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Comparative Analysis of Malaysian and Indonesian Retirement Plan

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Abstract *In Malaysia, the Employee Provident Fund (EPF) was established Under the Employees Provident Fund Act 1991 as a social security organisation that offers members trustworthy and efficient savings management and it is open to both personnel. In contrast, the Private Pension Administrator (PPA) developed the Private Retirement Scheme (PRS), a retirement programme, to address retirees' insufficient resources for meeting their retirement expenses in* *light of rising living standards and longer life expectancies. Having to see the similar aspects between EPF and PRS in terms of creating savings and their importance towards securing a certain degree of comfort for retirees, the purpose of this study is to provide a thorough explanation of how these two retirement plans can benefit all Malaysian private employees. Similar to Malaysia, all private sector workers in Indonesia are also required to participate in retirement plan. Thus, the purpose of this study is to evaluate the similarities and differences between Malaysia's and Indonesia's retirement plan. This research employs a qualitative approach, by conducting library-based research on the relevant materials including, but not limited to statutory provisions, case laws, law textbooks, journal articles, newspapers, conference proceedings, and seminar papers. At the end of the discussion, the findings show that both countries have their own retirement plans and have the same goal which is to provide facilities to all private-sector workers.*

Keywords *Employee Provident Fund (EPF), Private Retirement Scheme (PRS), Nomination and Contribution, Retirement Plan Policy, Comparative Studies*

1. Introduction

Retirement is the act of finishing one's working career or the time after one has ended their employment permanently.[1] When someone retires, it signifies that their employment has ended forever. According to section 4(1) Minimum Retirement Age Act 2012 (Act 753)[2], the minimum retirement age of an employee in Malaysia shall

[1] Merriam-Webster, "Retirement Definition & Meaning," , https://www.merriam-webster.com/dictionary/retirement.

[2] Minimum Retirement Age Act 2012 (Act 753) is an Act to provide for the minimum retirement age and for any related matters thereto

be sixty years old. However, the retirement age varies for each country.[3] For instance, the retirement age for Indonesians is 58 years old, for Singaporeans 65 and 70 years old respectively and lastly for India citizen is 62 years old. Usually, after retiring, retirees are entirely dependent on the retirement funds they set while working to support themselves. However, not everyone is financially prepared for retirement.[4] Some of them might have not come across about this issue when they are still working.[5] Due to failure in making retirement plan, many retirees go back to work after leaving their jobs to sustain their life.[6] However, it is unfair to blame all retiree who does not have retirement plan an irresponsible person. Some retirees have committed to saving money each month, but their savings are still insufficient to finance their daily lives.[7]

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3 Kamal Halili Hassan et al., "Retirement Planning Behaviour of Working Individuals and Legal Proposition for New Pension System in Malaysia," *Journal of Politics and Law* 9, no. 4 (2016): 43–52, https://doi.org/DOI:10.5539/jpl.v9n4p43.

4 Tuan-Hock Ng et al., "Influence of Investment Experience and Demographic Factors on Retirement Planning Intention" 6, no. 2 (2011): 196–203, https://mro.massey.ac.nz/bitstream/handle/10179/18075/Ng,%20Tay,%20Tan,%20Lim%20-%202011%20-%20Influence%20of%20Investment%20Experience%20and%20Demographic%20Factors%20on%20Retirement%20Planning%20Intention.pdf?sequence=1.

5 So-Hyun Joo and John E. Grable, "Employee Education and the Likelihood of Having a Retirement Savings Program," *Journal of Financial Counseling and Planning* 16, no. 1 (2005): 43–52, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2255072.

6 Frank T. Denton and Byron G. Spencer, "What Is Retirement? A Review and Assessment of Alternative Concepts and Measures," *Canadian Journal on Aging/La Revue Canadienne Du Vieillissement* 28, no. 1 (2009): 63–76, http://dx.doi.org/10.1017/S0714980809090047.

7 R. Thillainathan, "Malaysia: Pension & Financial Market Reforms and Key Issues on Governance," vol. 14, 2004, 1–40, https://core.ac.uk/download/pdf/6895833.pdf.

There are also those who have built up assets since they were young, but their assets are still insufficient to support them in these difficult economic times. As a result, not all retirees could consider retirement as their golden years.[8] Since some of them are having financial difficulties, they may not be able to maintain their desired levels of quality of life due to increased healthcare and living costs. It should be taken into account that retirees require more money during their retirement.[9] The majority of retirees are old and begin to be affected by disease when they retire due to age factors.[10] Some of them travel daily to the hospital for treatment. Some retirees must travel to get their medications. Some people spend their entire adult lives making payments on unpaid debts like housing and vehicle loans. In addition to the fact that some retirees might still have kids who need to be borne, life in retirement is undoubtedly more difficult than life before retirement. To ensure that the retiree has no difficulty supporting their life and their family after their retirement, it can be concluded that a retirement plan is so vital for all retirees.

By examining the retirement plan used by retirees throughout the world, each country has their own retirement plan.[11] As for developed countries like Australia and the United States, the retirees rely on self-directed investment accounts like Individual Retirement

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8 Fatemeh Kimiyaghalam et al., "Parents' Influence on Retirement Planning in Malaysia," *Family and Consumer Sciences Research Journal* 45, no. 3 (March 2017): 315–25, https://doi.org/10.1111/fcsr.12203.

9 Victor G. Hallman and Jerry S. Rosenbloom, *Private Wealth Management: The Complete Reference for the Personal Financial Planner* (United States of America: The McGraw-Hill Companies, Inc., 2009).

10 "Primary Care in the Elderly," in *First Symposium on Gerontology 1995: Issues and Challenges of Ageing Multidisciplinary Perspectives* (Gerontology Association of Malaysia, Kuala Lumpur, 1995).

11 Kamal Halili Hassan et al., "Sistem Persaraan dan Pencen Swasta di Malaysia," in *Proceedings Keselamatan Sosial dan Industri Pekerjaan: Polisi dan Perundangan, Universiti Kebangsaan Malaysia*, 2015, 62–79.

Accounts (IRA) and 401k for their retirement income.[12] Accounts like IRAs and 401k[13] hold half of all retirement assets. The majority of retirees will determine how to allocate their retirement assets among various accounts on their own, while some retirees will seek the advice of their financial consultants to do so. As for Singapore, it has its own Singapore's re-employment programme under the Retirement and Re-Employment Act 1993[14]. This Act aims to open up employment opportunities for elderly workers. The "re-employment" age, which is now 67 years old, may require employers to "re-employ" a retired worker (the minimum retirement age is 62) to work with them.[15] The situation in Malaysia on the other hand, is rather unique where it has four required occupational pension schemes and the most well-known pension scheme is EPF investments, which have grown over time. This scheme takes the form of contributions made by the employer and employee at a set rate based on the employee's monthly pay[16]. These contributions are credited to the employee's fund and when an employee reaches retirement age, they are

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[12] Dahlia Ibrahim, Zuraidah Mohamed Isa, and Norhidayah Ali, "Malaysian Savings Behavior towards Retirement Planning," in *Proceedings of 2012 International Conference on Economics Marketing and Management*, vol. 28 (Singapore: IACSIT Press, 2012), https://www.researchgate.net/profile/Dahlia-Ibrahim/publication/281269248_Malaysian_Savings_Behavior_towards_Retirement_Planning/links/55dd8a8a08ae591b309ade64/Malaysian-Savings-Behavior-towards-Retirement-Planning.pdf.

[13] A 401(k) plan is a defined-contribution, employer-sponsored personal pension account, as described in Section 401(k) U.S. Internal Revenue Code

[14] Retirement and Re-Employment Act 1993 is a Singapore Act to establish a minimum retirement age for employees, allowing for their reemployment, and covering related issues

[15] Porsche Moran, "Retirement Plans from Around the World," Investopedia, 2021, https://www.investopedia.com/financial-edge/0412/retirement-plans-from-around-the-world.aspx.

[16] *See* section 45 (1) Employees Provident Fund (EPF) Act 1991

permitted to take money out of the fund.[17] They may also withdraw a lump-sum pay-out whenever they depart from Malaysia and migrate to another country. Even so, the average savings in the EPF may not be sufficient to finance the people's old age for certain people after their retirement. Therefore, to overcome this problem, PRS was established to increase their retirement income. This is unique in Malaysia because with additional initiatives like this, it clearly shows that Malaysia is very committed to helping people with their retirement plans.

