retirement in adjusting their life during retirement.

3.4 Goal Clarity of Retirement

Goal clarity refers to the clear purpose or aim in performing a behavior. Goal clarity of retirement can be explained as a clear purpose or aim that an individual need to have in planning his or her retirement. According to Jacobs-Lawson and Neukam (2002), to have a clear goal for retirement is essential for an individual in adjusting the life during retirement. The findings of the same study also revealed that age and gender differences influenced the clarity of retirement goal. In line to that, Neukam and Hershey (2003) mentioned that financial goals of an individual will eventually influence the saving contribution for retirement. This is supported with a study by Stawski, Hershey and Jacobs-Lawson (2007) whereby the goal clarity of retirement correlates with retirement saving of an individual. In another context, Moorthy et al. (2012) indicated that retirement planning behaviour was influenced by goal clarity of an individual.

3.5 Financial Literacy

Financial literacy can be explained as skills and knowledge that an individual is applying in making good and effective financial decisions (Lusardi and Mitchell, 2011). This was further supported by International Network on Financial Education (INFE) (2011), which summarized financial literacy as a mixture of awareness, financial knowledge, skill and attitude in making sound financial decision. From the perspective of retirement studies, financial literacy has significantly influenced retirement planning in Russia (While Klapper and Panos, 2011). In the context of Malaysia, Chan, Y. F. et al., (2010), found that older Malaysians are lack of financial literacy and knowledge in facing their retirement life. Furthermore, financial literacy is found to be moderating financial practices among working adults in Malaysia (Folk, J. Y., Beh, L. S., & Baranovich, D. L., 2012). Based on a study by Sabri and Juen TT (2014), indicated that financial literacy is one of the factors which influenced the level retirement preparation and confidence among Malaysian women in the public sector.

3.6 Financial Practices

Financial practices can be defined as an efficient and effective way of managing funds or financial resources to accomplish the objectives of the organization. In line with that, Garman E.T (1997) explained that financial practices refers to the process of managing financial resources which involves retirement planning, financial planning as well as credit and money management. Based on a study by Kim, Garman & Quach, (2005), good financial management practices by an individual eventually will create positive influence towards retirement confidence. Furthermore, according to Loibl and Hira (2005), indicated that financial practices are highly associated with financial wellness of people. In addition, those individuals who are involved in

responsible financial practices will have lower level of financial difficulties (Joo and Grable, 2004; Lea et al, 1995; Dowling et al, 2009). In another study on financial practices and problems amongst elderly in Malaysia, revealed that most of the elderly people displayed moderately good financial practices due to the lack of financial knowledge (Jariah, Husna, Tengku Aizan and Rahimah, 2012). Sabri et al., (2015) found that financial management practices to be a mediator between financial literacy and retirement confidence among Malaysian women working in the public sector.

3.7 Financial Socialisation

Socialisation process generally starts in childhood of an individual and it will continue throughout their life (McNeal, 1987; Moschis, 1985, 1987). Based on a study by Fox, Bartholomae, & Gutter, (2000), part of this process involves the development of financial knowledge and skills among individuals. In accordance with that, financial socialisation refers to the learning process of an individual in obtaining knowledge on money or fund management such as saving, credit card use, budgeting and banking (Bowen, 2002). Based on previous numerous research (Churchill & Moschis, 1979; Moschis & Moore, 1984; Valence, d'Astous, & Fournier, 1988; Beutler and Dickson, 2008; Lyons, Scherpf and Roberts, 2006; Solheim, Zuiker and Levchenko, 2011), there were many socialisation agents such as parents, family members, peers, media and other individuals who possess influential skills in influencing individuals' behavior towards financial planning as well as financial management aspects. Parents are found to be prominent socialisation agent in educating their children in proper credit card use which will avoid high credit card debt among young adults (Pinto et al., 2005; Carlson et al., 2011). In another study, the researcher indicates that there are seven themes on money management inclusive of saving for retirement which parents had influenced their children (Dil Worth, Chenoweth and Engel brecht's, 2000).

3.8 Insurance Planning

Insurance refers to a contract made between an individual and insurance company which is represented by a policy that explains about financial protection or a guarantee of compensation for specified loss, damage, illness or death in return for payment of a specified premium. According to AFFIN Life Insurance Retirement Scope Report (2010), only 14% of the Malaysian working adults understand exactly how much they need as their retirement income. Thus, in retirement planning, insurance plays an essential role in terms of financial techniques which an individual use during his or her working years in order to achieve financial security upon retirement (Bruce A. Tanhill, 2013). Besides that, a study by Parrish (2014), found that life insurance becomes the main element in retirement income risk planning and the demand for life insurance depends on factors such as economy, demographic, tax and technology development.

