



EMPLOYEES PROVIDENT FUND



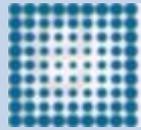
MALAYSIA SOCIAL SECURITY SYSTEM: CHALLENGES & WAY FORWARD

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- Malaysian Pension System
- EPF's Background
- Issues and Challenges
- Pension Reform and improvement of the EPF Scheme

MALAYSIAN PENSION SYSTEM



AGEING NATION DEFINED



Ageing nation

Aged nation

Super-aged nation

Note: 65+

60+

Age 65+ > 7% of population

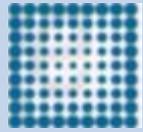
Age 65+ > 14% of population

Age 65+ > 21% of population

For developed countries

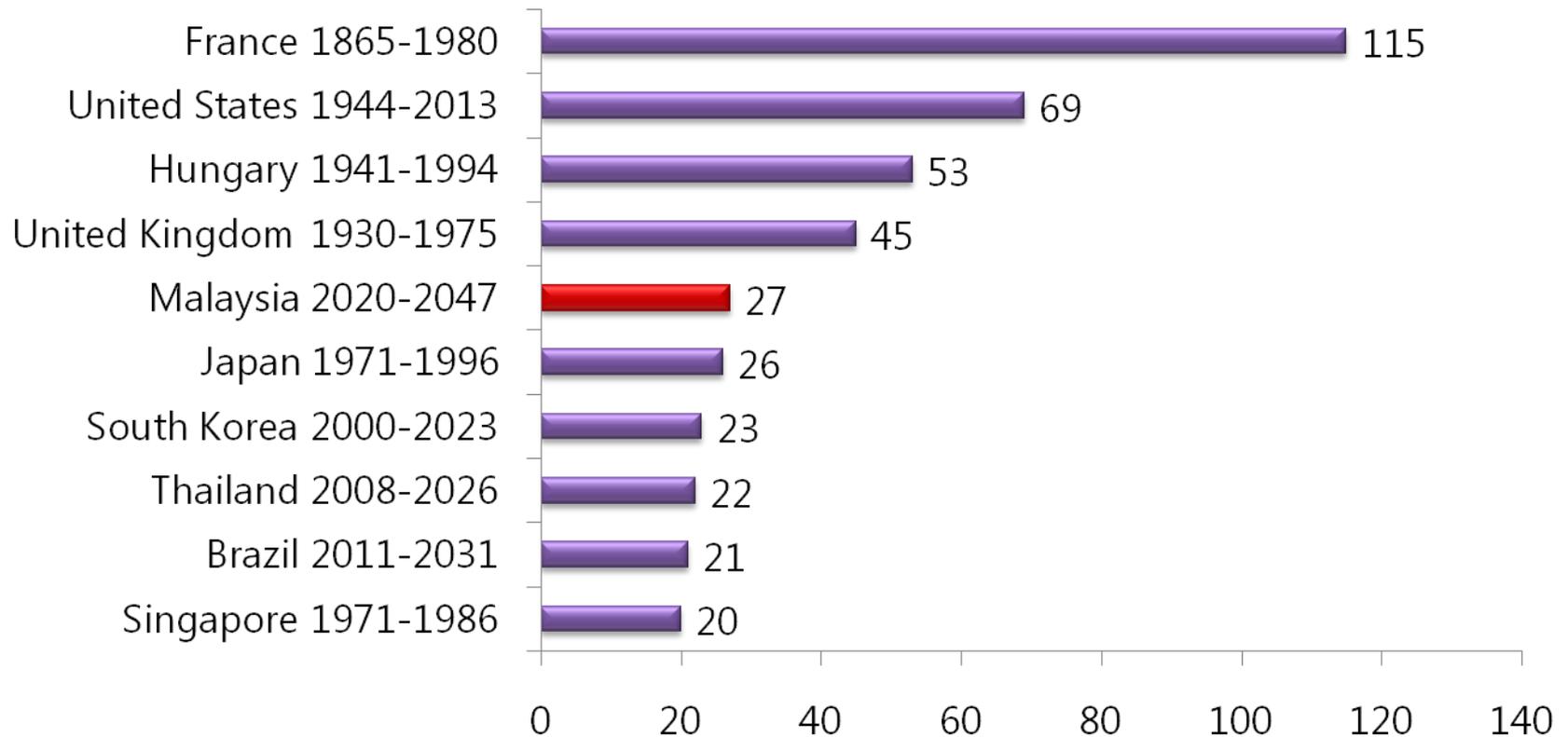
For developing countries

MALAYSIAN PENSION SYSTEM



SPEED OF AGEING IN YEARS

From an ageing to aged nation



MALAYSIAN PENSION SYSTEM

Multi-pillar Pension Framework

	Pillar 0	Pillar 1	Pillar 2	Pillar 3	Pillar 4
Objective	Poverty eradication	Basic income	Income replacement	Extra income	Informal Support
Participation	Residual	Mandatory	Mandatory	Voluntary	Voluntary
Contributions	No	Yes	Yes	Yes	No
Financing	Unfunded (Tax)	Partially funded	Funded (contributions)	Financial assets	Financial assets
Scheme(s)	<ol style="list-style-type: none"> 1. Social assistance (means-tested) 2. Zakat (means-tested) 	NA	<ol style="list-style-type: none"> 1. Public Service Pension Scheme 2. EPF Scheme 3. Armed Forces Retirement Scheme 4. SOCSO Scheme 	Private retirement system (Eight fund managers with 24 products)	<ol style="list-style-type: none"> 1. Inter-generation transfer 2. Access to healthcare 3. Housing
