Why people distrust EPF proposal, even if it sounds good
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Ibrahim is a government pensioner but even he is against the proposal to change the age when private sector workers can withdraw their retirement savings, from 55 to 60.

Criticism of the Employees Provident Fund (EPF) proposal has highlighted once again, the problem of low wages among a majority of Malaysians which leads to paltry retirement savings.

Arguments that it would increase their savings are also being ignored as workers don’t trust Putrajaya to manage their money in the first place.

Plus, the proposal overlooked the vital fact that most Malaysians don’t spend their retirement savings wisely in the first place, said a financial planner.

“It does not matter if you take the savings out at 55 or 60, or how much money you have. If you don’t manage it properly, no matter how much you have, it will still run out in a few years,” said the financial planner, who requested anonymity.

Value of compound interest

For EPF, waiting another five years can earn contributors up to 33% more in their total savings as a result of compound interest from the fund’s annual dividends.

For instance, a contributor who has saved up to RM100,000 by 55 can earn an extra RM33,000 if he withdraws at 60, if EPF pays a minimum dividend of 6% for each of those five years.

This was shown in an EPF briefing on April 20 where it compared test cases of the savings of two individuals, both of whom earned RM3,000 a month and had accumulated RM100,000 at 55.

But Ibrahim, the former civil servant from Klang, is still sceptical of the EPF’s argument of higher returns at 60.

“The savings are a reward for all the work they put in till 55. It’s what they look forward to and what they are using to pay off their outstanding loans in order to retire comfortably.

“There is a fear that even if they get more when they withdraw at 60, they won’t be able to enjoy it if they die a few years after 60,” said Ibrahim, who did not want to give his full name.

Private sector worker Abdul Rahman Mohd Said echoed this sentiment, saying that among the 50-plus age group, there were different expectations about how much longer they would live.

A person turning 55 expected to live healthily until 60, which was why they would want to take those savings then and enjoy it for the next five years, said Rahman.

"For Muslims, especially those in the 55 to 60 age group, this is when they want to go on the haj. So they want to withdraw those savings at 55. They don't expect to live long after 60."

George, a financial planner, said this attitude towards EPF savings was a common mistake many made.

Planners like him advise clients to treat their savings as a government pension fund, where contributors withdraw a certain amount each month to pay for food and utilities.

"It's not supposed to be used for paying off the car loan or paying for your kids' education or going on holiday. It should strictly be for your monthly expenses."

In fact, the EPF itself views the savings the same way. It calculates that for workers retiring this year, they should have at least RM196,800 saved up in order to live on at least RM800 a month.

Rahman, who will reach 55 in six years, said that this aspect – financial awareness and advice – was missing from the EPF proposal and one reason people were hostile to the proposal.

"If you push the idea of using your savings as a pension system, maybe people would be open to the proposal."

Trust deficit

Contributors are also sceptical of the proposal as it comes at a time when almost everyone knows of the 1Malaysian Development Berhad (1MDB) financial scandal and its consequences for the country.

"Many workers are losing confidence that the EPF is properly managing their money," said Malaysian Trades Union Congress (MUTC) secretary-general N. Gopal Kishnam.

"There are worries that the money will be used for questionable business deals and that is a big worry among workers."

Last December, the National Union of Bank Employees (NUBE) had already raised the spectre of EPF being used to invest in debt-ridden 1MDB.

Although EPF chief executive officer Datuk Shahril Ridza Ridzuan had said the fund has not been approached to buy shares in 1MDB companies, this has not soothed concerns.

"The question is why are they changing the rule now?" said Rahman, explaining the public's suspicions over EPF's motive in light of the 1MDB saga.

This fear that EPF money will be mismanaged and result in lower dividends is especially worrisome for low-income earners, since they have to rely entirely on their retirement savings for everything.

"For middle-class workers, they have enough money to put in insurance, in education funds for their children and to pay off their loans," said George.

"But people earning low incomes, they don't have any other savings at the end of the month."

This was why, said Ibrahim, for some people, they have little choice but to use their EPF savings to pay off loans or to fund a child's university education.

According to a Khazanah Research Institute's study in 2014, 62% of active EPF contributors earned less than RM2,000 a month.

Since wages are kept low, especially in the manufacturing and low-skills services sectors, the amount they contributed to EPF will also be low, said Gopal Kishnam.

This subsequently affects their total retirement savings as the EPF dividend is currently still in the single digits.

So the solution to raise retirement savings did not lie entirely with EPF, said economist Azrul Azwar Ahmad Tajuddin.

Putrajaya has to also ensure that wages are fairly and regularly raised to match productivity and inflation so that workers have enough to live by all the way until after they retire. – April 21, 2015.

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