

EPF launches plan to boost retirement savings for low-income earners

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The country's largest retirement fund has announced a new proposal to help raise the retirement savings of low-income workers, particularly those who make less than RM900 a month, said Employees Provident Fund's (EPF) top boss Datuk Shahril Ridza Ridzuan.

The new proposal would see minimum contributions to be pegged to the minimum wage of RM900 a month, which would effectively put RM72 more a month into the retirement funds of workers earning minimum wage.

Although the idea could see these workers taking RM33 less home per month from their salaries, Shahril Ridza said it would result in them having more money when they retire compared with the current formula where contributions are not pegged to the minimum wage.

Another proposal is to allow workers two options to make full withdrawals of their savings, one at the age of 55 and the other at 60, Shahril Ridza said.

These ideas were just proposals and the EPF was currently gathering public feedback before making a decision, he said.

This was in response to negative reactions to the idea of raising the withdrawal age to 60. Until these options are implemented, EPF members are still able to withdraw all their savings at 55.

"There is a misconception that we are going to align the withdrawal age to 60 immediately. We are still gathering public feedback on our proposal and the final decision will only be made based on that feedback.

"I urge all our members to give us their feedback by participating in our survey online at the EPF's website," said Shahril Ridza in a briefing to the media today.

Other proposals included extending dividend payments from age 75 to 100 and to introduce a Syariah-compliant retirement savings scheme.

The EPF's proposal to extend the minimum withdrawal age to 60 from 55 has drawn much flak from members, unions and politicians who have argued that it should be maintained at 55.

Addressing these criticism, Shahril Ridza explained that the proposal had two options.

Under option one, members would be able to fully withdraw their savings at 60, which

is now the minimum retirement age in the private sector.

But because this option would be done in stages over a 15-year period, only those aged 43 years and below would be able to fully withdraw their savings at 60.

Those aged 52 years and above would not be affected if the proposal is accepted and implemented next year.

Under the second option, workers would be able to make full withdrawals at 55 but for those who continue to work, they could still contribute each month to the EPF to enjoy its annual dividends.

In his presentation to the media, Shahril Ridza compared the differences in savings between the two options using a test case of an individual earning RM3,000 a month and yearly dividend rate of 6%.

Both individuals had accumulated RM100,000 in savings with one deciding to withdraw this amount at 55 and the other at 60.

The individual who decided to only withdraw all his money at 60 would have earned RM33,823 more in total retirement savings than the person who withdrew at 55.

Shahril Ridza added that the proposal to align contributions with the minimum wage level was mainly targeted at employers who were trying to skirt the law when it came to the wage policy.

This is since some employers are now calculating contributions based on employees's basic salaries, instead of their gross salaries or basic salaries plus allowances.

For instance, a worker earning a basic salary of RM600 a month and an allowance of RM300 are getting contributions based on the basic salary instead of the total salary of RM900.

"Many employers tell their workers that they are giving them more money at the end of the month by reducing the amount of money the employer is contributing to EPF.

"But with this alignment, the extra money going to the retirement savings is coming more from the employer than the employee."

If the alignment became policy, employers and workers will have to contribute RM117 (13% of RM900) and RM99 (11% of RM900) respectively per month.

A worker would thus take home a nett salary of RM801 a month if the EPF implements its proposal, compared to RM834 a month if deductions for EPF are calculated on the basic salary of R600 a month.

"We are trying to convince workers to take a reduction in short term cash flow for long term benefit," Shahril Ridza said in response to the point that the idea would result in

minimum wages workers taking home RM33 less than they do now. – April 20, 2015.

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