Administrator	<ol style="list-style-type: none"> 1. Social Welfare Department 2. State zakat authorities (14) 	NA	<ol style="list-style-type: none"> 1. Post-service Division, Public Service Department 2. Employees Provident Fund Board 3. Armed Forces Fund Board 4. Social Security Organisation Board 	Securities Commission	

BACKGROUND

- Established on 1st October 1951.
- EPF Act 1991.
- National mandatory savings scheme for private sector employees retirement.
- Monthly contributions by employers and employees – 11% from employees and 12% from employers (23%)
- Contributions: Account 1 (70%) & Account 2 (30%).



BACKGROUND

Coverage of EPF Scheme

- Private sector workers
- Non-pensionable public sector employees

MANDATORY



- Self-employed
- Domestic helpers
- Pensionable public sector employees
- Foreign workers

VOLUNTARY



BACKGROUND

Contribution Rates

		Employer (%)	Employee (%)	Total (%)
Age Salary	< 60 years < RM5,000	13	11	24
Age Salary	< 60 years > RM5,000	12	11	23
Age Salary	> 60 - 75 years < RM5,000	6.5	5.5	12
Age Salary	> 60 - 75 years > RM5,000	6	5.5	11.5
Foreign workers	Voluntary	RM5	11%	-



Account 1
70%



Account 2
30%

TOP 10 GLOBAL SOVEREIGN FUNDS

Ranking	Organization	Country	Total Assets (million)
1	Government Pension Investment	Japan	\$1,221,501
2	Government Pension Fund	Norway	\$858,469
3	National Pension	South Korea	\$405,521
4	Canada Pension	Canada	\$206,173
5	National Social Security	China	\$205,168
6	Central Provident Fund	Singapore	\$200,376
7	Employees Provident Fund	Malaysia	\$182,216
8	GEPF	South Africa	\$117,681
9	National Wealth Fund	Russia	\$88,179
10	Future Fund	Australia	\$86,196