3.9 Behavior Intention to Plan for Retirement

Intention can be described as a scenario of an individual who is planning to perform a certain behavior in the future. Based on the Theory of Planned Behavior (TPB) (1991), behavioural intention refers to a sign of an individual preparing himself or herself in carrying out a given behavior in any context. Tuan et al., (2011) found that demographic factors such as gender, age, marital status, ethnic, education, income level and investment experience are significantly influencing an individual who has the intention to plan for retirement. This is further supported by Joo and Grable (2005) and Hussain et al., (2013). In addition to that, in a study by Tan and Folk (2011) indicated that current financial resource and education level does influence Malaysians who have the intention to plan for their retirement life. Moreover, Folk, Beh and Diana (2012) found that adults who attained high educational level have the intention to involve in retirement planning in Malaysia. Thus, based on TPB, behavior intention to plan for retirement will be mediating variable in between independent variables (demographic factors; expected retirement age, goal clarity of retirement, attitude towards retirement, financial literacy, financial practice, financial socialisation and insurance planning) and dependent variable (retirement confidence).

3.10 Retirement Confidence

Retirement confidence can be defined as preparation and readiness in facing retirement life without any fear. This is supported by Kim, Kwon and Anderson (2005), whereby explained the term retirement confidence as individual behavior and preparation towards retirement. In the same study, it is noted that retirement confidence among working individuals was influenced by the ability to compute retirement funds, confidence in the government social security and Medicare programs, income level, health status and financial education. In another context, a study by So-Hyun Joo and John E. Grable (2005) noted that workplace education programs also influence working adults to contribute retirement savings which eventually create retirement confidence. In the context of Malaysia, a study by Habib (2007), resulted that less than 5 percent of Malaysians are prepared for retirement. Besides that, Park and Estrada (2012) mentioned that Malaysian public pension scheme is one of

the reasons which caused Malaysians are not prepared to face retirement. In line to that, according to global survey by Nielson (2013), found that there were five main reasons Malaysian are not confident in facing retirement such as losing physical ability (59%); (2) losing ability to care for basic needs (58%); (3) Losing self-reliance (53%); (4) being a burden on family members or friends (51%) and not having enough money in order to live comfortably (48%). Based on the past research findings, the study on retirement confidence is relatively new in Malaysia. Therefore, research on retirement among working adults both in the government and private sector in Malaysia is needed in order to further investigate the factors that contribute towards retirement confidence.

IV. Theories Related To Retirement Studies

4.1 Theory of Life Cycle Hypothesis

The theory life-cycle hypothesis is an economic theory which explains the pattern of consumption of an individual throughout his or her life. In other words, during the employment period, generally when people received more income than required in order to satisfy the basic needs, they will put aside the additional amount as savings for consumption during unemployed period of life. The main assumption in this theory is all individuals will choose to have a stabilize lifestyle. Furthermore, it is hypothesized as individuals are more towards future oriented in identifying the needed amount of resources and also on how these resources will be utilized over their life span. Figure 4.1 shows the diagram of Life Cycle Hypothesis which clearly states the saving and dis-saving zone while people earn income during their employment period until the retirement phase.

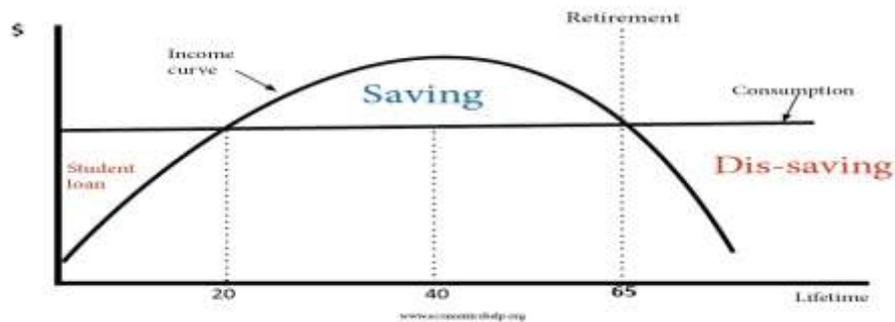


Figure 4.1 Life Cycle Hypothesis Diagram

Many researchers had used this theory in their studies which related to consumption (Hurd and Zissimopoulos, 2003; Palley 2005; Kotlikoff, 2008) saving behavior (Lusardi, 2001; Jappelli, 2005; Engen et al., 2004) retirement (Gustman and Steinmeier, 2002; Lusardi, 2006; Hurst, 2007).

4.2 Theory of Social Learning

The theory of Social Learning (SLT) by Alfred Bandure (1963 and 1977) elaborates on the way individuals learned and adopted behaviors based on observation of another person or individual in their lives. Bandura (177) mentioned that this theory can be named as modelling which is based on four conditions namely attention, retention, reproduction and motivation. Figure 4.2 below depicted the diagram of the Social Learning Theory (SLT) with the conditions.

