

Exploring Economic Status of the Elderly in Peninsular Malaysia Using Net Flow and Net Worth

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Abstract

Economically, as people reach retirement and start drawing on their savings and accumulated stocks of wealth, they may experience a lot of uncertainty as a result of lack of proper planning. In the developing world, elderly people are consistently among the poorest and most marginalized (Help Age International, 2000). This study sought to examine the economic status of the elderly using net flow and net worth. Four aspects of focus are Income, expenditure, assets and liabilities. The study also explored the Economic Status of elderly using four typologies (Positive net worth and Positive net flow, Negative net worth and Positive net flow, Positive net worth and Negative net flow, Negative net worth and Negative net flow). A total of 1841 elderly males and females from Peninsular Malaysia participated in the study. The findings revealed that elderly males and females differed in their economic status as indicated by their net flow and net worth. A significant proportion of both elderly males and females had positive net worth and net flow values.

Keywords: Elderly, Net worth, Net flow, Typology, Economic Status

Introduction

The elderly constitute the fastest growing population group in developing countries (Help Age International, 2002). In Malaysia, one out of every 16 people is an elderly person aged 60 years and above (Tengku, Jariah and Chai, 2004). In addition, over the past two decades, it has been observed that females in Malaysia outlive males by an average of 3-4 years (Ong, 2003). Economic security, good health and adequate housing are the three fundamentals of ageing with dignity as identified by the United Nations Division for the Advancement of women (2002). Economic security of the elderly depends on what they accumulated in their earlier years before old age. The economic situation of elderly in Malaysia is largely a discouraging picture with women consistently being among the poorest group in the country (Cheung, 2000; Ofstedal, Reidy and Knodel, 2003; Tengku, et al, 2004). This leaves poverty among the elderly and in particular among the women folk as a major concern. This is made worse by the fact that most females are the surviving spouse and require more economic resources to sustain their longer life. Access to resources will influence the economic well-being of the elderly.

The issues of income and expenditure; assets and liabilities are important when considering the economic status of the elderly. Elderly males and females differ in their sources and shares of income (Miller and Montalto, 1998).

Gender differences (as a result of gender socialization) between men and women may explain these differences in income sources and amounts in old age (Ofstedal, Reidy and Knodel, 2003). However, sources of income for the elderly continue to shift and diminish as they advance in age and leave economic activity (Radner, 1993). Ofstedal, Reidy and Knodel, (2003) indicated that elderly females mostly depend on family (non-fixed) sources of income while males have income from various sources.

Elderly men reported earning an income from multiple sources compared to women who predominantly reported social income (money from children) as their main source of income. However, income does not tell the whole story about the elderly's economic status. This is because the elderly have been able to accumulate assets throughout their life cycle and can draw on these assets to support their consumption as they advance in age. Assets owned make a sizeable contribution to the elderly's well-being as they enable the elderly to consume more than their current income allows (Miller and Montalto, 1998; Hungerford, Rasette, Iams and Koenig, 2002). Due to lack of (and often limited) access to opportunity to work and earn, women compared to men lag behind in asset ownership. Men have the opportunity to work and accumulate assets throughout their lives while women do not have this opportunity. Indeed, the labour force participation of women in Malaysia is only 47% compared to 82% for men (Malaysia Department of statistics, 2002). Women are mostly engaged in domestic or unpaid work throughout their life and it is expected that they do not have access to opportunities that would help them build up their resources (Hira and Mugenda, 2000; Coltrane, 1998). The study concludes that gender differences in economic status of men and women persist through into their old age.

Literature review

Economic status is the 'command over resources' (Osberge and Sharpe, 2003: 11) reflected in the household's capacity to consume goods and services and its method of financing this consumption. Economic status is determined by all economic resources available to a household measured in terms of a household's capacity to consume, capacity to accumulate wealth and the value of wealth held by the household (Ozawa, 1999:11). Access to resources is an important determinant of economic status. As such, the amount of income people receive is secondary while people's access to those opportunities that enhance their economic well-being is of primary importance.

Past research into issues of economic status has focused mainly on income (in flow) or wealth (stocks) discretely. Considering these two resources discretely is appropriate for younger populations in their early or mid-life cycles, but it does not adequately capture the economic status of people in their later life cycles or retirement years. As people grow old, they decrease their dependence on earnings and increasingly depend on retirement benefits (Quinn, 1985:66). Income captures only one resource of the elderly but ignores the use of savings and accumulated assets that the elderly can use to meet their economic needs. If these resources are ignored, the economic status of the elderly will be under estimated. Thus measures of household expenditure and assets are important indicators of economic status, particularly for the elderly. Smeeding and Smith (1998:9) observe that the average economic status of the aged differs sharply depending on marital status, minority status, and age.