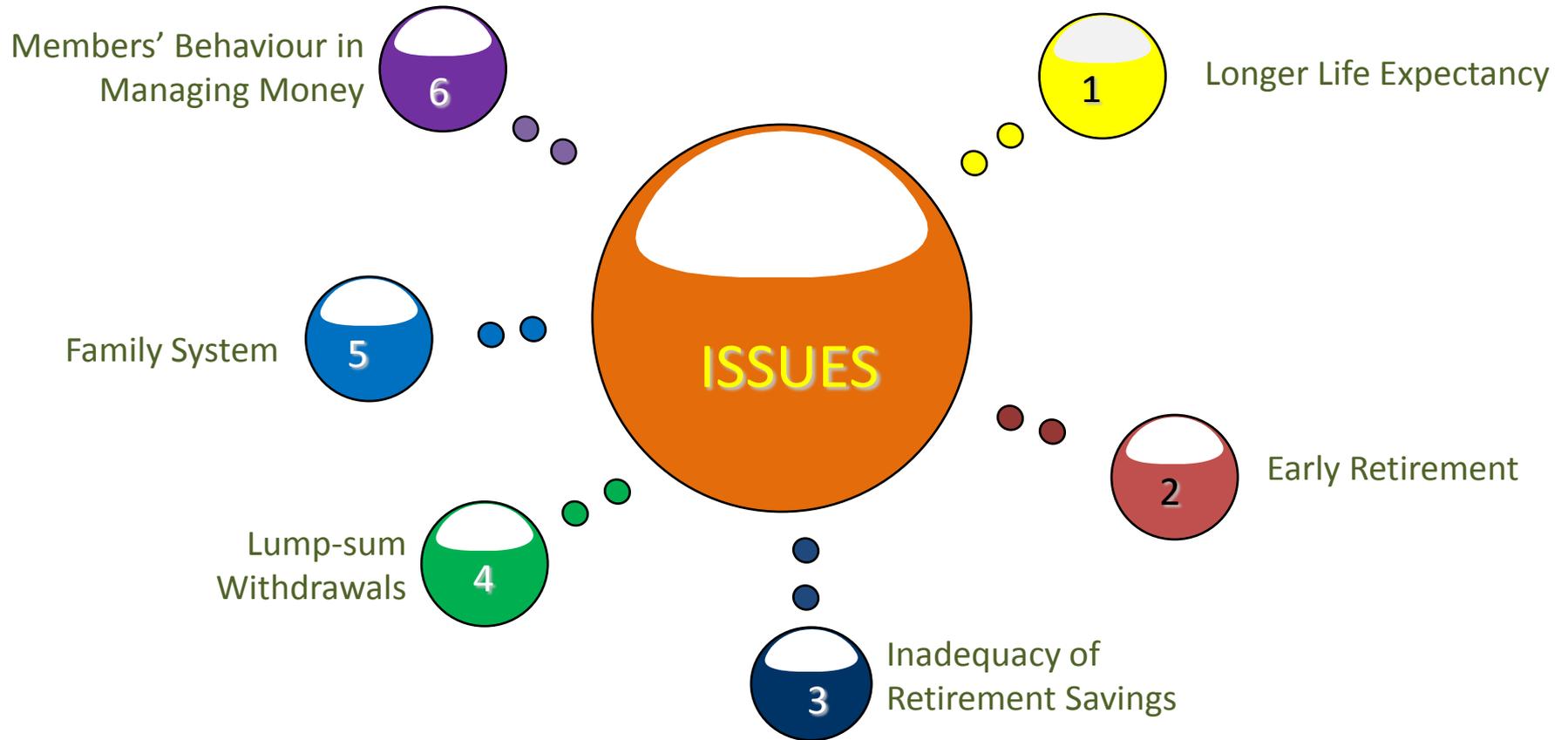
Source: Tower Watson, 2 September 2014

TOP 15 GLOBAL PENSION FUNDS

Ranking	Organization	Country	Total Assets
1	Government Pension Investment	Japan	\$1,221,501
2	Government Pension Fund	Norway	\$858,469
3	ABP	Netherlands	\$415,657
4	National Pension	South Korea	\$405,521
5	Federal Retirement Thrift	USA	\$375,088
6	California Public Employees	USA	\$273,066
7	Canada Pension	Canada	\$206,173
8	National Social Security	China	\$205,168
9	Central Provident Fund	Singapore	\$200,376
10	PFZW	Netherlands	\$196,933
11	Employees Provident Fund	Malaysia	\$182,216
12	Local Government Officials	Japan	\$179,820
13	California State Teachers	USA	\$172,424
14	New York State Common	USA	\$164,008
15	Florida State Board	USA	\$146,266

