Title: Everything you need to know about EPF under 10 minutes

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Introduction

In the wake of COVID-19, topics surrounding EPF have hit the headlines throughout the year of 2020. In an effort to assist those in financial predicaments to foot the bill and keep them afloat, EPF has complemented the government's measures to put more cash into the rakyat's pocket such as the reduction in employee's contribution from 11% to 7% with effect from April 1, 2020 to December 31, 2020, as well as the i-Lestari and i-Sinar withdrawal facility.

Hence, before diving into how these measures may impact us, let's first deconstruct some of the facts of EPF. EPF, short for Employee Provident Fund, is the world's 12th largest pension fund and currently has more than RM930 billion in assets under management as of December 2020. It is a retirement saving fund where an employee has to contribute at least 11% of their monthly salary towards the scheme, while the employer is obligated to additionally fund at least 12% of employee's salary to their savings (13% if salary is below RM5,000). A member's EPF savings consists of 2 accounts, where the first account is dubbed "Account 1" and the second is dubbed "Account 2". The former stores 70% of the monthly contribution while the latter stores the remaining 30%. There is a separation of accounts due to different restrictions in place. Withdrawals from Account 1 is strictly prohibited until the age of 50, whereas withdrawals of savings from Account 2 is permitted for down payments or loan settlements for a member's first house, education and medical expenses, investments, or when the member reaches 55 years of age.

How are these funds used?

The pension fund is managed with a prudent investment strategy and it is always on the lookout to buy and sell assets. With regards to its i-Lestari and i-Sinar programme, it was estimated that RM45 billion will be withdrawn by the end of 2021. Hence, EPF would have to liquidate its assets and rebalance its portfolio to lessen financial burden from the Covid-19 fallout. Despite that, as Malaysia is on its path to economic recovery, EPF has reported a gross investment income of RM17.33 billion for the third quarter ended September 30, 2020 (3Q20), up 14.6% from the RM15.12 billion it reported for 2Q20, where nearly half of the income comes from its fixed income instruments (eg: Malaysian government securities, loans).

Summary of Q3 Results

Q3 2020			
Portfolio	*Asset % of total investment asset*	*Gross Investment Income (RM billion)*	*As % of income*
Equities	*39%*	7.29	42
*Fixed Income Instruments**	49%	8.18	*47*
Money Market Instruments	7%	*0.23*	1
Real Estate & Infrastructure	5%	1.63	10
Total	*100%*	17.33	*100%*

* Contributions from Malaysian Government Securities & Equivalent, Loans and Bonds

Source: EPF

Benefits of contributing to EPF

Many of the Malaysians may be oblivious of the benefits their EPF savings can reap. In fact, the compulsory retirement savings deduction has become a stigma that takes a bite out of our paychecks. However, unlike taxes, it doesn’t magically disappear, it is just parked somewhere else in efforts to safeguard our retirement future. Here's a look at the benefits of contributing to your EPF account.

1. Leverage the power of compounding interest

With a retirement scheme in place, it compels us to take advantage of time and start saving at a young age. Albert Einstein once said, “Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it.” With compounding interest, RM1,000 invested today will grow to approximately RM7,200 after 35 years with 6% interest. Even though the amount may seem minuscule, if we start off with a larger amount, RM10,000 invested today will grow to approximately RM72,000 after 35 years. Therefore, this illustrates how consistent savings can compound over time into a significantly larger amount, which helps to put us at ease about our financials upon retirement.

2. Earn dividends

As part of our financial planning process, it is crucial to understand how our savings grow over time. EPF savings can be classified into 2 types, which are Simpanan Konvensional and Simpanan Shariah. Employees are entitled to a minimum paid dividend rate of 2.50% for Simpanan Konvensional, guaranteed by the government. However, dividend rates for Simpanan Shariah will be based on actual performance of the EPF's shariah compliant investments.

The annual dividend rate is calculated based on the formula:

Dividend Rate = (a) Net income x (b) 1% Total for a 1% dividend
(a) Net income: Investment income + Non-investment income – Expenses
(b) Total for a 1% dividend is based on:

- *Opening balance of contribution (after withdrawal) that obtain dividend for a 12-month period, and*
- *Monthly contributions that obtain a pro-rated dividend i.e. dividend for the n-month will get (12-n) month dividend. For example, the September contribution (n=9) will obtain a 3 months dividend.*

EPF Dividend Chart (2008 - 2019)

Year	Per Annum (Syariah)	Per Annum (Conventional)
2019	5.00	5.45
2018	5.90	6.15
2017	6.40	6.90
2016	-	5.70
2015	-	6.40
2014	-	6.75
2013	-	6.35
2012	-	6.15
2011	-	6.00
2010	-	5.80
2009	-	5.65
2008	-	4.50
Average Annum of EPF	5.77	5.98

How is EPF dividend calculated?