As for Indonesia, there is absence of specific programme like in Malaysia but this country have several programs with similar objectives, aiming to provide savings or benefits for employees, particularly in the context of retirement. Indonesia have a social security program for employees, known as *Jaminan Sosial Tenaga Kerja* (*Jamsostek*) or Workers Social Security. Even though it has been established in Indonesia for a long time, the public's level of knowledge regarding this retirement plan is still at a worrying level. Therefore, with a research study like this, it is hoped that it can be used as a guide especially for non-pensionable public sector employees or employees in the private sector so that they have a better understanding of how the retirement plan in Malaysia and Indonesia works. In this paper, the author will compare retirement plan in Malaysia and Indonesia so that the public's level of awareness regarding retirement plans in both countries increase. Even if there is still a long way to go until retirement, it is still necessary to educate the society on the retirement plan so that they are aware on their rights when the time comes.

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[17] Noor Shuhadawati Binti Mohamad Amin, Ashgar Ali Ali Mohamed, and Areej Torla, "Retirement Benefit in Malaysia: Understanding the Legal Framework and Its Challenges to the Migrant Workers," *IIUMLJ* 29, no. 2 (2021): 199–220, https://heinonline.org/hol-cgi-bin/get_pdf.cgi?handle=hein.journals/iiumlj29&section=20.

2. Method

As for the research methodology, this study undertakes a socio-legal and comparative approach, which focuses on the comparative analysis of Malaysian and Indonesian Retirement Plan. To ensure that this research can be carried out well, a good collaboration has been carried out between writers from Malaysia and Indonesia to produce this manuscript. Therefore, the manuscript produced does not only include reference sources from Malaysia, but there are also reference sources from Indonesia. As a non-doctrinal study, this research employs a qualitative approach. Primary data, such as legislation and case laws, as well as secondary data, such as journal articles, books, and government documents, are used to complete this paper. Many reference sources such as law textbooks, online articles, newspapers, case analysis, conference proceedings, and seminar papers from both countries are used to ensure that discussions about retirement plans in both countries can be understood in a comprehensive and easy-to-understand context. Despite the abundance of readings that explain the retirement plans of Malaysia and Indonesia, the author can conclude that there is no particular reading material makes comparison between these two countries. Thus, more research is intended to be done in the future to compare the operation of retirement plan in Malaysia and Indonesia.

3. Result & Discussion

A. Overview on Employees Provident Fund (EPF) & Private Retirement Plan (PRS) in Malaysia

A retirement benefit is any payment made to an employee upon retirement, either compulsory or optional or on grounds of health, as stated under the employee's contract of service[18]. Government Pension Plan (GPS), EPF, *Lembaga Tabung Angkatan Tentera* or Armed Forces Fund Board (LTAT) and Social Security Organization (SOCSO) are the four required occupational pension schemes that offer retirement benefits in Malaysia.[19] Those who work in the public sector often choose the government pension plan which is governed by the Pension Act 1980, while those who are both non-pensionable public sector employees and employees in the private sector may choose the EPF. Generally, EPF or also known as *Kumpulan Wang Simpanan Pekerja* (KWSP) is a federal statutory organisation under the Ministry of Finance and was founded in October 1951[20] with the goal of ensuring workers' financial stability after retirement. It oversees retirement planning and the mandated savings programme for Malaysia's non-pensionable public sector employees and employees in the private sector. To address the need for the retirement savings benefits to be streamlined so that every employee may experience financial stability in retirement, the Federal Labour Department developed the EPF Ordinance in 1951.[21] Then, it was amended in 1991 and became EPF Act 1991[22].

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[18] *See* section 2 Employees Provident Fund (EPF) Act 1991

[19] Azlin Namili Mohd Ali, "Private Retirement Scheme as a Financial Protection of Old-Age in Malaysia from the Perspective of PRS Providers," *International Journal of Innovation and Business Strategy (IJIBS)* 7, no. 1 (2017): 18–25, https://ijibs.utm.my/index.php/ijibs/article/view/52.

[20] "KWSP - Corporate Profile," March 2023, https://www.kwsp.gov.my/about-epf/corporate-profile.

[21] Sallehuddin Mohamed, "The Employees Provident Fund & You," EPF Forum, 2021, http://portal.mim.org.my/resources/MMR/9509/950906.Html.

[22] EPF Act 1991 (Act 452) is an Act to establish the law relating to a retirement savings plan for employees, the management of retirement savings for retirement purposes, and other matters. List of amendments to EPF Act 1991 are as follows: Employees Provident Fund (Amendment of Third Schedule) Order 1992 P.U. (A) 551/1992, Employees Provident Fund (Amendment) Act 1995 Act A914, Employees Provident Fund (Amendment of Third Schedule) Order 1996 P.U. (A) 30/1996, Employees Provident Fund (Amendment) Act

Employers who do not comply with this requirement will be held responsible for paying the required contributions within the time frame set by the Minister. The employer is also responsible for paying any dividends that would have grown due to such payments had the firm paid all required obligations on time. The rate decided by the Board must be used to pay the dividend within the time frame specified[23]. For Malaysians working in the non-pensionable public sector employees and employees in the private sector, it is mandatory to join the EPF. Recently in 2016, Malaysians who work abroad, particularly in Singapore, are entitled to make contributions to the EPF under the 1Malaysia Retirement Savings Scheme (SP1M).[24] However, for foreign workers who work in Malaysia, it is still optional and not mandatory to nominate in EPF. It is crucial to remember that the foreign worker is not required to pay into the retirement plan and even if they decide to contribute, the employer's contribution will only be capped at RM5. This is very different from

1996 Act A958, Employees Provident Fund (Amendment of First Schedule and Third Schedule) Order 1998 P.U. (A) 290/1998, Employees Provident Fund (Amendment of First Schedule and Third Schedule) (No. 2) Order 1998 P.U. (A) 414/1998, Employees Provident Fund (Amendment) Act 2000 Act A1080, Employees Provident Fund (Amendment of Third until Schedule) Order 2001 P.U. (A) 135/2001, Employees Provident Fund & (Amendment) Act 2001 Act A1123, Employees Provident Fund (Amendment of Third Schedule) Order 2002 P.U. (A) 120/2002, Employees Provident Fund (Amendment) Act 2003 Act A1190, Employees Provident Fund (Amendment of Third until Schedule) Order 2003 P.U. (A) 171/2003, Employees Provident Fund (Amendment of Fifth and Sixth Schedule) Order 2003 P.U. (A) 227/2003 and Employees Provident Fund (Amendment of Third Schedule) Order 2004 P.U. (A) 178/2004.

23 *See* section 45 (3) of the Employees Provident Fund (EPF) Act 1991

24 Berita Harian, "Warga Malaysia Bekerja di Luar Negara Layak Mencarum SP1M," December 27, 2016, https://www.bharian.com.my/berita/nasional/2016/12/227495/warga-malaysia-bekerja-di-luar-negara-layak-mencarum-sp1m.

local employees, whose part of the employer's payment is based on their wage and is 12% instead of 11% in the case of local employees.

Further, EPF is designed to assist private sector employees in saving a portion of their income in a lifelong banking plan, primarily for use as a retirement fund but also in the event that the employee is temporarily or permanently unable to work. Depending on their needs, people who are employed, self-employed, or run their own businesses might choose to nominate in EPF. Both employees and employers are required to contribute on a monthly basis. For people under the age of 60, the deduction is 8%; for those over 60, it ranges from 5.5% to 4%. From March 2016 through December 2017, businesses are also required to contribute 13%. Although EPF has a lot of positive impact on retirees, but it is not as wonderful as imagined. Many problems arise from the EPF and one of them is that contributors find their savings insufficient to face life after retirement. Since most workers rely solely on their fully withdrawn EPF funds and that money only lasts a few years throughout retirement, the current pension system in the private sector is deemed insufficient. Statistics show that 71%, or more than two-thirds, of EPF members who are actively contributing and under the age of 55 are in a dangerous situation where they do not have enough money to retire above the poverty line.[25] The majority of the workers will keep their EPF money within the first five years of their retirement, at which point they will have used all of their savings.[26] EPF withdrawals during the COVID-19 epidemic, the shifting economic environment,

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[25] Suzalina Halid, "71 Peratus Pencarum KWSP Tidak Cukup Wang untuk Bersara," Berita Harian, February 23, 2023, https://www.bharian.com.my/berita/nasional/2023/02/1068169/71-peratus-pencarum-kwsp-tidak-cukup-wang-untuk-bersara-pm.