Source: Tower Watson, 2 September 2014

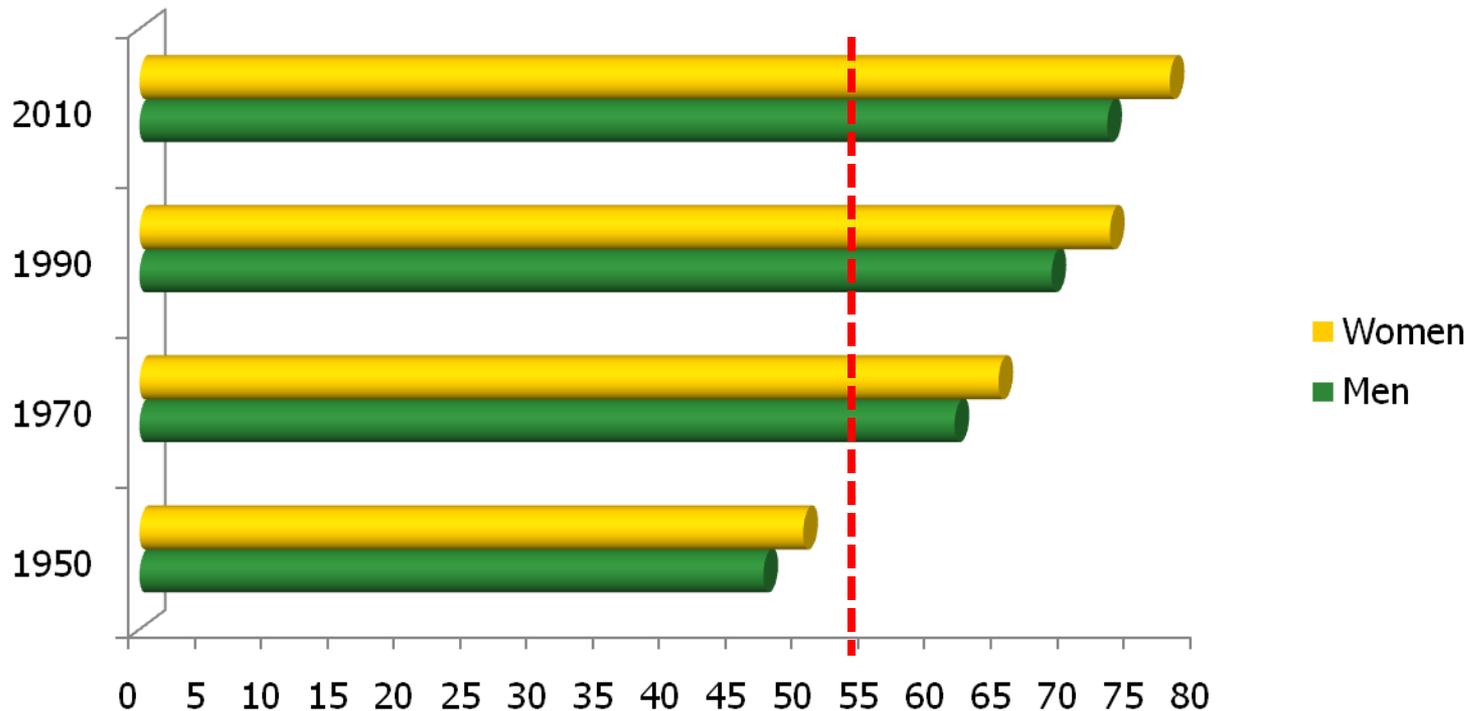
ISSUES AND CHALLENGES



CHALLENGE 1: LONGEVITY RISK

Withdrawal Age

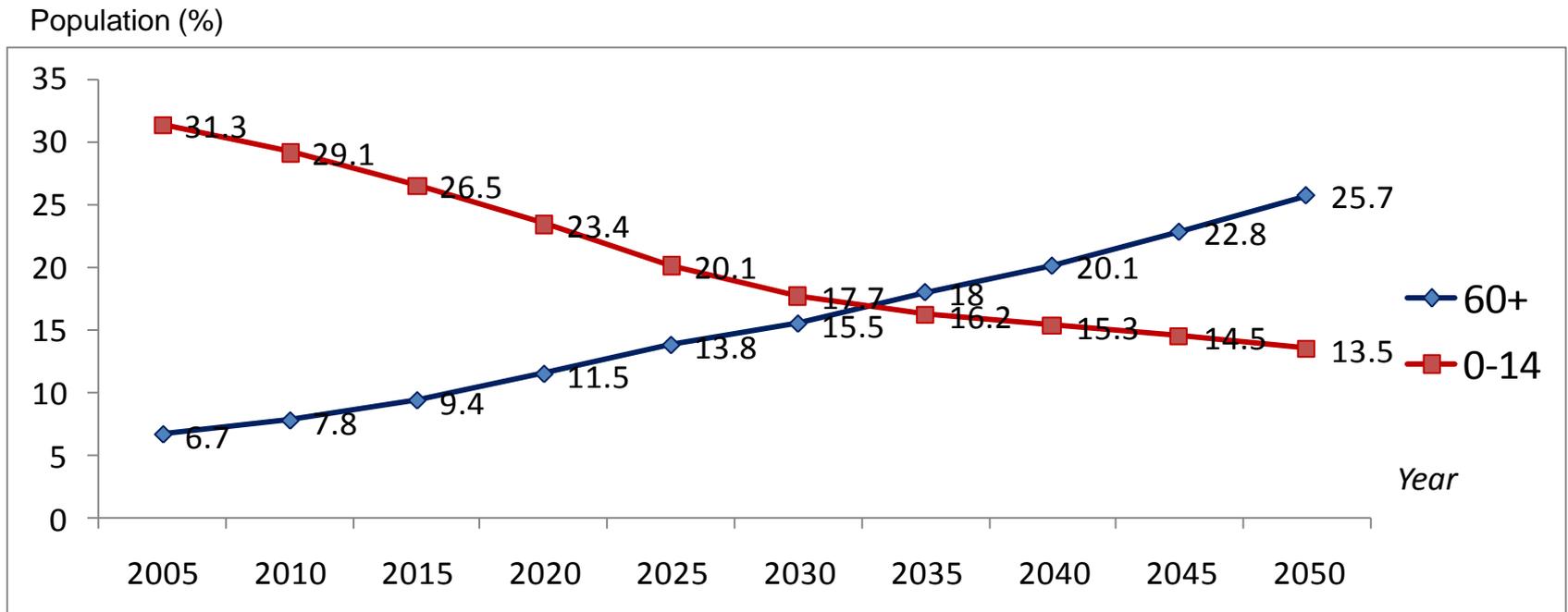
- Malaysian life expectancy increased to age ± 75 years from age 50 years (1950).
- Many workers stop working at age 55. Most are still healthy and productive.
- They have on average 20 years more time to live.



