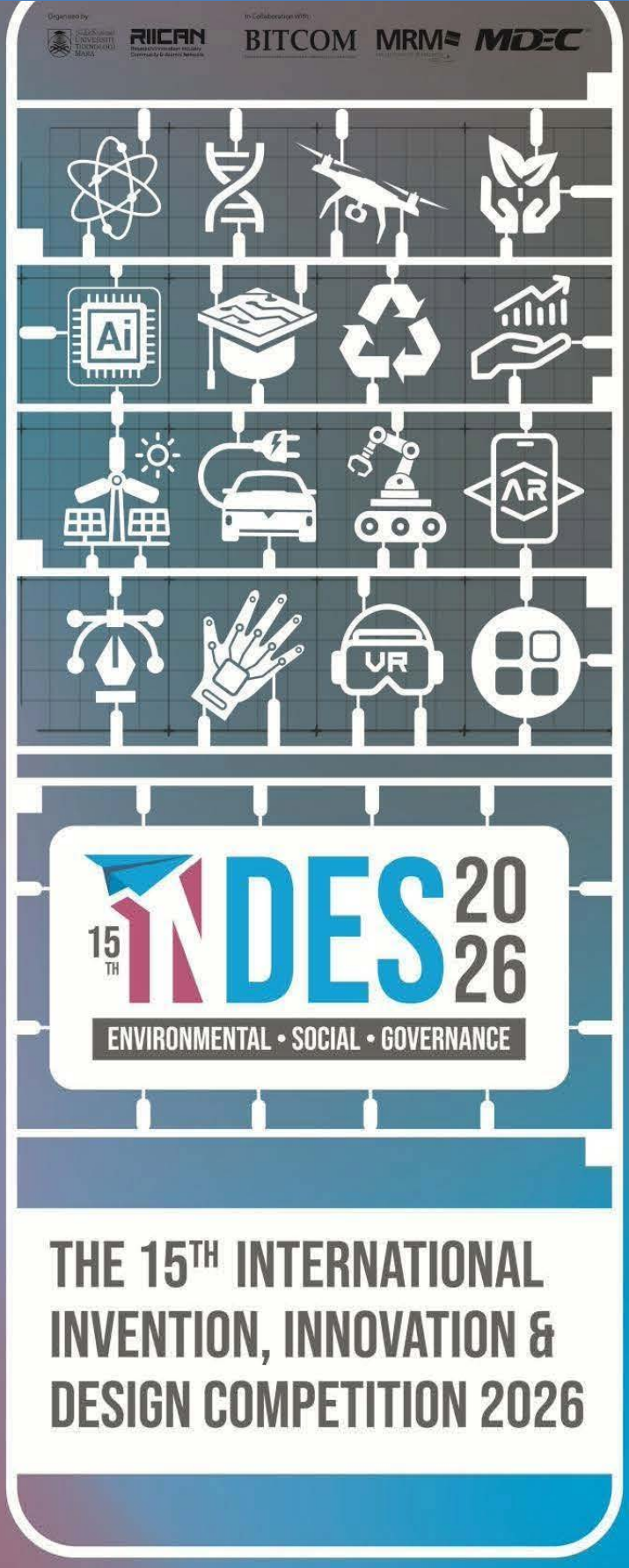


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THE 15th INTERNATIONAL
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SMART TAX-LINKED RETIREMENT SAVINGS SYSTEM (STAR): A DUAL-CHANNEL INCENTIVE MECHANISM FOR MALAYSIAN CIVIL SERVANTS

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ABSTRACT

Retirement savings among Malaysian civil servants remain a key policy concern. Present-biased spending limits voluntary saving, and reliance on future pensions or statutory benefits may weaken retirement adequacy. Tax refunds can support asset accumulation; however, many recipients treat them as disposable income and spend them immediately rather than save for retirement. This study introduces the STaR System, a Smart Tax-Linked Automatic Retirement Savings mechanism that directs tax refunds into retirement assets. After the Inland Revenue Board confirms an eligible refund, the system transfers a default share, for example, 80 percent, into a retirement savings account. It pays the remaining amount in cash to preserve short-term liquidity. Users can adjust the allocation or opt out. The default setting applies behavioural principles to reduce inertia, present bias, and impulsive spending. STaR adopts a dual-channel accumulation model. It combines regular salary contributions with an additional stream from tax refunds. This structure creates a double-saving effect without reducing monthly take-home pay. A simple projection indicates that redirecting RM3,000 annually into retirement savings at a 5 percent return over 20 years can generate nearly RM100,000 in additional assets. The mechanism is feasible because existing Malaysian institutions, including LHDN and the EPF or a dedicated civil servant retirement fund, can support its implementation. STaR benefits individuals, the government, and the broader economy by improving retirement adequacy, reducing future fiscal pressure, and strengthening long-term financial stability. It offers a scalable behavioural fintech approach to sustainable retirement security.

Keyword: *Malaysian civil servants, Retirement savings, STaR system, tax incentives, refunds*

1. INTRODUCTION

Retirement saving behaviour among Malaysian civil servants has become an important policy and financial planning issue. Although civil servants often have stable employment, many still face difficulties in building adequate retirement savings due to living costs, debt, inflation, and short-term spending needs. Tax refunds offer a useful but underutilized opportunity to strengthen retirement wealth, as many taxpayers spend their refunds soon after receiving them instead of treating them as long-term assets.