[26] Tengku Aizan Hamid and Chai Sen Tyng, "Meeting the Needs of Older Malaysians: Expansion, Diversification and Multi-Sector Collaboration," *Malaysian Journal of Economic Studies* 50, no. 2 (2013): 157–74, https://mjes.um.edu.my/article/view/2874.

and the unavoidable severity of physical health difficulties resulted in this issue.[27] Since a person needs at least RM240,000 in EPF in order to have live and save longer for their later years[28], another initiative has been proposed to the public regarding their retirement plan.[29]

One of the incentives to help the retiree is the government has introduced PRS to the public[30]. Private financial intermediary that the Malaysian Securities Commission has given its approval to a body which is known as Private Pension Administrator (PPA) to create the PRS on July 18, 2012 as a retirement plan to address the issue of retirees' inadequate retirement needs due to increased living standards and longer life expectancies.[31] Section 139A of the Capital Markets and Services Act 2007 (CMSA)[32] defines PRS as a trust-governed retirement plan offered or made available to the public with the sole intent of or with the effect of enabling participants to accumulate long-term savings for retirement, where the amount of

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27 Hock Lock Lee, *Financial Security in Old Age: Whither the Employees Provident Fund of Malaysia?* (Selangor: Pelanduk Malaysia, 2001).

28 Harian Metro, "Ramai Tak Cukup Duit Bila Bersara," Harian Metro, November 3, 2021, https://www.hmetro.com.my/bisnes/2021/11/773385/ramai-tak-cukup-duit-bila-bersara.

29 KWSP Website, https://www.kwsp.gov.my/.

30 Nurasyikin Jamaludin, "Individual Retirement Savings Behaviour" (PhD Thesis, Australia, Edith Cowan University, 2012), https://ro.ecu.edu.au/theses/432/.

31 Shafie Mohamed Zabri, Kamilah Ahmad, and Angelina Ann Loy Hui Lian, "The Awareness of Private Retirement Scheme and the Retirement Planning Practices among Private Sector Employees in Malaysia," *International Journal of Economics and Financial Issues* 6, no. 6 (2016): 120–24, https://dergipark.org.tr/en/pub/ijefi/issue/31991/352814.

32 Capital Markets and Services Act 2007 (CMSA) (Act 671) is An Act to Regulate and Provide for Matters Relating to the Activities, Markets, and Intermediaries in the Capital Markets, and for Matters Consequential and Incidental. This Act also Consolidate the Securities Industry Act 1983 [Act 280] and Futures Industry Act 1993 [Act 499].

benefits is to be determined solely by reference to the contributions made to the plan and any disclosed income, gains, and losses. Any Malaysian citizen, permanent resident, and non-permanent resident who has a work permit and is 18 years of age or older is eligible to apply for PRS.[33] Businesses may also make PRS contributions on behalf of their staff members there are eight providers of PRS, namely AIA Pension and Asset Management Sdn. Bhd., Am Investment Management Sdn. Bhd., CIMB-Principal Asset Management Berhad, Hwang Investment Management Berhad, Kenanga Investors Berhad, Manulife Asset Management Services Berhad, Public Mutual Berhad, and RHB Asset Management Sdn. Bhd. Employers and employees who make PRS contributions can decide which PRS providers to support and how much to contribute. The PRS Contributor may invest in one or more fund types from each PRS provider by either selecting a fund based on their preferred choice or donating based on the default option (age-based selection). Each PRS Provider is required to have three (3) core funds as a default choice in their PRS namely a growth fund, a moderate fund, and a conservative fund.[34]

In conclusion, contribution for retirement plan is very important for all people especially those who work. In Malaysia, there is an EPF that helps non-pensionable public sector employees and employees in the private sector. However, as discussed above, people usually do not have enough savings in their EPF. Therefore, in order to solve this issue, an initiative was established to help them with the introduction to PRS. In general, PRS operates more or less the same as EPF. There are only a few things that differentiate them. More details on the similarities and differences between these two will be covered by the author in the sub-heading below.

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[33] CIMB, "Do I Need PRS If I Already Have EPF?," 2021, https://www.cimb.com.my/en/personal/life-goals/investment/do-i-need-prs-if-i-have-epf.html.

[34] Private Pension Administrator Malaysia (PPA), "Structure Of PRS," n.d., https://www.ppa.my/prs-and-you/structure-of-prs/.

B. Analysis on the Similarities & Differences between Employees Provident Fund (EPF) & Private Retirement Plan (PRS) in Malaysia

1) Similarities in Employees Provident Fund (EPF) and Private Retirement Plan (PRS)

As mentioned earlier, EPF and PRS actually have a lot in common. Both are typically designed to assist people in accumulating assets and funds for their retirement. PRS can be said to help EPF contributors to get more contributions for retirement savings. Not only that, but there are also some similarities that can be seen namely both have the same withdrawal age which is 55 years old. Other than that, the similarities have been stated by the author below.

a. Eligibility of the Applicants under the Employees Provident Fund (EPF) and Private Retirement Plan (PRS)

As mentioned before, for those Malaysians who work in the non-pensionable public sector employees and employees in the private sector, it is mandatory to make contribution in EPF or PRS. However, for foreign or migrant workers, it is optional and not mandatory for them to obligate the EPF or PRS. Even if they decide to contribute, the employer's contribution will only be capped at RM5. This is very different from local employees, whose part of the employer's payment is based on their wage and is 12% instead of 11% in the case of local employees. As for foreign or migrant workers, the employee can go to the EPF counter to register as a member and carry the following form if the employee and employer agree to make contributions to the EPF. The EPF Form 3 (AHL) must be filled in by the employer. As for PRS, only a passport is needed for the non-Malaysians for registration.

In a simple words, contributions to EPF and PRS available for foreign or migrant workers but it is not mandatory for them to do for their retirement plan. Only a few foreigners have an EPF or PRS account. In order to fulfil foreign or migrant workers' retirement plans, foreign or migrant workers in this country can do their savings by sending a percentage of their earnings back to their home countries. Due to this, the majority of foreign or migrant workers refuse to go back to their home countries because EPF and PRS do not motivate them to nominate in EPF or PRS. After ten years of employment here, the majority of these foreign or migrant workers still continue to work here. For this reason, the government has suggested developing an employee savings plan where the initial goal of this plan is to repatriate these foreign or migrant workers to their home countries following the completion of their service.[35]

b. Type of Accounts under Employees Provident Fund (EPF) and Private Retirement Plan (PRS)

In EPF, the contributions made by each member are divided among two separate accounts namely Account I and Account II, each of which has unique withdrawal restrictions. Currently, Account 1 receives 70% of contributions, and members are eligible for a complete withdrawal at retirement, which occurs at age 55. When they reach the required age, members have three options for how to access their money: (i) in one lump sum, (ii) in part lump sum with the remaining amount payable in periodic payments, or (iii) by withdrawing the dividend annually and keeping the remaining balance in the account[36]. The provision does not, however, apply to members of the EPF who are physically or mentally unable to work, members of the EPF who are about to leave Malaysia without the intention of returning to Malaysia, or members of the Fund who wish to withdraw

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[35] Sinar Harian, "Kerajaan Bakal Perkenal Skim Simpanan Pekerja Asin," 2022, https://www.sinarharian.com.my/article/217217/berita/nasional/kerajaan-bakal-perkenal-skim-simpanan-pekerja-asing.

[36] *See* section 55 (1) and section and 55A of Employees Provident Fund (EPF) Act 1991

a portion of their savings for the purposes specified in Section 54(6) of the EPFA. As for Account II, it is assigned the remaining 30% and be a preparation for a comfortable retirement after reaching the age of 50. Money may be withdrawn for a variety of purposes, including the purchase or construction of a home, the reduction or redemption of a mortgage, flexible housing withdrawals, funding for a contributor's or their children's education or medical expenditures, and performing the hajj.[37]

Similar with EPF, the accounts in PRS are split into two separate accounts, namely sub-account A and B, each of the account is maintained at 70% and 30% of the total. The government has offered incentives such tax breaks of up to RM3,000.00 for the first 10 years and a tax credit for employers if the contribution matches 19% of the employer's income for 10 years to encourage participation in the PRS. Unless the contributor has achieved retirement age (55 years), passes away, or permanently emigrates from Malaysia, sub-account A cannot be withdrawn. There is only one opportunity per contributor per year to withdraw money from sub-account B, and doing so will result in an 8 percent tax penalty.

c. Nature of Savings in Employees Provident Fund (EPF) and Private Retirement Plan (PRS)

In EPF, there are two types of savings, namely Syariah savings and conventional savings. Muslims may also invest in this EPF in addition to non-Muslims as there is an investment option within the EPF called as "*Simpanan Shariah*," or also known as Syariah savings a savings option that adheres to Syariah principles. This framework is designed to control the Syariah compliance aspects of the EPF in order

[37] Employees Provident Fund Malaysia, "Benefits as an EPF Member," 2016, http://www.kwsp.gov.my/portal/en/members/member-responsibility/registration/benefits-as-an-epf-member.

to guarantee that it is handled in line with Shariah as required[38]. In Syariah savings, the rate of dividends is determined by the performance of shariah-compliant investments whereas as for conventional savings, dividend rate is subject to a minimum dividend of 2.5% and is dependent on the actual performance of conventional assets (including shariah-compliant and non-compliant investments). This type of investment is also different from conventional investment as all investment assets in Syariah investment will go through a Shariah screening procedure, which aims to weed out aspects that are not in accordance with the law, namely *riba* (interest/usury), *gharar* (contract uncertainty), *maysir* (gambling), and other forbidden features like non-halal goods and services.