CHALLENGE 1: LONGEVITY RISK

Bigger Elderly Population

- Malaysia is forecasted to become an aged nation by 2030 when 15% of the population are the elderly.
- Malaysia will be a matured nation around 2036 when a percentage of those aged 60+ equals to the percentage of children aged 0-14 years.
- Loss of healthy life expectancy (Malaysia) : Women 10 years; Men 7 years (WHO).
- Increase government burden - bigger number, longer retirement period & higher healthcare cost.



Source: United Nations Population Division, World Population Prospects, The 2008 Division (Malaysia)

CHALLENGE 2: EARLY RETIREMENT

55-59	60	61-64	65	65+
Bangladesh, 55 Benin Burkina Faso Central African Fiji Gambia Guinea Kenya Kuwait Mali Nepal Nigeria Papua New Guinea Senegal Sri Lanka, 55	Algeria Antigua & Barbuda Bahrain Brunei Cambodia China Dominican Republic Ghana Guatemala India Indonesia Jordan South Korea Laos Lebanon Philippines Thailand Vietnam MALAYSIA (July 2013)	Armenia Azerbaijan Bulgaria Colombia Costa Rica Cuba Kazakhstan Kyrgyzstan Latvia Lithuania Malta Moldova Nicaragua Panama Romania Serbia Seychelles Singapore , 62	Albania Andorra Argentina Australia Austria Bahamas Barbados Belgium Brazil Cape Verde Chile Croatia Denmark Finland Georgia Germany Greece Honduras	Belize Bermuda Canada Iceland Norway

** Minimum retirement age for private sector is at 60 years old effective from **1 July 2013**.

CHALLENGE 3: INADEQUACY OF SAVINGS

69.1 % of members age 54 retire with savings <50K (2013)

Savings Range (RM)	Total Members	Percentage (%)	Lasting Period RM800/Month (Years)
< 50,000	161,263	69.1	5.21
50,001 – 100,000	26,898	11.5	10.41
100,001 – 200,000	24,552	10.5	20.83
200,001 – 300,000	9,182	3.9	31.25
300,001 – 400,000	4,113	1.8	41.67
400,001 – 500,000	2,285	1.0	52.08
500,001 – 1,000,000	3,675	1.6	104.16
> 1,000,000	1,331	0.6	-
TOTAL	233,299	100	

- Average savings for all members age 54 in 2013 is RM70,283 (Last: 7.3 years).
- Active members (73,168, 31.3% of total members age 54): RM166,650 (Last: 17.4 years).
- Inactive members (160,131, 68.7% of total members age 54): RM26,250 (Last: 2.7 years).

CHALLENGE 3: INADEQUACY OF SAVINGS

90% of active members have monthly income ≤ RM5K (2013)

- Salaries too low to derive sufficient retirement savings.
- Low-income group will benefit from minimum wage.