The EPF dividend is divided into two types of calculations – **annual compounded dividend** and **pro-rated monthly dividend**. Both of these calculations are on daily rest – which means your dividend will be calculated based on the previous day's outstanding balance.

Example (calculation of dividend for the year 2019)

Annual compounded dividend

Dividend rate (2019)	5.45% per annum	
Number of days	365 days	
	Account 1	Account 2
Opening balance	RM100,000	RM30,000
Dividend Earned	= RM100,000 x 5.45% x 365/365	= RM30,000 x 5.45% 365/365
	RM5,450	**RM1,635**

Prorated monthly dividend

Month	# of days	Accumulated # of days	Total monthly contribution	Contribution to Account 1	Monthly dividend (Account 1)	Contribution to Account 2	Monthly dividend (Account 2)
Jan	31	31	RM2,000	RM1,400	RM100.04	RM600	RM5.00
Feb	28	59	RM2,000	RM1,400	RM91.68	RM600	RM4.20
Mar	31	90	RM2,000	RM1,400	RM82.42	RM600	RM3.40
Apr	30	120	RM2,000	RM1,400	RM73.46	RM600	RM2.70
May	31	151	RM2,000	RM1,400	RM64.21	RM600	RM2.06
Jun	30	181	RM2,000	RM1,400	RM55.25	RM600	RM1.53
Jul	31	212	RM2,000	RM1,400	RM45.99	RM600	RM1.06
Aug	31	243	RM2,000	RM1,400	RM36.73	RM600	RM0.67
Sep	30	273	RM2,000	RM1,400	RM27.77	RM600	RM0.39
Oct	31	304	RM2,000	RM1,400	RM18.52	RM600	RM0.17
Nov	30	334	RM2,000	RM1,400	RM9.56	RM600	RM0.05
Dec	31	365	RM2,000	RM1,400	RM0.30	RM600	RM0.00
					RM605.92		**RM21.22**

Formula to calculate monthly dividend earned:
Total contribution for Acc 1 x **Dividend rate** x (**Total number of days in the year** – **Number of accumulated days for the month + 1**) ÷ **Total number of days in the year**
Example of calculation for January 2019 (Account 1):
= RM2,000 x 5.45% x (365 – 31 + 1) ÷ 365
= RM100.04

	Account 1	Account 2
Annual dividend	RM5,450	RM1,635
Monthly dividend	RM605.92	RM21.22
Total	**RM6,055.92**	**RM1,656.22**

Therefore, with an opening balance of RM130,000 and 5.45% interest, the total dividend earned in 2019 is RM7,712.14.

Unsure of how much you are getting paid? Try out this calculator! [EPF Dividend Calculator]

3. You can opt to increase the amount of contribution

By default, the contribution rate is 11% (except for the year 2020 where reduction on statutory contribution has been allowed). Given that EPF is considered one of the safest investments, in view of an average 5-6% return per annum, some employees who are risk averse may prefer to increase their contribution at their own discretion. This is known as voluntary contribution and can be done at any time until the member reaches the age of 55. However, the maximum amount to be contributed into each account remains capped at RM60,000 per annum.

However, no matter how safe an investment is, as the rule of thumb of investing reverberates: don’t put all your eggs in one basket. Thus, it is still advisable to always diversify your investment.

4. Diversify your portfolio

In fact, if the dividend rate of EPF is too conservative for you or if you are seeking to diversify your portfolio, you can consider investing in EPF Members Investment Scheme (EPF-MIS). The EPF-MIS provides the options for employees to enhance their savings with higher returns (but higher risk, of course!) by investing in Unit Trust Management Companies and Asset Management Companies via its appointed Fund Management Institutions (FMIs). Under this scheme, members are eligible to invest provided they have sufficient funds in their Account 1.

The sufficient funds are referenced against the basic savings pre-determined according to age in Account 1. This was established to enable members to achieve a minimum savings of RM240,000 when they reach age 55, which is the minimum amount of RM1,000 per month when they retire in order to support their basic retirement needs for 20 years from age 55 to 75, in line with Malaysians' life expectancy. The amount in excess of the Basic Savings can be invested in appointed Fund Management Institutions. The amount eligible for investment can be calculated here: https://www.kwsp.gov.my/member/investment

Example of the calculation of eligible amount for EPF-MIS

Member	Age	Savings in Account 1 (RM)	New Basic Savings (RM)	Calculation for Investment (30%)	Eligibility
A	22	4,000	10,000	-	Member is **not eligible**, savings in Account 1 is less than the new Basic Savings
B	22	11,000	10,000	11,000 – 10,000 x 30% = RM300	Member is **not eligible**, minimum eligibility amount is RM1,000
C	25	24,000	18,000	24,000 – 18,000 x 30% = RM1,800	Member is **eligible**, minimum eligibility amount is RM1,000 and maximum amount is RM1,800