Similar to EPF, there are also Syariah savings and conventional savings in EPF. The *wakalah* principle is the foundation of shariah-based PRS.[39] The *wakalah* principle is a contract with a price. Providers manage members' funds on behalf of the members. They are in charge of managing the funds that PRS members contribute to invest in Shariah-compliant stocks that the Security Commission (SC) has listed. Three core funds are available through this Shariah-based PRS, which are comparable to the possibilities for conventional funds. Growth, moderate, and conservative funds make up these three essential funds. According to the asset allocation for investment reasons, each fund is unique. Members are permitted to invest in default option funds that are depending on their age or level of risk tolerance. There are roughly 56 PRS funds available on the market right now.

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38 *See* section 43A of the Employees Provident Fund (EPF) Act 1991

39 Solehah Yahaya and Haslindar Ibrahim, "Determinants of Awareness to Invest in Shariah-Based Private Retirement Scheme (PRS): The Case of Public University Students in Malaysia" (Social Sciences Postgraduate International Seminar (SSPIS), Pulau Pinang, Malaysia: School of Social Sciences, USM, 2017), 639–45, https://soc.usm.my/images/pdf/SSPIS-2017-Final.pdf#page=43.

d. **The Position of Non-Muslims in Employees Provident Fund (EPF) and Private Retirement Plan (PRS) for estate administration cases**

Furthermore, both EPF and PRS have similarities where both can be nominated. The nomination process has been introduced to help members choose nominees they can trust to be given a large sum of money to estate administration. The chosen nominees might not be the member's nearest relative. In fact, a member is free to suggest someone who is not related to them by blood, and they are free to propose any candidate while he or she is still alive.[40] In general, nomination in EPF or PRS is where the member nominates someone to distribute the EPF or PRS saving.[41] Most of the time, the nominee has been granted a Grant of Probate, a Letter of Administration, or a distribution order. In certain cases, a nominee has the option to receive the saved funds in EPF or PRS without presenting their administration letter.

As for nominations for non-Muslims in EPF for estate administration cases, members are encouraged to nominate others to help the nominee withdraw their EPF savings when they die. If a member did not designate the nominee for his or her EPF savings, the member's heirs may run into problems while trying to perform the estate administration process.[42] In order to avoid any issues in the

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[40] N. L. M. Said et al., "Status of Property Nominee for Employees Provident Fund," *International Business Management* 7, no. 6 (2013): 432–35, https://oarep.usim.edu.my/jspui/handle/123456789/2437.

[41] Ibrahim Talib, "Asset of a Husband: Asset of a Wife-EPF Contribution and Related Legal Provision" (Seminar Paper of the Syariah Courts & Current Issues Series 2, Malaysia: the Malaysian Syariah Lawyers Association with the Cooperation from the Department of Law & Syariah, Academy of Islamic Studies, University of Malaya, 2005).

[42] The Malaysian Reserve, "The Importance of Beneficiary Nomination for EPF Members," November 28, 2019,

future, members are encouraged to list their spouse or next-of-kin such as children or parents, or choose an authorised institution namely Amanah Raya Berhad (ARB). By completing the form EPF 4 (AHL), members may submit as many nominations as may be necessary. If necessary, more than one form may be submitted. An individual or non-profit organisation, a group, an association, a welfare facility or others can all be nominees. However, it is recommended for the members to designate their own family members namely their spouses, children, parents, and spouses to receive and manage their savings in EPF.

Yet, if the nominee is not among the next of kin, the nomination will still be valid but very much likely will face the danger of difficulty in the future when the rightful heirs come to make claims. The day that the completed papers are turned in at any EPF counters results in the appointment of the nominee. Moreover, nominations in EPF are kept private. However, if a member passes away, his or her next of kin may check the status of the nomination under the condition that they present a death certificate and documentary evidence of their family link, such as a birth or marriage certificate. If the deceased clearly has a nominee, the savings can be paid to the nominee in accordance with the percentage breakdown specified on the nomination form.[43] Most importantly, it should be taken into account that it is not mandatory to nominate a candidate for the EPF. Members are encouraged to suggest a nominee, though, to make the process of submitting claims and distributing funds to beneficiaries easier through the estate administration process in the event that a member passes away.

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https://themalaysianreserve.com/2019/11/28/the-importance-of-beneficiary-nomination-for-epf-members/.

43 Sazali Abu Bakar, "Nomination in the Employees Provident Fund (EPF) and Pilgrimage Fund (TH): A Study According to the Islamic Law" (Master Thesis, Selangor, Malaysia, Faculty of Islamic Studies, National University of Malaysia, 2010).

As for PRS, similar to EPF, there is also a nomination for non-Muslims in PRS for estate administration cases. PPA offers tools for PRS members to nominate PRS accounts for those who have money in the PRS.[44] The characteristic of nomination for non-Muslims in PRS for estate administration cases is similar with EPF. However, compared to EPF, only six candidates can be nominated, and every candidate can be designated their portion of the remaining PRS. The legal executor or administrator of the member's estate will receive the PRS balance if the member decides not to nominate anyone. When having this PRS nomination for estate administration cases, the withdrawal of the PRS balance becomes more simpler and faster for estate administration. At the same time, the nominees appointed by the deceased can certainly carry out the PRS balance well. As for the steps to nominate in PRS, firstly the person must complete the PPA form in the presence of a witness. Next, the applicant must send the form and a copy of the IC to the existing PRS provider. Further, the details will be verified by the PRS provider and if the nomination is successful, it will be notified.

e. The Position of Nomination for Muslims in Employees Provident Fund (EPF) and Private Retirement Plan (PRS) for estate administration cases

As for nomination for Muslims in EPF for estate administration cases, a *wasi* or administrator has the obligation to distribute the EPF savings to the proper beneficiary in accordance with Islamic Law.[45] The nomination for Muslims in EPF will be distributed in accordance

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[44] Private Pension Administrator Malaysia (PPA), "Proses Penamaan PRS bagi Ahli Beragama Islam," 2020, https://www.ppa.my/prslive/proses-penamaan-prs-bagi-ahli-beragama-islam/.

[45] Suriany Awaludin, "Pembahagian Wang KWSP," Harian Metro, August 16, 2018, https://www.hmetro.com.my/addin/2018/08/368485/pembahagian-wang-kwsp.

with the decedent's will or agreement of the heirs[46] or will be allocated in accordance with *Faraid*.[47] It should be noted that there is no way to *hibah* the EPF for Muslims. Moreover, the appointed nominees are not absolute recipients but act as the executor or administrator who is responsible for distributing the deceased's savings to the heirs who are entitled according to Islamic law.[48] Obtaining a *Faraid* certificate from the Syariah Court is crucial because it can help to identify the legitimate heirs rather than make decisions for the parties.

As for nomination in PRS, it is almost the same with EPF. When a Muslim member nominates someone, that person is appointed as the administrator. The procedure of naming a *"wasi"* (administrator) to handle and withdraw the funds in a member's PRS account is called as nomination in PRS. The nominee is merely the trustee in conformity with Islamic Law and not the owners. The PRS account balance will be paid to the member's legal estate administrator, who will be chosen by the member's heirs after his or her passing, if the member decides not to nominate anyone. The administrator must take the remaining funds from the member's PRS account after the

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46 M-Star, "Balu Menangis Gagal Keluarkan Wang KWSP Suami Tunjuk Surat Nikah, Sijil Mati Pun Tak Laku - 'Senang Cerita, Masa Hidup Buat Perancangan Siap-Siap,'" 2021, https://www.mstar.com.my/lokal/viral/2021/01/01/balu-menangis-gagal-keluarkan-wang-kwsp-suami-tunjuk-surat-nikah-sijil-mati-pun-tak-laku---senang-cerita-masa-hidup-buat-perancangan-siap-siap.