Income does not tell the whole story about the economic status of the elderly. To the extent that they have assets, the elderly can consume more than current income allows (Miller and Montalto, 1998). The assets provide a steady stream of income for the elderly and the longer the time frame to their redemption, the higher will be the rate of return. Household wealth is an important complementary measure of the elderly's command over economic resources. People with low earnings are unable to set aside some money for purchase of assets. Ozawa, Lum, and Tseng (1999:32) in their research titled 'net worth at retirement and 10 years later' noted that earnings were significantly related to the level of net worth among people aged 73 and above, particularly amongst men. Else where, Smith (1997:11) also found a strong correlation between family income and net worth among those aged 70 and over. The distribution of assets is thus considerably skewed in favor of people with high incomes. Women are on the whole disadvantaged in relation to assets. The basis of this disadvantage is the social expectation of their financial dependence on men within marriage. Moreover, women's general lower pay and constraints on participation in paid work (due to socialization and reproductive roles) have profound implications on their economic status (Arber et al, 1999; Slesnick, 1994; Wang, 1995). Widowhood or divorce makes the economic situation of women worse (Smith, 1997). Greater wealth allows a household to maintain its standard of living when income falls because of job loss, health problems, or family changes such as divorce or widowhood.

Radner (1993) observed that the net worth of households maintained by whites was about 10 times more than that of households maintained by blacks or Hispanics. Even among households with similar monthly incomes, net asset holdings are far higher among whites than blacks or Hispanics. Net worth is a better indicator of permanent economic status than is income in a single year. As such, wealth can provide a cushion against temporary economic hardship. Wealth inequality among the elderly is largely the consequence of past savings decisions. In addition to income, savings are influenced by past health shocks, a desire to leave bequests to one's heirs, and incentives to private savings provided by asset tested transfer programs.

In their study on Economic status of the elderly, Smeeding and Smith (1998:22-24) reported that wealth was highest for households within the 60-74 age group. They further assert that in 1993, household wealth was eight times as large for households aged 65-74 compared with households aged less than 35 years old. The households aged 65 to 74 exceed those aged 45-54 by 50 percent in terms of their wealth. Moreover, wealth levels of older households have grown significantly over time. For example, median wealth of households in the 65-74 age group grew by 22 percent in real terms between 1983 and 1993. Wealth even more than income, remains unequally distributed across the economic spectrum among the aged. It can therefore be concluded that although access to resources within households is gendered, there is an implicit assumption of the right to share resources though this is seldom accomplished, leading to immense disparity on women.

Differences in economic status of the elderly have been attributed to various factors. As discussed above, researchers have attributed the differences in economic status of the elderly to various factors. This research uses a gender window, as gender is a cross cutting issue (Coltrane, 1998; Cheung, 2000). Differences in economic status of the elderly are discussed from a gender perspective. This can be partly explained by the fact that women and men's lives are shaped by their socialization. Gender socialization reflects the differences in characteristics of men and women (Bandura, 1977). Socialization impacts on the gender roles played by both women and men. The roles in turn shape the many opportunities (and challenges) that both males and females are exposed to (Coltrane, 1998).

Methodology

This research utilizes a database from an IRPA project titled "Economic and Financial Aspects of Ageing in Malaysia (2005)" under quality of life of older Malaysians. The data set comprises of 1841 elderly respondents within the age group of 55-75 years. These respondents were only from Peninsular Malaysia and comprised 926 females and 915 males. The statistical package for social sciences (SPSS Version 13 for Windows) was used for data analysis. All missing variables were coded as 99 while irrelevant variables were coded 999. Data on the economic aspects of the elderly involving their income and expenditure (net flow), assets and liabilities (net worth) was analyzed. Further, the relationship between net flow and net worth of the elderly was analyzed. Descriptive statistics were carried out to meet the research objectives.

Results and Discussion

A total of 1,841 elderly participated in this research and they comprised 915 males (49.7%) and 926 females (50.3%). About two thirds of the respondents were Malays, 25% were Chinese and about 9% Indians. The data revealed that 50% of the female's respondents in this research were widowed compared to only 10% men. Economic status of elderly men and women in this study was measured using a combined measure of net flow (income less expenditure) and net worth.

Net Flow

Net Flow is the difference between Household Income and Household Expenditure (Income less Expenditure). Net Flow thus reflects the excess of income over expenditures. Annual household income and expenditure values are used to compute the net flow. This study uses the household as the unit of measurement. This is because households have been used in the past national surveys in Malaysia. The Malaysian Household Income Survey (HIS) and Household Expenditure Survey (HES) collect and analyze data on the basis of household and not individuals.