This study proposes the Smart Tax-Linked Automatic Retirement Savings System (STaR) as a behavioural fintech mechanism to improve retirement saving behaviour. STaR redirects a default portion of an eligible tax refund into a retirement savings account and pays the balance in cash. For example, the system may allocate 80 percent of the refund to retirement savings and 20 percent for immediate use. Users may adjust the allocation or opt out, but the default setting encourages saving by turning the refund into an automatic retirement contribution.

STaR creates a dual-channel savings model. The first channel consists of regular salary-based retirement contributions. The second channel adds periodic contributions from tax refunds. Together, these channels increase retirement savings without reducing monthly take-home pay. The system applies behavioural principles such as default effects, commitment saving, mental accounting, and present-bias reduction.

The expected outcome is higher retirement savings among civil servants. For example, a civil servant who redirects RM3,000 each year into retirement savings with a 5 percent annual return over 20 years could accumulate nearly RM100,000 in additional retirement assets. This shows that modest annual refunds can make a meaningful contribution when invested automatically and compounded over time.

This study contributes by integrating tax refund administration, behavioural finance, and retirement savings policy into one practical system. Unlike conventional tax incentives, STaR does not merely encourage saving. It makes retirement contributions the default outcome while preserving personal choice. Policymakers should pilot STaR among Malaysian civil servants and assess default rates, opt-out behaviour, user acceptance, administrative feasibility, and long-term savings effects. If successful, STaR could be expanded to other taxpayer groups and included in Malaysia's broader retirement savings framework.

1.1 Innovative Objectives

The innovative objectives of this study are:

i. To develop the STaR System as a smart tax-linked automatic retirement savings mechanism for Malaysian civil servants.
ii. To convert tax refunds from passive disposable income into active long-term retirement savings.
iii. To design a default-based savings mechanism that reduces present-biased spending while preserving individual choice through adjustment and opt-out options.
iv. To introduce a dual-channel retirement accumulation model that combines regular salary-based contributions with tax-refund-based contributions.
v. To assess the feasibility of integrating STaR with existing Malaysian institutions, such as LHDN, EPF, or a dedicated civil servant retirement fund.
vi. To demonstrate how behavioural fintech can improve retirement adequacy without reducing monthly take-home pay.

2. METHODOLOGY

The researchers used the quantitative findings to guide the development of the STaR System. The findings identified behavioural and policy-related factors that influence retirement saving behaviour. They also provided empirical evidence for designing a tax-linked automatic retirement savings mechanism. The STaR System operates as a behavioural fintech solution that converts tax refunds into retirement savings. After the system confirms an eligible tax refund, it redirects a default portion of the refund into a retirement savings account. The proposed model allocates 80% to retirement savings and 20% as a cash refund. Users may adjust the allocation or opt out, but the default setting encourages long-term saving behaviour. This methodology links quantitative behavioural analysis with system development. The empirical results support STaR as a practical intervention to improve retirement saving behaviour among Malaysian civil servants through tax incentives, perceived government policy, and automatic savings architecture.

3. FINDINGS

The findings support the development of the Smart Tax-Linked Automatic Retirement Savings System (STaR) to improve retirement savings among Malaysian civil servants. The PLS-SEM results show that attitude and tax incentives significantly affect retirement saving behaviour. Civil servants with positive views about retirement planning, and those who perceive tax incentives as useful, are more likely to save. Subjective norms do not significantly affect retirement saving behaviour. This means that support or pressure from family, friends, and colleagues has limited influence on saving decisions. The results also show that perceived behavioural control and perceived government policy do not strengthen the tested relationships. Overall, personal views and financial incentives have a stronger effect on retirement savings than social influence, perceived control, or perceptions of government policy. STaR is therefore a suitable intervention because it directs part of tax refunds into retirement savings. This makes tax incentives an active savings tool without reducing monthly take-home pay.

4. OUTCOME/NOVELTY

The main outcome of this study is the Smart Tax-Linked Automatic Retirement Savings System (STaR), which offers a practical mechanism to strengthen retirement savings among Malaysian civil servants. STaR converts tax incentives from a passive financial benefit into a direct source of retirement savings. Rather than allowing individuals to use the full tax refund as disposable income, STaR allocates a default portion of each refund to a retirement savings account. Users may change the amount or opt out.

STaR integrates tax administration, retirement savings, and behavioural finance into one model. It also creates a dual-channel savings structure by combining regular salary-based retirement contributions with additional savings from tax refunds. As a result, STaR can increase long-term retirement assets without reducing monthly take-home pay.

Overall, STaR offers a simple, scalable, and policy-relevant approach to improving retirement adequacy. It promotes more effective use of tax incentives and supports long-term financial security among Malaysian civil servants.

5. CONCLUSION

The STaR System offers a practical way to improve retirement savings among Malaysian civil servants by directing part of their tax refunds into retirement accounts. The findings show that attitudes and tax incentives strongly influence saving behaviour. These factors support STaR as an automatic savings mechanism. STaR combines salary-based contributions with tax-refund-based savings. This structure can increase retirement assets without reducing monthly take-home pay. The system also preserves individual choice by allowing users to adjust their contributions or opt out. Future studies should pilot STaR among civil servants to examine user acceptance, opt-out behaviour, administrative feasibility, and long-term savings outcomes before expanding the system to other taxpayer groups.

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