47 Free Malaysia Today (FMT), "What Malaysians Must Know about EPF Nominations," August 5, 2019, https://www.freemalaysiatoday.com/category/leisure/2019/08/05/what-malaysians-must-know-about-epf-nominations/.

48 Hafizah Iszahanid, "Penama KWSP Elak Makan Duit Haram, Bahagikan Ikut Faraid," Berita Harian, March 10, 2019, https://www.bharian.com.my/rencana/agama/2019/03/539306/penama-kwsp-elak-makan-duit-haram-bahagikan-ikut-faraid.

member passes away.[49] The remaining funds in the PRS account will be given to the member's estate's legal administrator if the Muslim member decides not to submit a nomination. On the other hand, the nomination for Muslims in PRS for estate administration cases is similar to that in EPF. Nomination is important in PRS is important as it smoothes the implementation of the division of inheritance for the remaining PRS without the need to go through legal procedures such as administrator permission, *Faraid* certificate verification and others.

In conclusion, there are many similarities that can be seen between EPF and PRS namely both have the same withdrawal age which is 55 years old, the type of applicant that is eligible to make nomination in EPF and PRS, type of saving in EPF and PRS, a nomination for non-Muslims in EPF and PRS for estate administration cases and a nomination for non-Muslims in EPF and PRS for estate administration cases. A clear similarity can be seen in terms of nomination where both need to appoint a nominee to manage the deceased's property in EPF or PRS and distribute it to the respectful heirs. Every contributor should take seriously the naming of this nominee because even though it is not mandatory, it has delayed the estate administration process if there is no nomination has been made.[50] If no nomination is made, the EPF money also will be frozen, and withdrawals must be made through administrative bodies such as the Estate Distribution Division or the Civil High Court. Therefore, members are encouraged to suggest a nominee, though, to make the process of submitting claims and distributing funds to beneficiaries easier in the event of estate administration. The similarities in EPF and PRS can be seen in Table 1.

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[49] Private Pension Administrator Malaysia (PPA), "Make Your Nomination," 2022, https://www.ppa.my/make-your-nomination/.

[50] Malaysia Kini, "Masih Ramai Ambil Mudah Namakan Waris KWSP," 2017, https://www.malaysiakini.com/news/406593.

TABLE 1. The similarities between the Employees Provident Fund (EPF) and Private Retirement Plan (PRS).

No.	Similarities	Employees Provident Fund (EPF)	Private Retirement Plan (PRS)
1	Type of applicant that is eligible to make nomination in Employees Provident Fund (EPF) and Private Retirement Plan (PRS)	Malaysian (Mandatory) Foreign or Migrant Worker (Not Mandatory)	Malaysian (Mandatory) Foreign or Migrant Worker (Not Mandatory)
2	Type of account in Employees Provident Fund (EPF) and Private Retirement Plan (PRS)	Account I and Account II	Sub-account A and Sub- account B
3	Type of saving in EPF and PRS	Conventional and Syariah savings	Conventional and Syariah savings
4	Nomination for non-Muslims in Employees Provident Fund (EPF) and Private Retirement Plan (PRS) for estate administration cases	Presence	Presence
5	Nomination for Muslims in Employees Provident Fund (EPF) and Private Retirement Plan (PRS) for estate administration cases	Presence	Presence

2) *Differences in Employees Provident Fund (EPF) and Private Retirement Plan (PRS)*

This part of discussion explains the differences between EPF and PRS. Although there are similarities between the two, several key differences can be seen between the two funds. More details will be explained below.

a. Obligation to make contributions in Employees Provident Fund (EPF) and Private Retirement Plan (PRS)

First and foremost, employees in private and non-pensionable public sectors are mandatory to make contributions to EPF. Except for a few categories, every employee with a contract of employment must make EPF contributions. This was explained in section 43(1) of EPF Act 1991 which obligates employees and employers to pay monthly contributions with the amount of wages for that month according to the rate specified in the Third Schedule[51]. This clearly shows that there is an obligation for employees in private and non-pensionable public sectors to invest in EPF. According to Section 41 (1) of the EPF Act 1991, failure to register with the EPF as an employer within 7 days of hiring an employee[52] will be charged to imprisonment of not more than 3 years or a fine of not more than RM10,000 or both.

Other than that, if the Company Directors, Firm Partners, or Association Officers fail to pay outstanding EPF contributions according to section 46(1) of EPF Act 1991, claims can be filed in court and actions can be taken. Moreover, bankruptcy action can also be taken namely seizure and sale of assets. Worse is they are banned from leaving the country. It is supported under Section 39 Employees Provident Fund (EPF) Act 1991 where the EPF Board may apply to the Immigration Department to prevent any director of a company, partnership firm or business owner from leaving the country if the company/firm in question fails to pay the contribution as prescribed. This clearly shows that Malaysia is very serious about helping the public regarding the retirement plan by tightening the law which indirectly facilitates the contributors when they retire later.

On the other hand, PRS is a voluntary programme open to those ages 18 and older, long-term voluntary savings and investment

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51 *See* section 43(1) of Employees Provident Fund (EPF) Act 1991

52 *See* section 41 (1) of Employees Provident Fund (EPF) Act 1991

scheme designed for greater retirement savings. The contributions are optional for the employees and on a voluntary basis. People can make monthly contributions, just like the EPF. It is an extra tool to increase the retirement savings as PRS can supplement the EPF funds if the person is a member.[53] Although it is a voluntary basis, the law prohibits members of EPF from taking money out of their EPF accounts to pay into the PRS.

b. Tax Relief Determinant in the Employees Provident Fund (EPF) and Private Retirement Plan (PRS)

Secondly, as for tax relief in EPF, for public employees is RM7,000 and RM4,000 for non-public employees. Compared to PRS, the tax relief is only RM3,000 . Based on this information, it clearly shows that EPF provides greater tax relief compared to PRS. However, it should be noted the tax relief involving the contribution is either funds is subject to the changes, ranging from increase, or decrease of the amount or even abolishment of the tax relief.

c. Pre-retirement withdrawal for Employees Provident Fund (EPF) and Private Retirement Plan (PRS)

Thirdly, as for EPF, pre-retirement withdrawal can be made from Account II for approved expenses namely the purchase or construction of a home, PR1MA housing, the reduction or redemption of a mortgage, flexible housing withdrawals, funding for a contributor's or their children's education or medical expenditures, savings over one million ringgit, lost the ability and for the purpose of performing hajj [54]. This is subject to a condition that the applicants

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53 Principal Malaysia, "General Private Retirement Scheme (PRS) Information," 2023, https://www.principal.com.my/en/faq-prs-general-information.

54 Azma ML. "12 Jenis Pengeluaran KWSP Dibolehkan Sebelum Umur 55 Tahun, Berikut Info Wanita Perlu Tahu". (2023). Retrieved from https://sinarplus.sinarharian.com.my/fyi/12-jenis-pengeluaran-kwsp-dibolehkan-sebelum-umur-55-tahun-berikut-info-wanita-perlu-tahu/

must Malaysians and foreigners, aged between 50 and 55 but not yet 55 and must have Account II.[55]

As for PRS, similar to EPF, there can be partial or fully withdrawals from sub-account B before the individual reaches the retirement age. However, it can only be used in certain circumstances namely for healthcare purposes, for housing purposes and special circumstances like COVID-19. The unfortunate fact is that withdrawals made before the official retirement age of 55 may have tax implications which are subject to tax penalty of 8%.[56]

d. Fees for the Employees Provident Fund (EPF) and Private Retirement Plan (PRS)

It should be noted that there are no fees imposed in EPF. However, it is distinct from PRS where PRS imposes its own fees namely sales charges of up to 3%, annual management fees up to 5% and additionally, there is a switching fee if one wants to transfer funds from one fund type to another.[57]

e. Return under the Employees Provident Fund (EPF) and Private Retirement Plan (PRS)

EPF, which is governed by the Ministry of Finance, is required to ensure a minimum guaranteed return to its depositors of 2.5% annually as EPF system protects participants' money. Return is good

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[55] Azma ML, "12 Jenis Pengeluaran KWSP Dibolehkan Sebelum Umur 55 Tahun, Berikut Info Wanita Perlu Tahu," Sinar Plus, March 10, 2023, https://sinarplus.sinarharian.com.my/fyi/12-jenis-pengeluaran-kwsp-dibolehkan-sebelum-umur-55-tahun-berikut-info-wanita-perlu-tahu/.

