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Press Statement **8 April 2021**

Why i-Sinar went wrong and why EPF contributors shouldn't be treated like 'white knights'

It was reported in the media that i-Sinar withdrawals from the Employees' Provident Fund's (EPF) accounts have a "positive immediate impact on the real economy as it supported domestic consumptions". The economy should be stimulated through investments in areas that have been neglected, e.g. agriculture, healthcare, elderly care, and not through using EPF savings in wasteful consumption.

We wish to state our stand that since i-Sinar has been allowed to be withdrawn by the government, the reasons must be specific: 1) for the sustenance of the EPF contributor's livelihood during pay cut or being jobless, 2) for business start-ups, and 3) to service loans to avoid accumulating compound interest.

It was reported that as of 14 March 2021, 5.94 million applicants for the i-Sinar scheme had been approved, involving a total of RM52.48 billion. This figure is alarming because there are an estimated 6.4 million active EPF contributors, meaning that 93 percent of these contributors have withdrawn their savings.

However, as we expected, many Malaysians lacking financial literacy and discipline treated the money from i-Sinar as a windfall. With the money they bought cars, splurged on shopping (particularly for the coming Raya and Ramadhan), invested in stocks, gold and cryptocurrencies. These people may not have any more savings to fall back on should there be another outbreak, let alone when they retire.

The i-Sinar applicants ignored the fact that:

- Cars instantly depreciate in price upon purchase regardless of the value of the car.

- Stocks are very risky as the market can be volatile and uncertain.

- Bank Negara Malaysia (BNM) specifically stated that the Bitcoin is not recognised as legal tender and warned the public of the risks associated with the use of such cryptocurrency.

- Gold is considered "a very low yield investment because its price does not increase very fast under normal circumstances". The price of gold jewellery includes labour charges depending on the design of the item but when it is re-sold to the goldsmith or taken to a pawnshop, the item will only be assessed basing on the pure gold content. Hence, when a gold jewellery is sold or pawned, the person is certainly going to make a loss at least from the labour charges which constitutes a large portion of the purchase price unless gold price went up significantly.

- Splurging on shopping using i-Sinar withdrawal is a financial suicide because most, if not all, of consumer items have limited lifespan or shelf life and with very little or no resale value. However, according to a report quoting the Malaysia Retail Association, there was an 80 per cent increase in business at shopping malls compared to pre-pandemic levels.

These people who spend their retirement funds sourced from i-Sinar may not have any savings to fall back on if there is ever another outbreak, let alone when they retire. Moreover, Malaysia is still far from bringing down new Covid-19 infections to one digit.

In reality the Covid-19 pandemic is far from over as India, Pakistan, Bangladesh, Indonesia and the Philippines are experiencing a new wave of infections after a significant drop in the number of cases for the past few months. Europe is experiencing the Third Wave recently.

Malaysia is expected to have almost 500,000 people vaccinated by mid-April. However, this would constitute a mere 2 percent of the estimated 25 million people (80 per cent of the total population) who would be vaccinated. It is not known when we are going to achieve the desired 'herd immunity' as the World Health Organization (WHO) has expressed concern that developing herd immunity could be difficult for developing countries in the Asia-Pacific region.

Money from i-Sinar is not meant to be used to save the domestic economy through wasteful spending but to use it when they retire. That is the time when they have minimal or no income to sustain their daily livelihood and also the treatment of diseases associated with old age.

CAP is shocked that it is from EPF Account 1 which is holding 70 per cent of the EPF contributor's savings where people are withdrawing from and whose primary objective is for retirement savings. Account 2, on the other hand, comprises the remaining 30 percent of contribution. It allows the contributor to withdraw for either housing, education, medical, or for Haj. Otherwise, the contributor can make a partial or full withdrawal of the savings in Account 2 upon reaching 50 years-old. i-Sinar allows the contributor to have access to 10 percent of Account 1 savings as long as there is a minimum balance of RM100.

People who made withdrawal from Account 1 are blissfully disregarding the fact that their future EPF contributions will be deposited entirely into their Account 1 instead of splitting 70:30 into Accounts 1 and 2 respectively. In other words, these people will have less in their Account 2 which will negatively impact on their withdrawal for any of the five of the specific needs.

The government on the other hand should not even for a moment consider EPF contributors as 'white knights' rescuing the domestic economy because they will unwittingly be turned into sacrificial lambs instead.

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