

Why i-Lestari will miss the Most Vulnerable during Covid-19

VIEWS 11/20 | 24 March 2020 | Adam Firouz

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Adam Firouz. 2020. Why i-Lestari will miss the most vulnerable during Covid-19. Kuala Lumpur: Khazanah Research Institute.
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Protecting livelihoods against Covid-19

Desperate times call for desperate measures. To help households weather through the ongoing Covid-19 pandemic, the federal government announced that EPF contributors will be allowed to withdraw a portion of their savings from Account 2, up to RM500 per month for 12 months.

Perhaps with no income sources left to rely on, withdrawing EPF savings via this scheme (dubbed “i-Lestari”) may be the only way to ensure that family members are fed while ensuring a roof is kept over their heads. This may well be the unfortunate case for those who are seeing their incomes diminish amid the crisis.

However, there are three important considerations with regards to this scheme: (i) Not all active members can afford to withdraw from their savings; (ii) There is a trade off with old age; and (iii) Not all workers will benefit from the scheme.

Can all active contributors afford to withdraw their savings?

Do all Malaysian employees have enough savings in their Account 2 to be able to fully benefit from this scheme? To withdraw the full RM500 for the entire 12-month period, which maxes out at RM6k, active EPF members must have at least RM6k in their Account 2. This translates to about RM20k in total EPF savings if we use 30% as the amount of savings that would go into Account 2.

Based on EPF data, the following is the estimated average savings that active members have accumulated across the savings distribution.

Average savings for active EPF members by savings decile and group, as at December 2018

Savings decile	Total savings	Account 2	Enough for
0-10%	RM1,062	RM319	0.6 months
10-20	4,311	1,293	2.6
20-30	10,022	3,007	6.0
30-40	17,186	5,156	10.3
40-50	27,622	8,287	16.6
50-60	42,600	12,780	25.6
60-70	63,165	18,949	37.9
70-80	99,025	29,708	59.4
80-90	145,047	43,514	87.0
90-100	421,961	126,588	253.2

Note: Account 2 savings is estimated as 30% of total savings. This does not include annual dividends.

Source: EPF (2019), author's calculation

Given the numbers shown, the most vulnerable are less likely to reap the full benefits of this scheme. If we use the RM6k minimum threshold in Account 2, then almost 40% of active EPF members will not be able to benefit fully from the scheme. In fact, those at the bottom 10% have not even RM500 in their Account 2, averaging only RM319. Meanwhile, those in the subsequent decile have RM1,293, which is sufficient for less than three full withdrawals. Even those in the fourth decile on average do not have enough for the full 12 months, with less than RM6k saved.

Thus, while this scheme is designed as a form of emergency relief for households, it may ironically not end up benefiting those who most need it during the crisis. This marks a gloomy prospect for those at the bottom, especially for those who may have no other sources of income to rely on.

What is the trade-off for old age if employees withdraw now?

The worrying prospect is not only in the short term with the current crisis, but also in the longer term. If employees choose to withdraw and use their EPF savings now, they may find that they have little savings upon retirement. The table above has shown that many members do not have much savings in their account to brave the current crisis. What more for the long-term future?

Based on an earlier KRI report, the average EPF savings among those aged 51–55, who are on the brink of retirement, is not sufficient to last a lifetime given the current life expectancy, even by living off the poverty line amount¹. What more, those at the bottom 20% of this age group have less than RM10k to survive off. Inducing withdrawals prior to retirement risks this further.

¹ KRI (2016)

However, it can be argued that those among the lower savings range perhaps are younger workers with many years ahead to accumulate wealth. But EPF savings are not for retirement alone, as Account 2 is also intended for other purposes such as housing and education. These are arguably very important in not just the longer term but also the near term. It means that they will be deprived from using their Account 2 savings for more productive purposes that amount to wealth accumulation and human capital investment, which are pivotal in their hope to climb the social ladder, should they exhaust their withdrawals now.

Who are the workers who will not benefit from this scheme?

Another issue is that i-Lestari is limited to only those registered and contributing to EPF, namely employees working in the formal sector. In reality, however, a large number of workers are involved in gig-work, self-employment and non-standard forms of work, and they are largely unprotected by any social safety net including the EPF².

While some may have chosen to voluntarily participate in voluntary schemes, the numbers are limited, and it is likely that their savings amount to a minimal sum given the lack of employer contributions. Official statistics estimates informal employment as accounting up to 39% of total employment³ but it is likely even higher given the limitations in official statistics⁴.

Therefore, a more comprehensive social protection plan is needed to cover a wider range of workers that include employees who have low savings in the EPF and those who are not contributing to the EPF.

More measures in place needed

For those who can benefit, it can only be hoped that they do not have to rely solely on their EPF savings via the i-Lestari for a full 12 months, but at best only as a last resort for a short emergency situation. Optimistically, in the hopeful event that the health crisis is addressed much sooner, economic activity can resume and thus bring back the usual earnings capacity of households.

However, as argued, it is clear in the time being that more assistance needs to be introduced, both in terms of depth and coverage, to protect the most vulnerable in the worst-case scenario against the Covid-19 pandemic, especially those who may not benefit fully or at all under i-Lestari. While perhaps more may be forthcoming, with an announcement slated later this month, further urgency must be emphasized given the calamity of the current situation with economic activity already being suppressed and livelihoods effected given the necessary movement control order.

The most vulnerable are the ones that need the most help and will need to rely on government during this crisis. It is important to ensure that all programmes and schemes are designed to be as inclusive as possible, to ensure that all are sufficiently protected.

² See Nur Thuraya and Siti (2020)

³ DOS (2018)

⁴ Nur Thuraya and Tan (2019)

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