Source: EPF

**For the period of 1 May 2020 through 30 April 2021, no upfront fees will be imposed by FMI for investments transacted through i-Invest via EPF i-Akaun, while for investments made through agents, the upfront fee will be reduced from a maximum of 3% to a maximum of 1.5%.*

Debunking the myths of EPF

Our knowledge regarding our retirement funds in EPF are often shrouded in myths. For all we know, EPF is fraught with a negative perception in which contributors are "forced" to contribute and wish to withdraw as soon as they are eligible to. Hence, this article will debunk some of the myths and misconceptions we have on EPF, and perhaps shed a new light on how we should perceive EPF.

Myth 1: You are not allowed to withdraw savings until retirement

There is a common misconception among Malaysians that their EPF savings deducted from their payslips are untouchable until retirement. While members have to reach at least the age of 55 to completely withdraw their savings, members can always tap into Account 2 for any health, education or incapacitation withdrawal. If members wish to maximize their returns on their savings, excess savings above their basic savings, but not more than 30% of their total amount in, can be invested through the Ministry of Finance/EPF approved Fund Management Institutions (FMI).

However, as COVID-19 has thrown us a curveball, an exemption to withdraw from Account 1 through the i-Sinar facility has been put in place effective January 2021. (More details can be found later in this article)

Myth 2 : Contributions & withdrawals from EPF are taxable

While withdrawals are in fact taxable, however, it only applies to certain cases. If you withdraw the money before contribution in aggregate for five years has been made and the accumulated amount is more than 50,000, the provident fund office deducts tax at 10%. It is also worthwhile to note that the EPF amount is taxable if there is a break in the contribution to the account for 5 continuous years. In that case, the entire EPF amount will be considered as taxable income for that financial year. However, withdrawals after continuous service of five years or at the time of retirement is fully tax exempted.

Best of all, contributions to the EPF are tax deductible, up to a maximum of RM6,000 per year, which includes the exemption for life insurance premium. Moreover, similar to dividend income earned on shares, the dividend you earn and the money withdrawn under the EPF savings withdrawal schemes are all tax exempted!

Myth 3 : EPF is enough for your retirement livelihood

The most dangerous mindset to have with our savings is to delude ourselves into thinking that EPF savings is more than enough for retirement because this may potentially lead us to disregard considerations on other investment incomes. The truth is, EPF savings is the bare minimum benchmark and more often than not, EPF should not be the sole fund for retirement, but should act as a nice addition to other savings and investments. While EPF is considered to be one of the safests investments, we should not limit ourselves to this source of income. It does not hurt to consult with a financial advisor to explore other investment alternatives, be it an offshore investment which may possibly generate higher returns.

COVID-19 financial aid scheme: What do we need to know about the i-Sinar scheme?

In November 2020, EPF implemented the i-Sinar scheme which allows those whose income is affected by COVID-19 to access withdrawals from the Account 1 facility. This is in contrast to the i-Lestari that was announced at the onset of the pandemic, which only enabled employees to access the Account 2 facility. The table below differentiates and shows the breakdown of both schemes:

	i-Sinar	i-Lestari
Allocated amount of funds	RM15 billion the provident fund	RM30 billion the provident fund
Concept	- withdrawal from Account 1 only - payment of withdrawal is made on monthly basis (up to 6 months)	- withdrawal from Account 2 only - payment of withdrawal is made on monthly, recurring basis *number of monthly withdrawals is calculated from date of receipt of approved application until the end of the validity period (31/3/2021) *application of backdated payment is not allowed
Amount allowed to withdraw	For those with: a. **≤ RM100,000 in Account 1** withdraw any amount up to RM10,000. *Payments will be staggered over a maximum period of six (6) months with the first payment of up to RM5,000. b. **> RM100,000 in Account 1** withdraw a maximum 10% of Account 1 savings, up to RM60,000 (whichever is lower). *Payments will be staggered over a maximum period of six (6) months with the first payment of up to RM10,000.	- Withdrawal of RM50 (min) - RM500 (max) a month (*subject to the amount of savings available in Account 2)
Eligibility	Category 1 (either 1) Eligible members include workers in the formal sector, self-employed workers and workers in the gig economy, and must be	Has to fulfilled the following criteria: ● Malaysian citizens, permanent citizens & non-Malaysians ● 55 years old & below

