ASSA Recognition Award

1.1 The ASSA Recognition was first introduced by the Employees Provident Fund (EPF) of Malaysia in 2015. The purpose of the Award is to recognise ASSA member organisations' achievements.

1.2 The criteria and categories for the ASSA Recognition Award are as follows.

No.	Categories of Recognition	Description of the Categories
1.	Innovation Recognition Award	Creation of an innovative technology, product or service which has led to improvements in services or products.
2.	Transformation Recognition Award	A practice that has resulted in improvement in the overall effectiveness, efficiency, and success of the organisation.
3.	Customer Service Recognition Award	Organisations that have implemented successful customer service strategies which are able to meet customers' expectations in terms of delivery and quality of service.
4.	Continuous Improvement Recognition Award	Organisations that are in a never-ending effort to expose and eliminate root causes of problems. It usually involves many incremental steps towards improvements rather than one overwhelming innovation.
5.	Strategic Communication Recognition Award	Organisations that have pushed the boundaries when it comes to their communications strategy in order to ensure they truly engage with their members using various communication channels.
6.	Information Technology Recognition Award	Organisations that run their business using effective and reliable technologies that are essential to drive efficiency and productivity, and improve organisational outcomes and performance.
7.	Insurance Coverage Recognition Award	Insurance and social security schemes that have developed their proposition with a clear focus on retirement, health and meeting members' needs.
8.	Financial Literacy Recognition Award	Organisations that have introduced and provide advisory services on financial literacy and retirement planning to address issues on adequacy of members' savings for retirement.
9.	Investment Governance Recognition Award	Organisations that have reflected specific issues relating to the management of funds of social security institutions' objectives, ranging from the investment of benefits provided and also addressing issues on the adequacy of the fund.

1.3 The write-up should include the following:

WRITE UP TEMPLATE

CATEGORY	:	Innovation Recognition Award
ORGANISATION	:	Employees Provident Fund (EPF) of Malaysia
CONTACT PERSON	:	Lim Huy Ming huyming@epf.gov.my
NAME OF PROJECT	:	Employees Provident Fund Account Restructuring: Leveraging Behavioural Insights to Enhance Long-Term Savings
OBJECTIVE AND NATURE OF PROJECT	:	**The Struggle to Save** The Employees Provident Fund (EPF) scheme is a mandatory retirement savings scheme for private-sector employees in Malaysia. Under this scheme, employees contribute 11% of their wage, while employers contribute 13% for those earning RM5,000 or below, or 12% for those earning above RM5,000. Previously, contributions were allocated into two main accounts: Account 1, which received 70% of contributions and was dedicated to retirement savings with funds accessible only upon reaching age 55, and Account 2, which held the remaining 30%, accessible for withdrawals to fulfil lifecycle needs, such as housing, healthcare, education, and pilgrimage expenses for Muslim members. While efforts have been made to boost retirement savings of EPF members, inadequate savings remain a key challenge. As of September 2024, only 21.8% of EPF members aged 18 to 55 years, or 35.6% of those who are active and under formal employment, met the Basic Savings target by age. Set at MYR240,000 (approximately USD53,643) upon reaching age 55, this target assumes the individual would need MYR1,000 (approximately USD224) per month for 20 years upon reaching full withdrawal age. The significant percentage of members unable to meet this modest target is concerning. The inadequate savings levels among EPF members may be explained by the low wage structure even among formally employed workers. As of September 2024, 55% of active EPF members who are formally employed earned below MYR3,000 (approximately USD671) a month, and 77% earned below MYR5,000 (approximately USD1,118). This low wage and low savings situation presents a major concern, leading to consequential impacts. When faced with economic challenges such as high cost of living and an unstable labour market, individuals may succumb to a scarcity mindset. Troubled by the preoccupation with what is currently lacking, they may struggle to focus on longer-term planning.

Challenges in managing savings beyond the mandatory EPF contributions have also persisted, exacerbated by Malaysia's low-wage environment. According to the EPF Members Financial Literacy Survey 2022, 52% of members were unable to save, and 46% had no emergency savings. The COVID-19 pandemic further highlighted these vulnerabilities, as 8.1 million members tapped into their retirement savings to address their immediate financial needs, draining MYR 145 billion (USD 32.4 billion) from their EPF accounts.

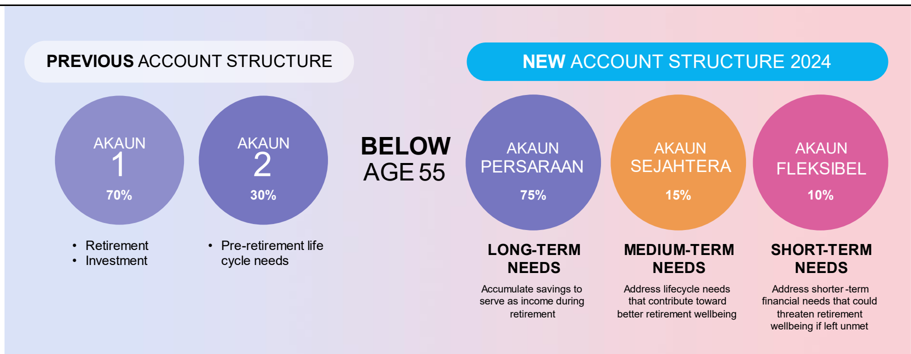
Additionally, confusion regarding the purpose of EPF accounts has contributed to high demand for further withdrawals to fulfil immediate and short-term needs. The names of Account 1 and Account 2 do not clearly reflect their intended purposes for retirement or lifecycle needs, which could contribute to retirement wellbeing, respectively. This lack of clarity led to additional withdrawal demands after the COVID-19 emergency withdrawal facilities, despite being in the post-pandemic recovery phase.