The data continues to reveal that there is a gender gap in the net flow of elderly males and females. Mean net flow of resources for males in the study is RM19,284 (SD = RM31,673) compared to RM13,988 (SD = 26,606) for females. Net flow of households was also considered in terms of Positive or Negative net flow.

Positive net flow indicates an excess of household total income over expenditure while negative (or Zero) net flow indicates that the household expenditure exceeds the household total income. More than three-quarters of the elderly's households had positive net flow. About 80% of male respondents households compared to about 70% of female respondents households had positive net flow (see table ****4.12). On the other hand, 452 elderly households are in the negative net flow category where 28% are females households while men's households are about 20% in this category.

Table 4.12: Net Flow of Elderly Households by sex of respondent

Net Flow	Males		Females		Total n	%
	n	%	n	%		
Positive	718	78.5	670	72.4	1388	75.4
Negative or Zero	197	21.5	255	27.6	452	20.6
Mean Net Flow						
	19, 284		13, 988		1841	100

Literature reviewed indicated that the elderly especially women are economically vulnerable (Rubin and Nieswiadomy, 1997). It can also be deduced from Modigliani's life-cycle hypothesis that the elderly are committed to spending (expenditure) far below their earnings (inflow). This can be seen as an attempt to live within their means (positive net flow area). According to the life cycle hypothesis people try to maintain the highest, smooth consumption (expenditure) path which they can get (Schenk, 1997-8). According to the hypothesis, wealth is introduced as a factor in the consumption function of individuals and households to support consumption at the usual level. However, consumption expenditures can be supported through income and or sale of assets.

Net worth

Net worth is the difference between the total value of assets owned by the household and total debts outstanding (Assets- Liabilities). As such, net worth is a better indicator of permanent economic status than income. Positive net worth value means that the value of assets exceeds that of liabilities while negative net worth implies that the elderly's liabilities exceed their assets. The data shows that more than three quarter of the elderly in this research have positive net worth values (see table 4.13 below). About 88% males compared to 71% females have positive net worth. On the other hand about 30% of elderly females compared to 12% males have negative (or zero) net worth value. Notably, the percentage of females with negative or zero net worth values is two times more than the percentage of males. Mean net worth of male respondents households in the study is RM 95,485 (SD=RM131,023) compared to RM73,204 (SD=115,445) for females. This difference in means further emphasizes the gender gap in the economic status of females compared to males. Though women outlive men, they are disadvantaged in terms of resource ownership. As discussed earlier, women own fewer assets and their value of assets is also lower compared to that of men. The difference in net worth between elderly men and women is as a result of the cumulative effects of gender differences throughout the life cycles of males and females.

Table 4.13: Category of Net worth by sex of respondents

Net Worth	Males		Females		Total n	%
	n	%	n	%		
Positive	806	88.1	656	70.8	1462	79.4
Negative or Zero	109	11.9	270	29.2	379	20.6
Mean Net Worth						
	95, 485		73, 204		1841	100

Typology of Economic Status

Osberge and Sharpe (2003:6) assert that Economic Status is the 'command over resources'. It is the potential consumption of goods and services-related to both current income and net worth (Hill, n.d). In this study, Economic Status of the elderly will be denoted by their net worth.

The respondents' values of net worth and net flow are used to categorize them into four typologies:

- i) Those with positive net flow and positive net worth
- ii) Those with positive net flow and negative net worth
- iii) Those with negative net flow and positive net worth
- iv) Those with negative net flow and negative net worth

Table *4.14 Typology of Economic Status**

NET FLOW (Income- Expenditure)	NET WORTH (Assets- Liabilities)					
	Positive		Negative		Total	
	Male	Female	Male	Female	Male	Female
Positive	70%	53%	9%	20%	89%	71%
Negative	19%	18%	3%	10%	12%	30%
Total	63%	54%	28%	38%		

{ $\chi^2 = 88.504$, DF= 3, N= 1841, p= 0.005, 0 cells (0.0%) with expected count less than 5 }

i) Positive net flow and positive net worth

This is the ideal category as elderly in this category have both an excess of income over expenditures as well as an excess of assets over liabilities. With a positive net worth value as well as a positive net flow value, the elderly can be termed as economically secure. The data reveals that 70% males compared to 53% female respondents in this study have positive net worth and net flow values (see table **4.14 above). Women continue to lag behind men as the cumulative effects of gender differences (opportunities and limitations) in earlier years catch on in old age. As discussed earlier, both net flow and net worth have a bearing on the economic status of the elderly. They determine the extent to which the elderly can be able to have command over resources as well as their potential consumption of goods and services through the different life stages (Osberge and Sharpe, 2003:6 and Hill, n.d). For this reason, it is important for the elderly to have both types of resources.

ii) Positive net flow and negative net worth

This is the second best category as the elderly's income is in excess of their expenditures while their liabilities are in excess of their assets. When the elderly's liabilities exceed the value of assets, their net worth value becomes negative. This means that the elderly do not have a safety net to fall back on as they advance into old age.