	under 55 years old Criteria: 1. Members who have not contributed to the EPF for at least two consecutive months on application 2. Members who are still working but have suffered a reduction of their **base salary** by 30% and above from March 2020 onwards Category 2 members whose **total income** (base salary + other income, eg allowance) has been reduced by 30% and above from 1 March 2020 onwards *whereby reduction can only be verified with supporting documents.	• Have savings in Account 2
Supporting documents	Category 1 • Supporting documents are not required • Approval is automatic based on EPF's internal data; *Application opens beginning 21 December 2020. Category 2 (both of): • Salary slip before and after reduction of income • Employer's notice of suspension or reduction of allowances and/or overtime claims. *Application opens beginning 11 January 2021.	Supporting documents are not required
Payment term/withdrawable period	6 months	1 April 2020 - 31 March 2021
Channels for submission of application	Only available to apply online via website: isinar.kwsp.gov.my	1. i-Lestari Online on the EPF's website at www.kwsp.gov.my. 2. Online (via e-Pengeluaran on Member's i-Akaun) 3. By postal
Implications	Members who apply for the facility will be required to replace the full amount advanced with all future contributions to be	

	credited into Account 1 in its entirety, until the amount advanced is replenished. *However, there is no timeline for members to replenish their accounts.	

The question remains, should we apply for early withdrawals through the i-Sinar facility?

With the unprecedented massive layoffs and salary cuts in the wake of COVID-19, employees have no choice but to tap into their retirement savings in order to keep themselves afloat. However, members should understand that the implementation of the i-Sinar program acts as a means to alleviate those who are in financial hardships and that the withdrawals from EPF account should be their last resort. This is because EPF savings are meant for retirement, which is very much necessary given that the people today have a longer life expectancy. Besides that, Alizakri, Chief EPF Officer concurred that "not only will the members eligible for the i-Sinar facility forgo the compounded returns they could have received from their Account 1, but it will also affect other members that are not applicable for the facility." In other words, as members start withdrawing from their EPF savings, the capital available for long term investments will drastically reduce, incurring opportunity cost for a higher return that could have translated into higher dividends.

Besides that, as the employee's share of contribution rate has decreased from 11% to 7% for the period of April to December 2020 for the purpose of "releasing" the money to stimulate the economy, the estimated opportunity cost incurred amounts RM8 bil. Hence, the opportunity cost incurred in 2020 due to the strike of COVID-19 summed up to RM53 bil (RM45 bil + RM 8 bil) in which EPF could have earned RM2.65 bil with a 5% return per annum.

MINISTRY OF FINANCE, EPF, THE EDGE ESTIMATES

The RM45 bil that the EPF expects to set aside for Covid-19-related Account 1 & 2 withdrawals is 4.8% of its RM929.64 billion asset base as at end-June

Amount the EPF expects to set aside for i-Lestari Account 2 withdrawals	RM30 bil
Amount the EPF expects to set aside for i-Sinar Account 1 advances	RM15 bil
	RM45 bil

 # Assuming 5% return per annum, EPF could earn RM2.25 bil a year from RM45 bil
 # EPF could earn RM1.35 bil interest income a year from lending RM45 bil to the government at 3% per annum

More opportunity costs:

Estimated sum released from reducing employees' statutory EPF contribution rate to 7% from 11% (April-Dec 2020)	RM8 bil*
Estimated sum released from reducing employees' statutory EPF contribution rate to 9% from 11% (Jan-Dec 2021)	RM9.3 bil
	RM17.3 bil

*Note:*80% of government estimates of RM10 bil as 25% kept 11% rate as at June*

(Source: The Edge Market)

What can you take away from this?

Nevertheless, the EPF remains a crucial product to help Malaysians save for retirement – but one that Malaysians should not solely rely on.

With the current uncertainty and volatility in the market, it has posed an insurmountable stress to Malaysians, especially the youths when it comes to financial planning. This stems from the stagnant income growth coupled with foreshadowed increase in inflation rate following the aggressive printing of money during the pandemic. In other words, the rakyat's purchasing power continues to diminish. Therefore, the members of EPF should always be cognizant of their financial situation. Planning goes a long way as it can act as a buffer in an event of unemployment or salary cut. With that, members should understand and be able to evaluate their decision before flocking to apply for early withdrawals.

Alternatively, they can also consider financial aid programmes such as cash transfer programmes via Bantuan Prihatin Nasional (BPN), Bantuan Prihatin Rakyat (BPR), targeted financial assistance offered by the banks, grants, job matching and Employment Insurance Scheme (EIS).Those in critical situations can apply for targeted moratorium by visiting the related bank to rescheduling and restructuring of a financing. They also can seek help at the Credit Counselling and Management Agency to seek what's best for them.

Ultimately, the power of compounding is the most powerful tool in mankind when it comes to growing our wealth. This is because by leveraging on time and interest, our money is essentially working for us and not the way around. Therefore, as we are set on our path to achieve financial freedom, we need to understand that if we start at a young age albeit with a small amount, with the power of compounding, it can grow into a sizable amount. With that being said, EPF serves as a platform for young Malaysians to practice self-discipline and to start saving as they step into the workforce.

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