Salary Range (RM)	No. of Active Members	Percentage (%)
<500	664,286	10.2
500 – 1,000	1,438,712	22.0
1,001 – 2,000	1,924,147	29.5
2,001 – 3,000	986,791	15.1
3,001 – 5,000	860,979	13.2
5,001 – 7,000	287,202	4.4
7,001 – 10,000	182,183	2.8
>10,000	186,538	2.9
Total	6,530,838	100.00

- 29.3% of active members have monthly salary RM900 and below.
- 79.7% of active members have monthly salary RM3,000 and below (urban low income group).

CHALLENGE 3: INADEQUACY OF SAVINGS

Basic Savings

Members Who Achieved Basic Savings According to Age (30 April 2014)

Basic Savings Quantum (RM)	Total Members (million) (A)	No. of Member Achieved Basic Savings According to Age (million) (B)	% (B/A)	Active Member (C)	% (C/B)	Inactive Member (million) (D)	% (D/B)
196,800	13.26	2.03	15.3	1.88	92.6	0.15	7.4

Analysis:

- Total members : **13.26 million**
- Achieved the quantum of Basic Savings according to age: **2.03 million (15.3%)**
 - Active members: **1.88 million (92.6%)**
 - Inactive members: **0.15 million (7.4%)**

CHALLENGE 3: INADEQUACY OF SAVINGS

Replacement Rate

An individual needs between 60% to 80% of their last salary when they retired,

BUT

Majority of the members finished their retirement savings within 5 – 10 years.



CHALLENGE 4: LUMP-SUM WITHDRAWAL

Age 55 Withdrawals

- Minimum: RM2,000
- Interval : 30 days once.

**Anytime
(partial)
(c)**

- All amount at once.
- New contributions after full withdrawal : Minimum RM2,000 ;or one year period, whichever first.

**Lump-sum
(a)**

- Combination of monthly (b) and partial (c), anytime

**Combination
(d) = (b+c)**

- Minimum RM250 for a period of at least 12 months; and
- Can be revoked at anytime.

