CHAPTER ONE

1.1 INTRODUCTION

The purpose of any social security scheme is to protect the public from social and economic distress. Each country has its own plans to meet its social security needs, although, the objectives, principles and philosophy maybe somewhat similar. Similarly, Malaysia has a diverse set of largely complementary social security schemes and institutions varying in scope, size and as well as in underlying philosophy (Asher, 1996). While social insurance principles are applied in the sickness, maternity, employment injury, and invalidity benefit schemes for the workers administered by the Social Security Organization (SOCSO), the dominant philosophy is that of state- mandated individual provision for old age. Accordingly, the Employees Provident Fund (EPF) is the dominant social security institution in Malaysia providing retirement benefits for private sector employees and the public sector employees who are not in the Government Pension Scheme.

These social security agencies in Malaysia have played an important role in protecting the people and contributing to economic growth (Economic Report, 1995/96). As Malaysia entered the 21st century, apart from economic prosperity and better quality of life, increase in longevity and changes in
demography will have impacts on the life of all Malaysians. As people live longer, they will need additional resources to finance the extra years of life after retirement. Therefore the question of adequacy of retirement benefits is very crucial here.

1.2. OBJECTIVE OF STUDY

The Employees Provident Fund is an institution primarily charged with the provision of protection in old age. It is a forced savings mechanism for individuals preparing themselves financially for old age where monthly contributions from employer and employee at a pre-determined rate is credited into their account and to which dividend is added. On attaining the withdrawal age (55 years) the member can withdraw the accrued sum. However, it is also possible for members to make pre retirement withdrawals. The government is introducing more and more pre retirement withdrawals, thus, forgetting the original intention of the scheme. It is treated more like a short-term savings scheme. However, the life expectancy rate in Malaysia for Male is 69.7 and 74.7 for female (Social Statistical Bulletin, 1998). This trend suggests that Malaysia have an aging population. This is of concern to the EPF, because the retirees will require financing for a longer period. Therefore, the main objective of this study is to examine whether the Employees Provident Fund provides adequate benefits to its members to sustain them through their retirement.
1.3 SCOPE OF THE STUDY

The study on the adequacy of benefits is confined to the members of the Employees Provident Fund who had attained the age of 54 years and actively contributing to the members. It is necessary to conduct the study on the active members because their last drawn salary will be used as a measure to compute the replacement rate. The study on the other members was confined to analysing their savings pattern.

1.4 SIGNIFICANCE OF STUDY

This study will provide evidence on the adequacy of retirement benefits provided by the Employees Provident Fund because thus far not many studies have been done in this area. The policy makers can also use this study as the basis to review the pre retirement withdrawals and the rates of contributions if the savings are insufficient to provide adequate benefits to the members after retirement. Apart from this, it is also hoped that, this study will add to the existing literature on social security.
1.5. LIMITATIONS OF STUDY

Like any other studies, there are limitations to this study. The main limitation of the study is that, it was conducted based on the data available from the computer database and not from the information obtained through the members who have already withdrawn. If the study had been done by obtaining the information from the members directly then, the actual situation regarding the adequacy of savings could have been examined. However, the records regarding the members who have already withdrawn is not kept by the Employees Provident Fund. Hence, the study was conducted based on assumptions.

1.6. ORGANIZATION OF THE STUDY

Chapter two, which follows, provides a review of literature pertaining to social security. Chapter three will present the research methodology, while Chapter four discusses the results of the study. The final chapter presents the conclusion and recommendations of the study.