[56] PropertyGuru, "Your Guide to PRS Malaysia and PRS Withdrawal for Homes," April 2020, https://www.propertyguru.com.my/property-guides/guide-to-prs-malaysia-prs-withdrawal-for-homes-25710.

[57] Policy Street, "Private Retirement Scheme: Things You Should Know," July 25, 2022, https://www.policystreet.com/articles/private-retirement-scheme-things-to-know.

as it will calm the employee that they are making the right investment. Unfortunately, PRS has no guarantee for returns since PRS depends on the fund's performance.[58] Some of them may lose money as a result of the funds they select.

TABLE 2. The differences between EPF and PRS

No.	Features	Employees Provident Fund (EPF)	Private Retirement Plan (PRS)
1	Obligation to make contribution in EPF or PRS	Mandatory	Optional
2	The amount of tax relief in EPF and PRS	RM7,000 (Public employees) RM4,000 (Non-public employees)	RM3,000
3	Pre-retirement withdrawal for EPF and PRS	Pre-retirement withdrawal can be made from Account II for approved expenses namely purchase or construction of a home, PR1MA housing, the reduction or redemption of a mortgage, flexible housing withdrawals, funding for a contributor's or their children's education or medical expenditures, savings over RM1 Million, lost the ability and performing the hajj	Partially or fully withdrawals from sub-account B can only be used in certain circumstances namely for healthcare purposes, for housing purposes and special circumstances like COVID-19. Subject to a tax penalty of 8%
4	Fees for the EPF and PRS service	No fees	a) Sales charges up to 3% b) Annual management fees up to 5%

[58] Imoney Learning Centre, "PRS (Pt.5): Private Retirement Schemes in Malaysia – Risk Factors," March 13, 2013, https://www.imoney.my/articles/prs-risk-factors.

No.	Features	Employees Provident Fund (EPF)	Private Retirement Plan (PRS)
			Switching fee if one want to transfer funds from one fund type to another
5	Return guaranteed by EPF and PRS	2.5% of return is guaranteed by EPF as EPF system protects participants' money	PRS has no guarantee for returns because PRS depend on the fund's performance

C. Advantages & Disadvantages in Employees Provident Fund (EPF) & Private Retirement Plan (PRS)

1) Advantages of Employees Provident Fund (EPF)

Generally, there are many advantages of EPF that can be received by the employee precisely when they are retired.[59] Firstly, there is a guaranteed minimum of 2.5% annual dividend in EPF. This is actually good news as it shows that EPF is stable per year. Next, when investing in EPF, the employee can receive the lump sum amount especially when they reach their retirement age.[60] EPF withdrawals can be made as a whole without requiring employees to wait every month for withdrawals. Moreover, EPF offers a maximum tax break of RM6,000 as opposed to a maximum tax break of RM3,000 for PRS.

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[59] Guo Heng, "Which Should You Choose to Save More For Retirement: EPF or PRS?," RinggitPlus, March 18, 2015, https://ringgitplus.com/en/blog/personal-finance-news/which-should-you-choose-to-save-more-for-retirement-epf-or-prs.html.

[60] Narendra Kumar, "Advantages and Disadvantages of Employee Provident Fund EPF Online," *Enterslice* (blog), September 21, 2017, https://enterslice.com/learning/advantages-disadvantages-employee-provident-fund-epf/.

Most importantly, the employee may make withdrawals from EPF which is account II to purchase or construct of a home, PR1MA housing, the reduction or redemption of a mortgage, flexible housing withdrawals, funding for a contributor's or their children's education or medical expenditures, savings over RM1 Million, lost the ability and performing the hajj but must adhere to the conditions indicated. This advantage is very good especially for poor families. With facilities like this, employees can benefit from the convenience of the employee and his family. With the existence of EPF, at the same time gives the opportunity to these families to own their first home without having to rent again. Not only that, children's education nowadays is more expensive compared to the past. The school fees charged are increasing every year. This should cause anxiety especially for parents. With the existence of this EPF savings, it simultaneously eases the freedom of parents to cover their children's schooling, especially for couples who have many children. Finally, it is important if this EPF saving can be used for health without having to wait for the employee to retire. Health plays an important role in everyday life. If someone is sick, a lot of costs need to be incurred. The EPF savings, also help employees to pay medical fees without worry. Employees are eligible for benefits in cases of serious hospital surgery or illnesses including TB, leprosy, paralysis, cancer, mental illness, or heart disease.

Moreover, an employee may withdraw no more than six times their annual pay, or their whole accumulated contribution, whichever is smaller. The money can be used for themselves or any family member. Also, the employee can save some money because the maximum tax deduction for EPF payments is double that of PRS contributions.

2) Disadvantages of Employees Provident Fund (EPF)

On the other side, there are some withdrawals in EPF. The employee might not receive the returns until they retire.[61] From a different point of view, this is may be beneficial as it prevents the employee from using the EPF fund in an unhealthy way. Next, premature withdrawal is only permitted in specific instances and only after presenting relevant documentation and finishing a long and onerous list of paperwork. This withdrawal although it looks bad for the employee, it actually helps the employee to prevent his property from being taken by anyone without his knowledge. Even the family itself, still cannot be trusted because any possibility can happen. So, with rules like this, it shows that the EPF is keeping a tight grip on the EPF fund that employees keep after retirement. Last but not least, the sole circumstance in which the account may be cancelled before retirement is the subscriber or the employee's death. Through this rule, it actually encourages employees to keep saving money in the EPF without giving up. If this rule is not established, of course many employees might fail to discipline themselves to save in EPF. The comparison in advantages and disadvantages in EPF can be seen in Table 3.

TABLE 3. Advantages and Disadvantages of EPF

Advantages	**Disadvantages**
The guaranteed minimum of 2.5% annual dividend is EPF's greatest asset.	The employee does not receive the returns until They retired
A retired individual can receive the lump sum amount	Premature withdrawal is only permitted in specific instances and only after presenting relevant documentation and finishing a long and onerous list of paperwork

[61] Fintra, "Employee Provident Fund (PF)| Ultimate Guide to PF Balance, Withdrawal for 2023," 2022, https://fintra.co.in/blog/employee-provident-fund.

Advantages	Disadvantages
An employee may make withdrawals from his or her EPF account II to pay for first house, children's education, or medical costs.	The sole circumstance in which the account may be cancelled before retirement is the subscriber's death
A member may take money out of their EPF account for home maintenance, home repairs, or loan repayment but must adhere to the conditions indicated.	-
Members are eligible for benefits in cases of serious hospital surgery or illnesses including TB, leprosy, paralysis, cancer, mental illness, or heart disease.	-
A member may withdraw no more than six times their annual pay, or their whole accumulated contribution, whichever is smaller. The money can be used for the employee or any family member.	-
The maximum tax deduction for EPF payments is double the PRS contributions.	-

3) *Advantages of Private Retirement Plan (PRS)*

As for PRS, it has its own advantages.[62] First and foremost, PRS was founded primarily to assist retiree in increasing their retirement savings and it is like a second EPF.[63] Compared to EPF, although PRS has restrictions in its withdrawal, it can help stop employees from taking advantage of the retirement savings. Moreover, by making a minimum monthly salary contribution of 10% to PRS, retiree could increase their savings for retirement. The type of investments is also

[62] Private Pension Administrator Malaysia (PPA), "Why PRS?," 2023, https://www.ppa.my/prs-and-you/why-prs/.

[63] Jen-Li Lim, "Guide to Private Retirement Schemes (PRS) in Malaysia," imoney Learning Centre, 2021, https://www.imoney.my/articles/prs.

simple namely choice of Providers, self-selected funds, or age-based default funds. In addition, retirees can take advantage of a personal tax break of up to RM3,000 every year. Last but not least, to serve and safeguard the interests, PPA offers continuous member services and one-stop account management known as PRS Central Administrator.