The danger in this category is the uncertainty that comes with loss of income security (or employment) which results in a cut on inflow and hence expenditure cannot be sustained since there are no stocks to draw from. Net worth reflects a store of value and is therefore a source of potential consumption. As shown on table 4.14, less than 10% males compared to about 20% female respondents have positive net flow and Negative net worth values. The number of females in this category is more than twice the number of males. This may be explained by the fact that women are confined to the domestic realm for most of their life and do not engage in formal employment. As a result of this, most of their work is largely unpaid/underpaid and thus have little or no monetary gain which means that they are not able to accumulate any stocks compared to men (Elis, 1998, Sen, 1997).

iii) Negative net flow and Positive net worth

This is the third best typology of economic status. As mentioned above, negative net flow means that the elderly's expenditure are in excess of their income while positive net worth indicates that the elderly's assets are in excess of their liabilities.

There were less than 20% of both male and female respondents with Negative net flow and Positive net worth. Being in this category may be secure but only for a limited period of time. This is because as stocks of resources are drawn, they are bound to get exhausted someday since there is no income to replenish the stocks. Thus with no income to support consumption (expenditure), the elderly are headed for an uncertain future and are likely to suffer later on.

As proposed by Modigliani and Ando's life-cycle hypothesis, individuals accumulate and build up stocks of resources during their working years which they then draw from in old age. Being in this category of economic status could further imply that the elderly were able to successfully accumulate resources which they can now draw from to support their consumption; but the big question remains, "for how long will the accumulated stocks last?"

iv) Negative net flow and negative net worth

This is the worst off typology of economic status. With no stocks to draw from and no income to support consumption (expenditure), this leaves the elderly at serious risk of poverty. When the elderly have no stocks or have negative net worth combined with negative net flow or no net flow, the elderly may be considered as highly vulnerable to poverty. The data reveals that there are 3% Males compared to 10% females in this category. The percentage of females is more than two times that of males (see table 4.14). People entering old age in poverty are likely to remain poor with no hope of improvement (Help Age International report, 2004). Their chances of improving their economic situation become more limited as they get older and their capacity to work is diminished. In Malaysia, older people account for 5.9% of the population but 32% of the poor (Sim, 2003).

Conclusion and Policy Implications

The purpose of this research was to determine the economic status of the elderly in Peninsular Malaysia. Economic status of the elderly was measured using both net flow of resources (income less expenditure) and net worth (assets less liabilities). The objectives of this research were two fold. First objective was to examine the economic status of the elderly using net flow and net worth. Second, was to explore the Economic Status of elderly males and females using four typologies (Positive net worth and Positive net flow, Negative net worth and Positive net flow, Positive net worth and Negative net flow, Negative net worth and Negative net flow).

Elderly males and females differ in their net flow of resources. Women had lower mean net flow compared to men. It was also observed that more women than men were in the negative net flow category too. This can be explained by the lower labour force participation of women whereby their income are low thus their expenditures exceed their income giving the women a negative net flow of resources. Gender differences among males and females continue to prevail as the mean net worth of both men and women differ as well with men being on the advantaged side compared to women. Though more than three quarters of the elderly in this research have positive net worth, among those with negative net worth, women dominate compared to men. Wealth has been considered as important as it provides a cushion against economic hardships for the elderly helping them to support their consumption when income reduces. The typology of economic status shows that elderly men and women differ in their net worth. The difference is significant as indicated by the chi-square test of independence ($X^2 = 88.5$, $p = 0.005$). Among those with negative net flow and negative net worth, the percentage of females is more compared to that of males. Women in this typology account for more than three times the percentage of males.

The use of sex-disaggregated data in research leads to very different implications, especially when there are substantial sex differences. A life-cycle approach to gender analyses provided a comprehensive understanding of the gender differences among the elderly. As the individuals pass through the various stages of the life cycle, they experience different opportunities and limitations shaped by their sex and gender roles. Women lack access or have limited access to opportunities to advance. As such more women compared to men are poor. There is an increase in age of the elderly and the issue of longevity is surfacing. This research considered elderly up to the age of 75. However, if elderly beyond this age were studied, they may probably be worse off especially women who still continue to outlive men. Though they live longer than men, women own very few economic resources and assets. The elderly in future may be different due to higher education attainment. Education attainment influences the opportunities available for an individual.

With the growing economic vulnerability, variation in the living arrangements of the elderly and the great demographic transformations that Malaysia is going through, it is important for policy makers to deal with the issues of economic security of the elderly (especially women as they outlive men and are the majority).

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