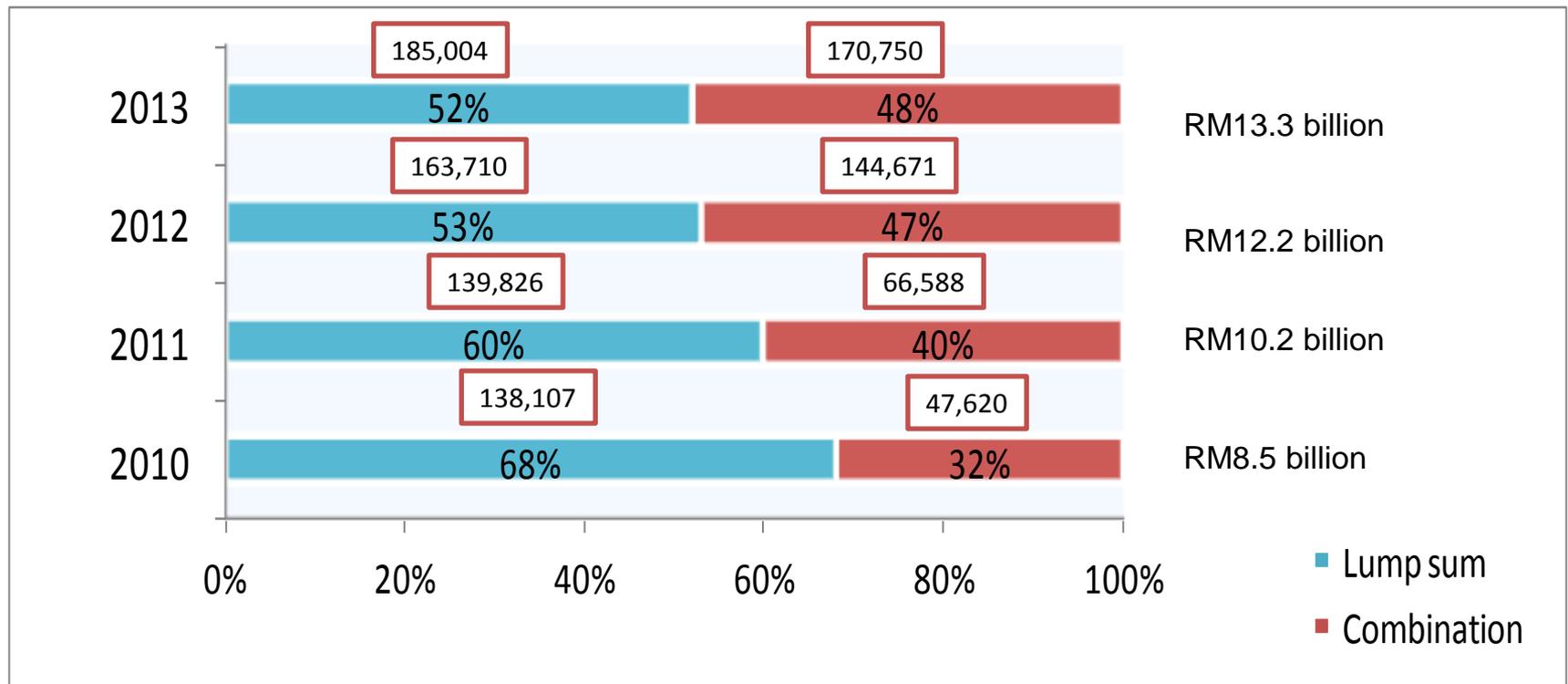
**Monthly
(b)**

(e) Automatic Annual Dividend Payment (18 February 2013)

CHALLENGE 4: LUMP-SUM WITHDRAWAL

Age 55 Withdrawals

Statistics 2010-2013



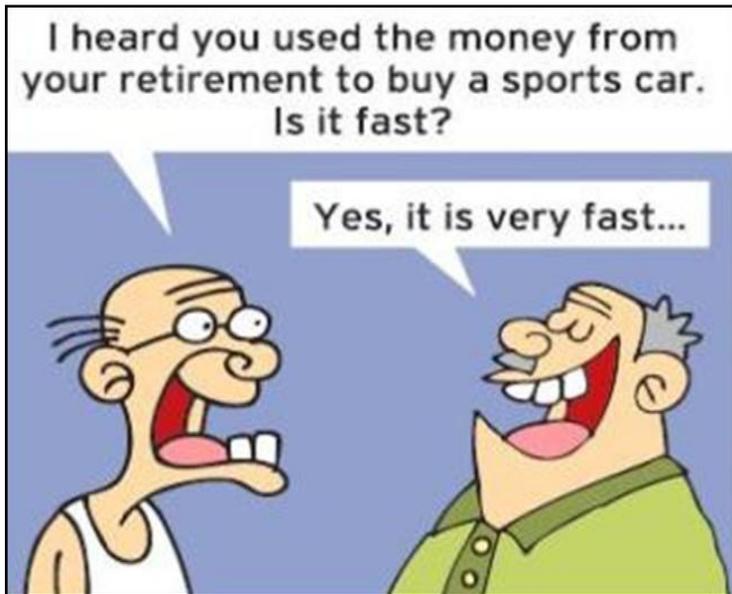
CHALLENGE 5: FAMILY SYSTEM

'Sandwich Generation' refers to the generation where they need to take care of their elderly ones (e.g. parents) and at the same time, taking care of their younger ones (e.g. sons, daughters and grandchildren).



CHALLENGE 6: MEMBERS BEHAVIOUR

How members manage their retirement savings?



EPF policy on withdrawal stays

DON'T WORRY: Members can still take out savings at 55, despite raising of retirement age to 60

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THE current policy of allowing Employees Provident Fund (EPF) members to withdraw their savings at the age of 55 will be maintained.

Deputy Finance Minister Datuk Donald Lim said despite calls from various quarters to raise the withdrawal age to 60 following Parliament's passing of the Minimum Retirement Age Bill in July, the policy would not be changed for the time being.

"As for now, we have no plans to change the policy and the government will not make any amendments at this point," he said in reply to Datuk Idris Harun (BN-Tangga Batu)

yesterday.

Currently, contributors are allowed to make partial EPF withdrawals at 50 and full withdrawals of their savings upon their retirement at age 55.

Lim had said that there was a possibility that the age for full withdrawal from the EPF by contributors would be raised to 60 years and partial withdrawal to 55.

Lim was also reported as saying EPF was looking at providing a transition period for contributors who have already planned to withdraw their contributions within the next few years.

