

## **Economists: Why let 8m tap EPF when govt can afford cash assistance?**

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One key amendment made to Budget 2021 yesterday was the expansion of the eligibility criteria for Employees Provident Fund (EPF) Account 1 withdrawals.

The latest i-Sinar programme allows more than eight million contributors to apply to make lump sum withdrawals from their long term retirement savings as long as they can demonstrate their income had been affected by Covid-19.

Since Nov 6, when the budget speech was tabled in the Dewan Rakyat, the programme has seen three iterations, following pressure from government component party Umno.

Of EPF's RM960 billion total assets, Finance Minister Tengku Zafrul Abdul Aziz said the withdrawal scheme will involve RM70 billion (7.3 percent).

Starting next year, EPF's income will also shrink as the minimum contribution has been lowered from 11 to 9 percent.

"This won't jeopardise EPF's dividends but instead help many," the minister said yesterday during his winding-up speech.

The fund is expected to embark on an asset liquidation plan to fund depositor withdrawals.

PN can afford to spend more

Two experts Malaysiakini spoke to had concerns about allowing such a large number of people to dig into their retirement savings.

Instead of tapping into EPF, both opined that the government could have spent more to provide assistance to households amidst the Covid-19 pandemic.

Economist Hafiz Noor Shams previously analysed that the government was not spending enough in Budget 2021 to support the economy, by virtue of what he regarded as an overly conservative deficit estimate.

The Perikatan Nasional (PN) government projects its 2020 fiscal deficit (when

spending exceeds income) to be six percent and plans to improve the deficit - by either spending less or banking on its income to improve markedly - to about four percent by 2022.

In comparison, Malaysia's deficit had been 6.7 percent in 2009, following the Global Financial Crisis.

In light of the economic downturn, Hafiz said the government should be spending more to turn things around, even if it means incurring more deficit.

"The government can afford to give out the assistance and fund it through bond-raising exercises via the Covid-19 fund. The government can afford additional deficit spending.

"As long as the budget deficit number is below eight to 10 percent relative to the gross domestic product (GDP), I don't think the (budget) amendments matter much," Hafiz told Malaysiakini.

Tricia Yeoh, CEO of public policy think-tank Ideas, said PN was risking the long-term financial security of eight million people by taking the EPF route.

Even if the government needed to borrow more money to give aid, she opined

that it was worth it.

“(I prefer) targeted cash assistance instead of EPF withdrawals because they would ultimately amount to the same thing.

“The whole point of EPF withdrawals is to increase available cash-in-hand for household consumption,” Yeoh said.

Like Hafiz, she concurred that the pandemic justified an even more expansionary budget than the RM322.54 billion allocated.

“While I am cautious of the effects of our fiscal deficit and debt-to-GDP ratio, I believe during the pandemic a higher deficit and debt-to-GDP ratio would have been justifiable,” she added.

Even without the option of lump-sum withdrawals, millions of Malaysians already struggle to save enough for retirement.

EPF CEO Tunku Alizakri Alias recently said that 43 percent of members below the age of 55 had less than RM10,000 in retirement savings in Account 1. This accounts for 5.38 million of its 12.5 million members.

He added that more than half of its members (54 percent) who are to retire in 2021 have less than RM50,000 saved.

This amounts to 137,000 of 245,000 such members. Supposing they lived off their pension alone for the next 20 years, they would have enough for just RM200 per month.

Back in 2017, EPF raised its minimum savings target for members aged 55 to RM228,000.

Just 18 percent of the members met that mark.

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