The EPF Account Restructuring Initiative

In 2020, the EPF conducted a public consultation to gather feedback on the EPF scheme, including the potential account restructuring. The survey revealed that 83% of respondents preferred empowerment through the introduction of an account that is flexible in nature, with 63% supporting a balanced approach combining flexibility with increased retirement account allocation. The findings highlighted the necessity for a more adaptable retirement planning framework.

A fundamental part of the Account Restructuring initiative is renaming existing accounts to reflect their intended purposes. Account 1 has been renamed 'Akaun Persaraan' (Retirement Account) to emphasise its focus on retirement savings, while Account 2 is now called 'Akaun Sejahtera' (Wellbeing Account), aimed at supporting members' lifecycle needs leading to enhanced wellbeing. To provide greater flexibility, a third account, 'Akaun Fleksibel' (Flexible Account), has been introduced, offering EPF members easier access to a portion of their savings for emergencies or immediate needs.

With the introduction of Akaun Fleksibel, the initial 70-30 split between Account 1 (now Akaun Persaraan) and Account 2 (now Akaun Sejahtera) has been revised. The contribution to Akaun Persaraan has increased by 5%, from 70% to 75%, while Akaun Sejahtera has been reduced from 30% to 15%. The remaining 10% of contributions now go into Akaun Fleksibel. This restructuring seeks to address the principle of loss aversion by compensating for the perceived loss from increased illiquid savings in Akaun Persaraan with the provision of accessible funds for short-term use in Akaun Fleksibel. This approach is designed to reduce the temptation to dip into retirement savings and make members more aware of the importance of saving for both the present and future.



In addition, members had a one-time opportunity from 12 May 2024 to 31 August 2024 to have a portion of their Akaun Sejahtera balance transferred to Akaun Fleksibel. Members with RM3,000 or more in Akaun Sejahtera at the time of opting in would also have a portion of their balance transferred to Akaun Persaraan. At the end of the opt-in period, a total of 4.14 million members (31.6% of EPF members below age 55) opted for the initial amount transfer, resulting in MYR14.54 billion transferred from Akaun Sejahtera to Akaun Fleksibel and MYR6.56 billion to Akaun Persaraan. The transfer to Akaun Fleksibel provides members with immediate flexibility in managing their funds without having to wait for new contributions to accumulate. Moreover, the transfer from Akaun Sejahtera to Akaun Persaraan has enhanced retirement savings adequacy, enabling 47,164 members who previously did not meet Basic Savings by age to achieve it immediately following the transfer.

As of 30 September 2024, a month after the initial amount transfer was closed, 3.86 million members (29.4% of EPF members below age 55) made withdrawals from their Akaun Fleksibel, totalling MYR10.78 billion. The difference between the number of members opting for the initial transfer and those making withdrawals indicates some degree of financial prudence among EPF members. Many opted to have funds transferred to Akaun Fleksibel for flexibility but refrained from immediate withdrawal, demonstrating a strategic approach to financial management.

WHY IT SHOULD BE RECOGNISED :

A key objective of the reform is leveraging the theory of mental accounting to influence members' financial behaviours. Mental accounting helps members categorise funds for specific uses. By bucketing the three accounts for long-term retirement needs, medium-term lifecycle needs, and short-term emergency or other financial needs, members are encouraged to strategically plan for their lifetime financial goals.

The increased allocation for retirement savings in Akaun Persaraan (from 70% to 75%) should help members meet the Basic Savings target more effectively. At the same time, the introduction of Akaun Fleksibel offers members the opportunity to access funds when needed for emergencies or other short-term needs, without sacrificing their

		future savings. One of the key shifts in this initiative is the recognition that members' financial needs go beyond just saving for retirement. For many members, particularly those in informal employment where income is unstable, the new Akaun Fleksibel provides the financial flexibility needed to respond to immediate financial pressures. This adjustment not only enhances financial resilience but also helps members feel more in control of their savings and decisions. By linking short-term access to funds with long-term savings goals, the EPF seeks to address the inherent present bias that discourages long-term saving. With Akaun Fleksibel, members can access liquid savings without jeopardising their retirement security. This initiative, therefore, promotes both immediate and long-term financial wellbeing.
SUMMARY OF THE PROJECT	:	On 11 May 2024, EPF Malaysia launched the Account Restructuring initiative, transforming how EPF members manage their savings. This initiative, inspired by the Sidecar Account concept, balances short-term financial needs with long-term savings goals. It introduces a third account for liquid savings while increasing the allocation for retirement savings to enhance long-term financial security. This innovative approach aims to improve members' financial wellbeing by empowering them to manage both their short-term, medium-term, and long-term needs more efficiently.