

# THE RIGHT RATE.



Considering that the EPF is the only mode of savings for most Malaysians, is the current contribution rate sufficient?

By G Sivalingam



IT IS AN open secret that contributions to the Employees' Provident Fund (EPF) for the majority of the workers in Malaysia are insufficient for them to meet their basic needs for the rest of their lives. The mandatory retirement age for most workers in Malaysia is either 55 or 56, and the life expectancy for the average Malaysian is now about 75 years.

During colonial times, or under colonial rule, which only ended about half a century ago, the life expectancy of the average Malaysian was probably about 55 years.

The retirement age was also determined by the colonial government on the basis of requests by serving British civil servants to return home at 55 to enable them to enjoy the rest of their lives in England from a handsome pension drawn on the Malaysian Civil Service. The average Malaysian will know that the retirement age is not the only thing that we have inherited and preserved from our British colonial masters. We also inherited their habit of drinking afternoon Ceylonese tea, their Westminster model of Parliamentary democracy and probably their work ethic.

Coming back to the inadequacy of the EPF or the paltry sum the average worker receives after a quarter century of hard work for either

the government or the private sector or both runs against the grain of a 'Caring Society' of which we are all too proud of. The irony is that the EPF contributions from employers and employees will go towards creating a group of aged men and women who will have inadequate food, shelter, clothing and health services, unless, of course, they are government pensioners. In fact, we may be creating two classes of senior citizens, ie, 'government pensioners' and 'others'. The government pensioners will be well looked after because it is the government servants themselves who determine the amount of pension they get. With a pensioner's card, they are also entitled to a host of services, including free medical care.

What is at the root of the problem of the inability of the EPF savings to finance the basic needs of the elderly? Most economists would argue that a host of factors, including suppressed wages, a low level of contributions to the EPF and a low level of dividends paid on savings by the EPF are contributory factors. The strategy of

economic development adopted by the Malaysian Government has been to build Malaysia's competitiveness on low-cost labour. This was our attraction to labour-intensive multinationals looking for locations outside the United States, Europe and Japan where labour costs are astronomical compared to that in Malaysia. By controlling the prices of essential goods like rice, sugar, milk and other essentials, we were able to keep labour costs low. We cannot even think of raising wages because China's wage level is much lower than ours, and multinational corporations have already moved out of Malaysia to China.

If we had moved to a higher technological level much earlier, say, two decades earlier, our wages would have gone up just like that of Singapore. In the 1970s, Singapore had a National Wages Council that kept wages

low, but as a result of the aggressive push to high-tech industries and the recruitment of highly skilled human capital from Asian and Eastern European countries, Singapore has been able to come out of the 'need to control wages' mindset.

The relatively low percentage and level of employees' and employers' contributions to the EPF may also be at the root of the small amount of money that is available for withdrawal at the end of one's working life. However, the solution to this may not be so easy or straightforward as

the worker may not be able to contribute more if he is receiving a subsistence or near subsistence wage, where every ringgit is important to him. The low wages are one reason why workers are not averse to moonlighting, although it is a violation of the rules of employment.

The dividends that the EPF pays have dropped over the years from 8% to about 4%-5%. The EPF defends itself by arguing that it is higher than the market opportunity cost of capital or the

market interest rate. The worker will receive less if he had invested the money in a commercial bank's savings or fixed-deposit account. While this may be true, it may not answer the question as to why other mutual funds are able to pay higher dividends. The Amanah Saham Nasional (ASN), for example, pays a much higher dividend of between 7%-9%. The EPF will argue that this is because the ASN invests in riskier assets and so earns a higher average return. This may not be entirely true as the ASN is able to cream stocks listed on Bursa Malaysia that consistently pay higher dividends. This is because it is able to pick and choose winners in Bursa Malaysia with the active assistance and support of the government. Some prominent trade unionists have alleged that EPF funds, on the other hand, have been used to bail out

bankrupt or near-bankrupt companies listed on Bursa Malaysia. Obviously this practice, if it is true, has to stop.

There is a case to pay more attention to the quantum of dividends paid by the EPF as this has implications for the strategy of economic development chosen by the government. If EPF dividends are low, the workers will demand higher wages to compensate themselves for lower dividends. This will have implications on the low-wage policy that is apparently attracting the multinational corporations. Also, in terms of being fair and equitable, mutual funds supported by the government such as ASN and EPF should be seen to be distributing similar amounts of dividends. Otherwise, it may have implications on social stability as one group would feel that it is not favoured by the government. It also runs against the precepts of the Rukun Negara.

There is also the option of increasing the mandatory retirement age unless, of course, workers have been employed as a matter of charity. With an increase in life expectancy, it may be unwise to discriminate based on age unless the worker is disabled or judged by an unbiased and objective panel of experts as not being able to do his or her work. In Western countries, there is no retirement age for certain occupations. Workers can also sue for 'age discrimination'. The government may find it difficult to change the retirement age because it is entrenched in a clause in the Federal Constitution. Well, all it needs is a two-thirds majority, which the government won on the slogan of *Tradisi Memelihara Rakyat*. If the Western countries can extend the retirement age, then should not the government be saying *Malaysia Boleh?*

The EPF issue is a difficult issue as it has implications on the government budget and fiscal policy and the strategy of economic development. Extending the retirement age should be seriously considered, unless, of course, we want the burden of a group of citizens who are unable to care for themselves on their meagre EPF 'wealth'. **mb**

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