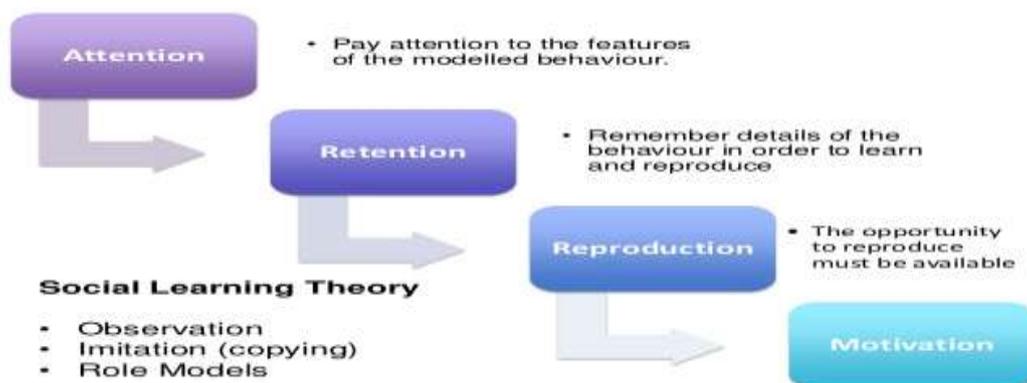


Figure 4.2: The Social Learning Theory Model

In the context of financial management behavior related studies, financial socialisation can be one of the variables which motivate individuals to save up for retirement consumption through the teaching of parents, family members, peers, education institution as well as media. Based on past literature, many studies utilized SLT such as Solheim. A. et al., (2011); Sabri and Falahati, 2012; Falahati and Paim, 2011 and McANeil and Turner, 2013.

4.3 Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB) (Ajzen & Fishbein, 2004) is a theory which was extended from the theory of reasoned action (Ajzen & Fishbein, 1969, 1980). This theory focuses on human behaviours which will be monitored by attitudes, social pressures as well as sense of control. The behavioral intention is the main factor that will influence individuals to perform the actual behavior. Three antecedents in this theory are attitudes, subjective norms and perceived behavioral control as shown in the figure 4.3.

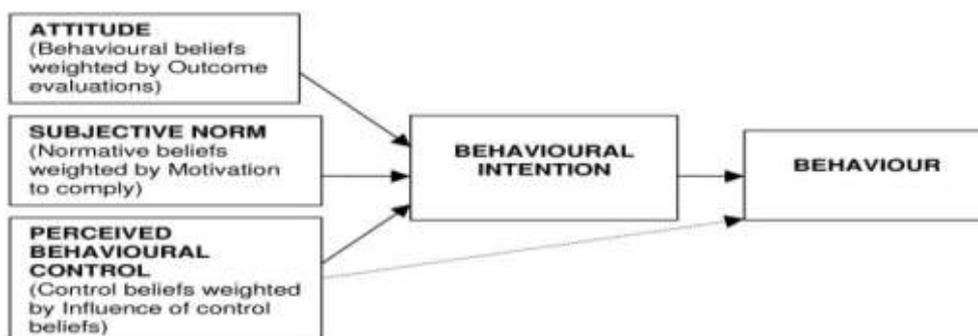


Figure 3.3: Theory of Planned Behavior

Based on past literatures, many studies related to social psychology has used TPB in investigating behavior and behavioral intention. This theory has been incorporated in the field of behavioral finance which inclusive of personal finance (Xiao & Wu, 2008; Shim, et al., 2009), Mortgage behavior (Bansal & Taylor, 2002), debt management (Xiao & Wu, 2006) credit card management (Rutherford & De Vaney, 2009) and retirement planning (Croy, Gerrans and Speelman, 2010). Since there are limited studies utilizing TPB in retirement related studies, this theory will be used in predicting determinants of retirement confidence among working adults in Malaysia.

V. Proposed Research Framework

Figure 5.1 below shows the proposed research framework for investigating issues of retirement confidence among working adults in Malaysia. Based on the discussion in the literature section, the Theory of Planned Behaviour (TPB) is proposed as the theory to be utilized in this research. The proposed research framework below illustrates all the possible variables which will be used to predict the retirement confidence among working adults. Attitude towards retirement and financial practices will be representing the antecedent attitude according to TPB. Financial socialisation will represent subjective norms, the second antecedent of TPB. Meanwhile goal clarity of retirement, insurance planning as well as expected retirement age will be representing perceived behavioral control. Financial literacy is an additional variable which will be used in the proposed framework as one of the possible determinants of retirement confidence.

