CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSION

This study examined the adequacy of the savings provided by the Employees Provident Fund to its members. The benchmark used to measure the adequacy of savings was the replacement rate established by the ILO Convention No.102 of 1952. According to the convention when the members' saving is converted to an annuity payment for a period of 20 years after retirement, the monthly payment should not be less than 40 percent of the last drawn salary of the member.

The study generally showed that about 60.3 percent of the total members as at 31st December had savings of RM 10,000 and below. Furthermore about 57 percent of the members who have attained 54 years had savings of RM 10,000 and below. The study also showed that about 64 percent of the active members at the age of 54 years had savings RM 50,000 and below. The findings on the dormant members showed a similar pattern where almost 99 percent had savings of RM 50,000 and below.
In this study it was also found that a member should have a minimum of RM 40,000 and above so that he can live above the hardcore poverty level. However, the member should have a minimum of RM 80,000 in his savings in order to breach the poverty income line.

The study also showed that, the savings of all the members in the EPF who have attained the age of 54 years as at 31st December 1999 do not meet the replacement rate requirement as established by the ILO convention No.102 of 1952. Therefore, it is obvious that the saving of the EPF members is not adequate to provide them with a comfortable living after retirement.

5.2 RECOMMENDATIONS

The provision of adequate benefits during retirement has become the major concern of many countries. Even the developed countries such as the OECD countries are facing the challenges of financing adequate old age benefit.

Therefore, Malaysia being a developing country would certainly face difficulty in providing adequate benefit for old aged. The Employees Provident Fund is not a pension (defined benefit) scheme, as such members do not receive monthly pensions during retirement.
Under the savings scheme of The Employees Provident Fund, members at retirement age would receive all their savings in lump sum in the form of retirement wealth. This nature of the provident scheme does not guarantee sufficient retirement savings due to many reasons namely;

5.2.1 Savings very much depended on contributions and income of members. That is if the income for a particular month is low, then contribution will also be low. Furthermore, if the rate of contribution is low invariably the contributions will also be low.

5.2.2 Investment real rate of returns depends on the availability of investible fund and the general macro economy of the country. The EPF investment is restricted to low risk investment instruments. Therefore, the return on the investment is low and this is reflected in low rate of annual dividend to members.

5.2.3 The outflow of fund by way of pre retirement benefits. To date in the EPF there are almost about 9 types of pre retirement where a member can withdraw 40 percent of his total savings before retirement. This will certainly dilute the savings of the member.
Therefore, under such circumstances the EPF scheme, which is based on the defined contribution principle need to be reviewed. As any scheme on the principle of providing old age benefit should strive to give sufficient benefit to its members so that the recipient will be able to live out their retirement without an abrupt reduction in their standard of living. The EPF can consider the following options to ensure that the members receive adequate benefits upon retirement;

(i) Firstly to restrict the number of pre retirement withdrawals to a few. The EPF should go back to its original objective of providing retirement benefits to its members at old age and not to act as a provider of funds to purchase household items like computers. As it is there are already about 9 different types of pre retirement withdrawal schemes thus far, any new scheme will further dilute the savings of the members. In Chile for example, the members of the provident fund are not allowed to make any withdrawals before retirement hence the members can enjoy a replacement income of more than 50 percent of the last drawn salary.

(ii) To review the current contribution rate. The current rate of 23 percent, that is 12 percent employer's share and 11 percent employee's will not be sufficient to provide the members with the adequate savings upon retirement. The government should consider to increase the employer's share so that the employees will not be burdened with a lower take home salary. There have been constant calls by the various trade unions in
Malaysia to increase the employer's share so that the employers will be responsible to their employees.

(iii) To provide old age benefits via the defined benefit insurance scheme, which is based on contribution and privately managed as practised in the Western Europe. This kind of scheme will guarantee members with a steady income after retirement.

(iv) To convert the present lump sum payment scheme to annuity payment scheme but with indexing to provide for the increase in the cost of living. The government pension is somewhat based on this principle where the pension payments will be reviewed each time the government servants get a salary revision.

(v) To consider a multi-tier system like the one which is already in existence in the advanced countries such as Australia, Denmark, the Netherlands, Switzerland and the United Kingdom. The multi-tier approach allows a distinction to be made between poverty reduction and income replacement goals. Under the system the social security institution will ensure that the members will get benefits that are above the poverty level and at the same time achieve a replacement rate of more than 50 percent. The ILO also recommends this scheme as it can solve the weaknesses of the provident
fund scheme in respect of adequate benefits and seen as a departure from the current approaches used in the provision of old age benefits.