4) Disadvantages of Private Retirement Plan (PRS)

As for the withdrawal in PRS, there is no law or regulation that ensures PRS funds will make money. This is actually worrying because employees invest because they want a return. If there is no return, it seems like nothing for the employee. Moreover, the interests of the contributors are not guaranteed. Uncertainty like this actually creates anxiety for employees especially when thinking about their retirement plan. In addition, the incentives offered to employees are insufficient. This cannot happen because employees invest in PRS because they want profit and not loss. Not only that, the PRS funds are neither safeguarded or guaranteed, and the PRS funds receive only minimal publicity, among other shortcomings. PRS should convince employees by expanding publicity about PRS to create employee confidence in PRS. If there is no confidence like this, of course employees will no longer want to invest in PRS. Finally, the risk of the depositors' investment declining to less than the invested amount exists with PRS plans, like most investment vehicles, because they do not guarantee a minimum return. The comparison of the advantages and disadvantages in PRS can be seen in Table 4 below.

TABLE 4. Advantages and Disadvantages of PRS

Advantages	**Disadvantages**
PRS was founded primarily to assist retiree in increasing their retirement savings and it is like second EPF.	No law or regulation that ensures PRS funds will make money
Although PRS has restrictions in its withdrawal, it can help stop someone	The interests of the contributors are not guaranteed

Advantages	Disadvantages
from taking advantage of the retirement saving	
By making a minimum monthly salary contribution of 10% to PRS, the retiree could increase their savings for retirement.	Incentives offered to employees are insufficient
The type of investments are also simple namely Choice of Providers, self-selected funds, or age-based default funds.	PRS funds are neither safeguarded or guaranteed
Retirees can take advantage of a personal tax break of up to RM3,000 every year.	PRS funds receive only minimal publicity, among other shortcomings.
To serve and safeguard your interests, PPA offers continuous member services and one-stop account management known as PRS Central Administrator.	The risk of the depositors' investment declining to less than the invested amount exists with PRS plans, like most investment vehicles, because they do not guarantee a minimum return

D. Overview on Retirement Plan in Indonesia

Indonesia does not have a specific program referred to as EPF and PRS as it might be known in some other countries. However, Indonesia does have several programs with similar objectives, aiming to provide savings or benefits for employees, particularly in the context of retirement. Indonesia have a social security program for employees, known as *Jaminan Sosial Tenaga Kerja* (Jamsostek) or Workers Social Security.[64] *Jamsostek* provides various benefits to workers, including health insurance, employment injury benefits,

[64] Siti Ummu Adillah and Sri Anik, "Kebijakan Jaminan Sosial Tenaga Kerja Sektor Informal Berbasis Keadilan Sosial Untuk Meningkatkan Kesejahteraan," *Yustisia* 4, no. 3 (December 1, 2015): 558–80, https://doi.org/10.20961/yustisia.v4i3.8688.

old-age benefits, and pension plans.[65] It aims to ensure the well-being and social security of Indonesian workers.

The social security program is a fundamental protection program for workers aimed at ensuring security and certainty against economic risks.[66] It serves as a means to guarantee the flow of income for workers and their families due to the occurrence of social risks, with financing that is affordable by employers and workers. Based on Article 1 of Law Number 11 of 1992 concerning Pension Funds[67], Workers' Social Security is a protection for workers in the form of compensation in the form of money as a substitute for part of the lost or reduced income and services as a result of events or conditions experienced by workers, such as work accidents, illness, pregnancy, childbirth, old age, and death. One prominent program in Indonesia is the Pension Guarantee Program (Old Age Security Program), regulated by the Workers Social Security Agency *(Badan Penyelenggara Jaminan Sosial Ketenagakerjaan or BPJS Ketenagakerjaan).* (See Figure 1 and Figure 2).

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[65] BPJS Ketenagakerjaan, "Jaminan Sosial Ketenagakerjaan Indonesia," accessed November 11, 2022, https://www.bpjsketenagakerjaan.go.id/tentang-kami.html.

[66] Ngabidin Nurcahyo, "Perlindungan Hukum Tenaga Kerja berdasarkan Peraturan Perundang-Undangan di Indonesia," *Jurnal Cakrawala Hukum* 12, no. 1 (2021): 69–78, https://doi.org/doi:10.26905/idjch.v12i1.5781.

[67] Article 1 of Law Number 11 of 1992 Concerning Pension Funds.

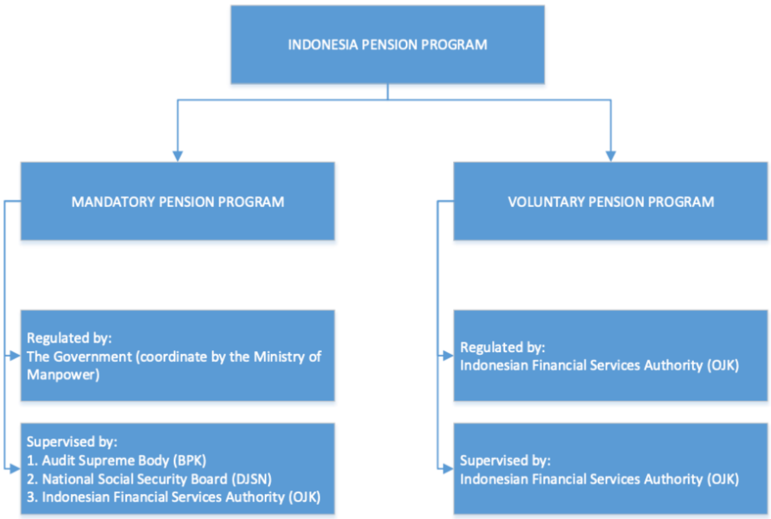

FIGURE 1. The Retirement (pension) Fund System in Indonesia

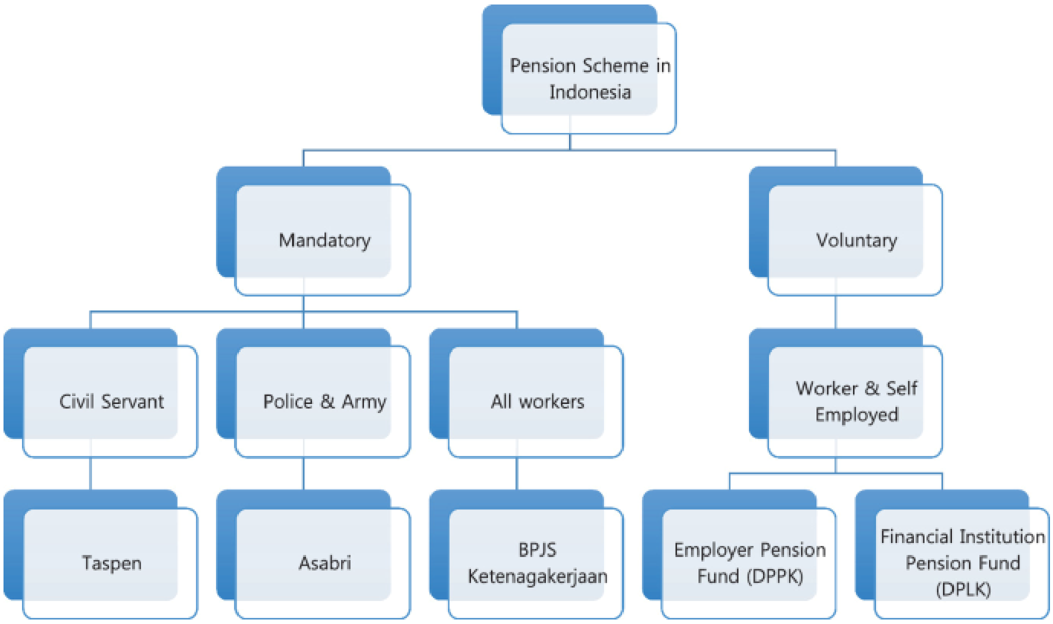

FIGURE 3. Retirement (pension) Scheme in Indonesia

The retirement system in Indonesia consists of mandatory and voluntary pension programs.[68] Mandatory pension programs are

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[68] Rofikoh Rokhim, Wardatul Adawiyah, and Ida Ayu Agung Faradynawati, "The Indonesian Pension System," in *International Comparison of Pension Systems: An Investigation from Consumers' Viewpoint*, ed. Hongmu Lee, Gianni

established by the government and are compulsory for specific groups of the population. These programs are implemented by entities established by the government, including BPJS *Ketenagakerjaan*, PT ASABRI[69], and PT TASPEN[70]. BPJS *Ketenagakerjaan* introduced pension security program since July 1, 2015.[71] On June 30, 2015, the Indonesian government enacted Government Regulation No. 45 of 2015 concerning the Administration of the Pension Security Program ("GR 45/2015") and Government Regulation No. 46 of 2015 concerning the Administration of the Old Age Security Program ("GR 46/2015"). These regulations mark the introduction of Indonesia's new pension security program and the enhancement of the old age security program.[72]

The mandatory old-age savings scheme for all private-sector workers is financed by earnings-related contributions from insured

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Nicolini, and Man Cho, Contributions to Management Science (Singapore: Springer Nature, 2022), 357–78, https://doi.org/10.1007/978-981-19-6446-6_11.