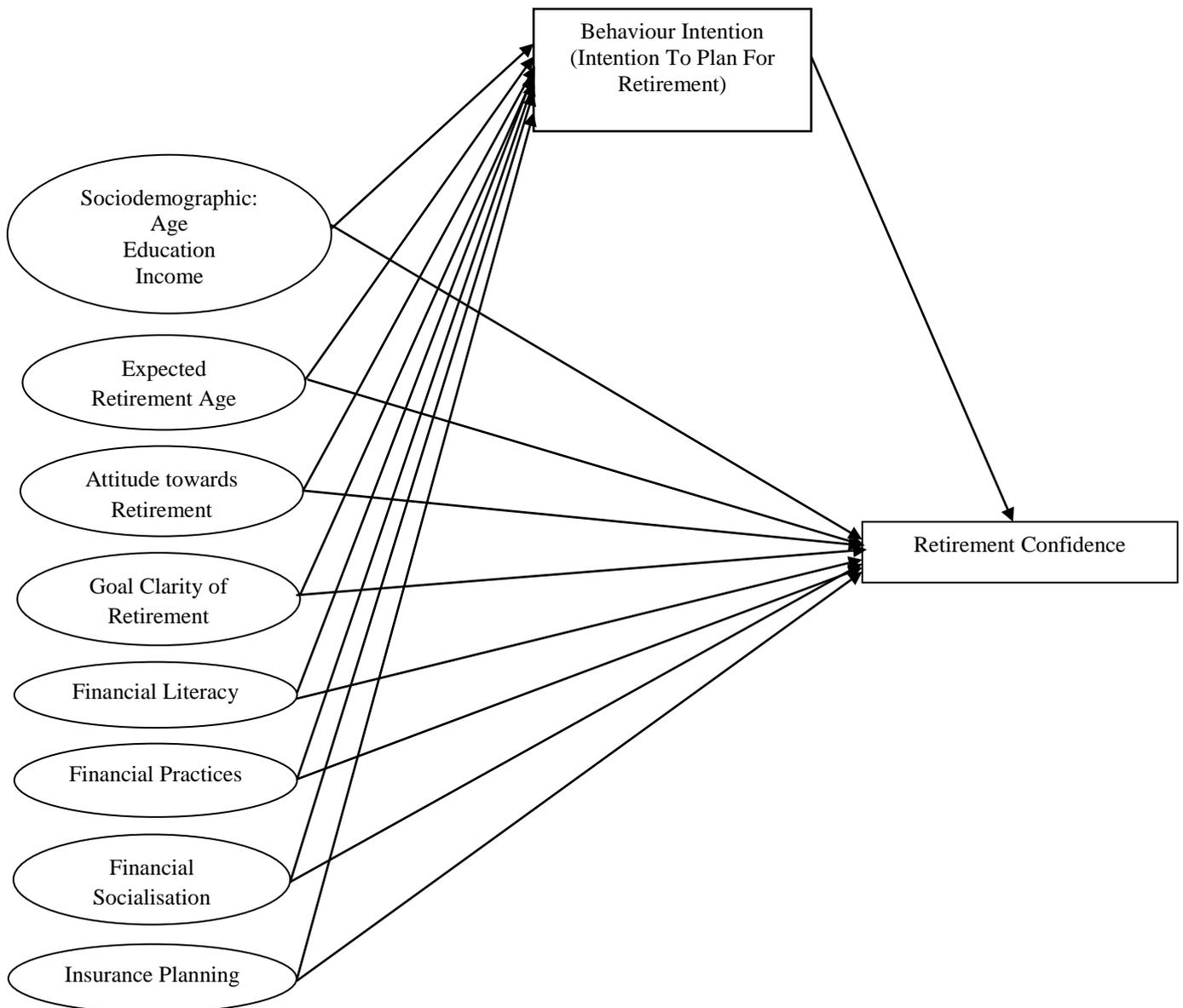


Figure 5.1: Proposed Research Framework

VI. Conclusion

As a conclusion, a comfortable retirement preparation is a global challenge with the growth of the aging population in Malaysia but it is better to address the issue at the beginning stage in order to avoid any major shortcomings. The level of awareness of retirement preparation as well as lack of financial planning for the old age is still considered low among Malaysians which will eventually influence them to face the retirement life unconfidently. Furthermore, most of the Malaysians are highly depending on pension scheme or Employee Provident Fund (EPF) as their sole income during the post retirement period which will not prepare them for their retirement life. According to the previous literatures, the research on retirement intentions, retirement planning as well as psychological wellbeing during retirement life among working adults are still understudied in Malaysia. Therefore, a study to investigate the determinants of retirement confidence is essential to be carried out among both government and private sector working adults in Malaysia.

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Arunagiri Shanmugam "Issues in Retirement Confidence among Working Adults in Malaysia: A Conceptual Paper." *IOSR Journal of Economics and Finance (IOSR-JEF)* , vol. 8, no. 6, 2017, pp. 01-11.