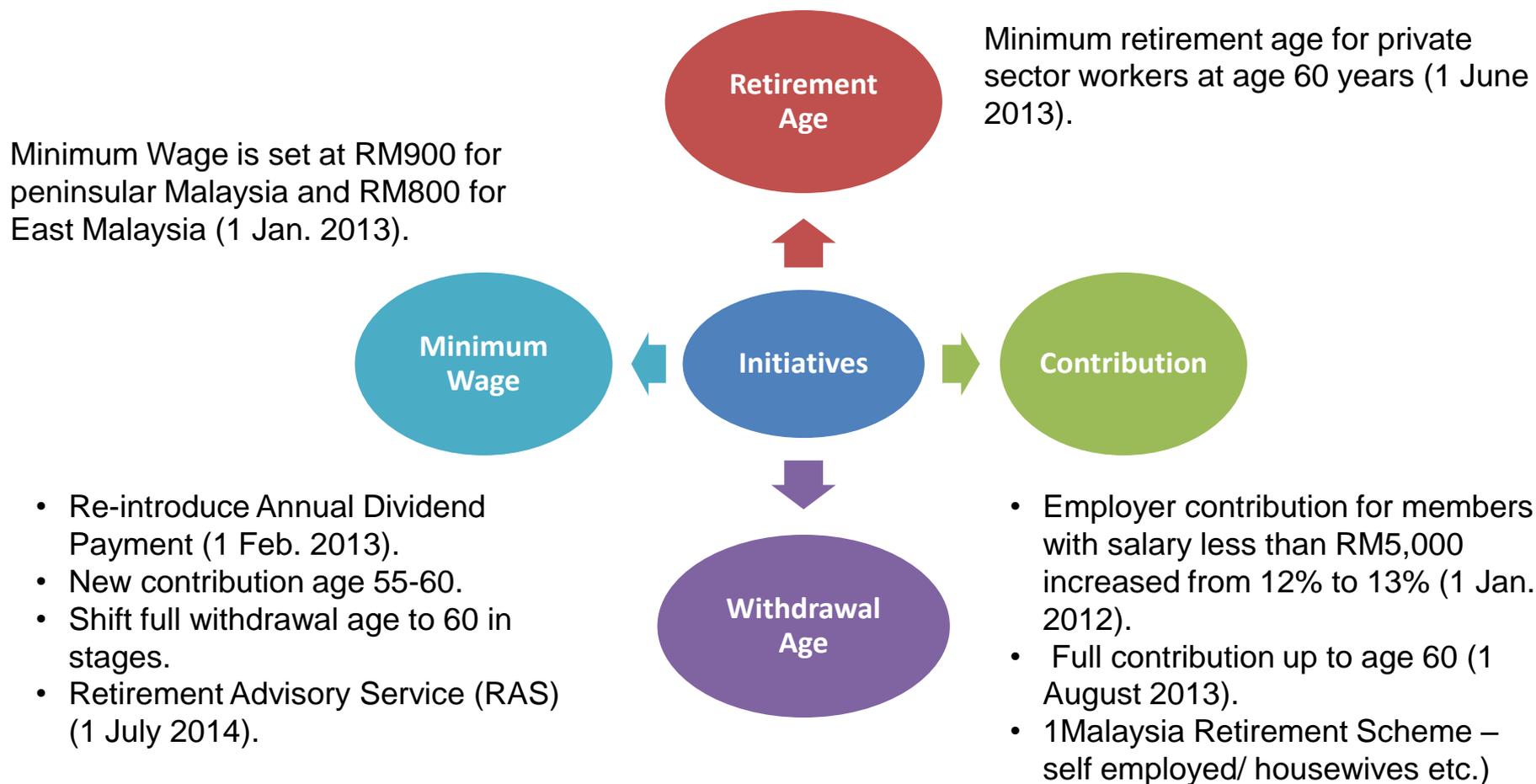
For the new withdrawal age to take effect, it would mean that the Employees Provident Fund Act 1991 would need to be amended.

AT THE
DEWAN
RAKYAT
YESTERDAY

1991 would need to be amended.

PENSION REFORM & IMPROVEMENT OF EPF SCHEME

To increase savings and improve adequacy



WAY FORWARD

To address longevity risks and to meet future needs due to demographic changes

- Annuity (re-introduce)
- Critical Illness Insurance
- Coverage to informal sector
- Social Security Master Plan
- Advisory Service

US magazine: Malaysia's
healthcare is No. 3 worldwide



BY TAN YI LIANG



PETALING JAYA: A study by the American publication *International Living* rates Malaysia's healthcare system as the third best out of 24 countries in its 2014 Global Retirement Index - beating out Spain, Italy, Ireland and New Zealand, among other countries.