[69] PT ASABRI is a State-Owned Enterprise in the form of a Limited Liability Company where all its shares are owned by the state, represented by the Minister of State-Owned Enterprises as the Shareholder or the General Meeting of Shareholders. PT ASABRI is a social life insurance company mandated by law to provide financial protection for the benefit of TNI soldiers, Police Officers, and Ministry of Defense/Police Civil Servants. PT ASABRI runs six programs, including pension and old-age savings programs.

[70] PT TASPEN is a State-Owned Enterprise in Indonesia engaged in old-age savings and pension funds for Civil Servants (ASN) and State Officials.

[71] Reza Rizky Farza, Agus Mulya Karsona, and Betty Rubiati, "Jaminan Pensiun bagi Pekerja Kontrak dalam Rangka Meningkatkan Kesejahteraan Pekerja Kontrak," *Jurnal Bina Mulia Hukum* 4, no. 1 (2019): 150–67, http://jurnal.fh.unpad.ac.id/index.php/jbmh/article/view/71.

[72] Lia Alizia, "New Implementing Regulations on Indonesia's Pension and Old Age Security Programs," Makarim & Taira - Counsellors at Law, accessed February 12, 2023, https://www.makarim.com/news/new-implementing-regulations-on-indonesia-s-pension-and-old-age-security-programs.

persons and their employers together with an income from investments. The contributions are calculated as a percentage of the employee's salary[73], with the employer and employee each contributing a portion of the total. The pension scheme offered to only private formal-sector workers is also financed by earnings-related contributions from insured persons and their employers together with an income from investments. The contributions are calculated as a percentage of the employee's salary, with the employer and employee each contributing a portion of the total. At retirement, benefits are paid in the form of a regular pension and a lump sum, which is calculated by using the formula determined by the Ministry of Finance of Indonesia. Survivors and disability benefits are also provided under the scheme.

The voluntary pension program is a retirement program administered by Employer Pension Funds (DPPK) and Financial Institution Pension Funds (DPLK).[74] This pension program is not mandatory and is managed by commercial entities.[75] DPPK is a pension program formed by the founder for the benefit of some or all its employees as participants. Meanwhile, DPLK is a Pension Fund established by certain financial institutions, acting as founders, intended for employees included by employers and/or individuals independently. There is a distinction in the authorities regulating and

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[73] Putri Wijayanti and Lina Miftahul Jannah, "Implementation of Old Age Insurance Policy in Indonesia," *Jurnal Bina Praja: Journal of Home Affairs Governance* 11, no. 2 (2019): 185–95, http://jurnal.kemendagri.go.id/index.php/jbp/article/view/595.

[74] Abdul Hadi, Emese Bruder, and Widhayani Puri Setioningtyas, "Comparison of the World's Best Pension Systems: The Lesson for Indonesia," *Social Sciences* 11, no. 435 (2022): 1–17, https://www.mdpi.com/2076-0760/11/10/435.

[75] Aris Ananta et al., "Pension and Active Ageing: Lessons Learned from Civil Servants in Indonesia," *Social Sciences* 10, no. 11 (November 2021), https://doi.org/10.3390/socsci10110436.

overseeing mandatory and voluntary pension programs. Regulation and oversight of voluntary pension programs are carried out by the Financial Services Authority (*Otoritas Jasa Keuangan*).[76] In contrast, mandatory pension programs are regulated by the government, coordinated by the Ministry of State Apparatus. Oversight of this mandatory program is conducted by the State Audit Agency, the National Social Security Council, and the OJK.

One of the challenges facing the pension system in Indonesia is the low coverage of the mandatory old-age savings scheme. According to the World Bank, only about 30% of the working-age population in Indonesia is covered by a pension scheme, and many workers in the informal sector are not covered at all. To address this issue, the government has been implementing various measures to expand the coverage of the mandatory old-age savings scheme, including by requiring all employers to enrol their employees in the scheme and by providing incentives for informal sector workers to join the scheme. Another challenge is the adequacy of the benefits provided by the pension system. The current benefit levels are relatively low, and many workers may not be able to maintain their standard of living in retirement. The government has also been working to improve the investment returns of the pension funds by allowing them to invest in a wider range of assets, including infrastructure projects.

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[76] Ashri Azhari Baeha et al., "Kepastian Hukum terhadap Kewenangan Otoritas Jasa Keuangan sebagai Pengawas Eksternal Dari PT. Asabri," *Locus Journal of Academic Literature Review*, 2022, 181–90, https://jurnal.locusmedia.id/index.php/jalr/article/view/56.

E. Comparison between Retirement Plan in Malaysia and Indonesia

Retirement savings schemes are an important aspect of financial planning, especially in countries where there is no social security system or where the existing system is inadequate. In Malaysia, there are two retirement savings schemes, the Employees Provident Fund (EPF) and the Private Retirement Scheme (PRS), while Indonesia has a mandatory old-age savings scheme for all private-sector workers. The EPF is a relatively small public retirement fund for both private sector and non-pensionable public sector employees, while PRS is a voluntary long-term savings and investment scheme designed to help individuals accumulate savings for retirement. This table provides a comparison between EPF and PRS in Malaysia and Indonesia's mandatory old-age savings scheme.

TABLE 5. Comparison of EPF and PRS in Malaysia & Indonesia

Retirement Savings Scheme	Malaysia	Indonesia
Employees Provident Fund (EPF)	1) Manages pension funds for a relatively small workforce in Malaysia, in comparison to developed countries, but maintains investments in all major markets and investments in various asset classes. 2) A key strength of the EPF is the professionalism and skill set of its employees. 3) Has a customer-centric approach,	N/A (Indonesia does not have a voluntary retirement savings scheme like PRS in Malaysia).

Retirement Savings Scheme	Malaysia	Indonesia
	which can be seen in various initiatives to enhance the quality of services. 4) Challenges include Malaysia's demographic landscape, low retirement age, high life expectancy, lack of pension coverage, and low financial awareness for retirement.	
Private Retirement Scheme (PRS)	1) A voluntary long-term savings and investment scheme designed to help individuals accumulate savings for retirement. 2) Complements the existing mandatory retirement savings scheme, the EPF. 3) Offers a choice of funds managed by private sector fund managers, providing individuals with greater flexibility and choice in their retirement savings. 4) Regulated by the Securities Commission Malaysia.	N/A (Indonesia does not have a voluntary retirement savings scheme like PRS in Malaysia)

Retirement Savings Scheme	Malaysia	Indonesia
Mandatory old-age savings scheme	N/A (Malaysia does not have a mandatory old-age savings scheme like Indonesia).	1) Mandatory for all private-sector workers. 2) The current penetration rate of public pension funds is still lower than in other countries. 3) The total amount of the mandatory JHT and pension security benefit (JP) pooled by the worker's social security provider (BPJS TK) is only about 2.73 percent of gross domestic product (GDP).

4. Conclusion

In conclusion, knowledge about retirement plan is very important and needs to be taken seriously by all parties. This is because, although there is still a lot of time for private sector workers to retire, they should know and learn about their retirement plan so that savings for retirement can be made from now. In Malaysia, EPF has been established as a retirement plan which is made through salary deductions. Since the beginning of its existence, it has provided many facilities and relief to private sector workers who do not have pensions like government workers. But due to the increasing cost of living, this EPF cost is actually not enough to cover their daily life. Therefore, PRS was established as a supplement to EPF earlier to ensure the continuity of society in Malaysia. On the other hand, as for Indonesia, there is also a retirement plan and it is known as *Jaminan Sosial Tenaga Kerja (Jamsostek)* or Workers Social Security. It is established as one that is mandatory for all private-sector workers as well, just like in Malaysia. Therefore, it can be summarised here that the retirement plan in Malaysia and Indonesia have a clear similarity where both countries have the same goal which is to help all private sector workers in ensuring the continuity of life after they retire. Since the similarity of the retirement plan is quite obvious for both countries, it is hoped that in the future, more collaboration networks can be carried out for these two countries so that the retirement plan for these two countries can be improved in terms of quality and success in ensuring all private sector workers have enough savings for their old age.

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The authors state that there is no conflict of interest in the publication of this article.

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You can't separate peace from freedom because no one can be at peace unless he has his freedom.

Malcolm X

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