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21 OCT, 2019

EPF-Socso merger on the cards?

The Malaysian Reserve, Malaysia

EPF-Socso merger on the cards?

It could also save millions of ringgit by pooling resources, systems and manpower

by ALIFAH ZAINUDDIN

FOLLOWING the proposal to consolidate Malaysia's development finance ecosystem, a merger of the Employees' Provident Fund (EPF) and the Social Security Organisation (Socso) could be next as the government continues to downsize the public sector.

Consolidation is expected to remain a major theme next year after Putrajaya recorded an increase in direct debt, sparking conversations that it would revisit a plan mooted last year to merge the EPF and Socso into a single entity.

The EPF manages about RM800 billion worth of funds, making it the fourth-largest pension fund in Asia and the seventh-largest globally.

Socso, which has an estimated RM26 billion in its coffers, administers social security protection schemes that guard employees, both local and foreign, against contingencies, invalidity or death.

If the merger materialises, the combined entity would have larger funds under management, allowing for greater returns while providing a complete solution to workers.

It could also save millions of ringgit by pooling resources, systems and manpower.

The EPF is a federal statutory body under the Ministry of Finance, while Socso is a government department under the Ministry of Human Resources.

Given the overlaps, the proposal could translate into gains in operations and cost-savings via scale economies and synergies, Institute for Democracy and Economic Affairs senior fellow Dr Carmelo Ferlito said.

However, he underlined that both the EPF and Socso served two different purposes.

"The rationalisation effort, which I believe has to be welcomed in light of the government's attempt to reduce its expenses has to be balanced with the different finalities embodied in the two different funds," he told *The Malaysian Reserve*.

Galen Centre for Health and Social Policy CEO Azrul Mohd Khalib echoed the view, adding that any merger between the two will lead to a redefinition and reinvention of the purpose for which these funds exist.

"Notwithstanding the potential cost benefits and efficiency gains, it is not possible to simply merge the two. A merger of EPF and Socso could lead to the creation of a healthcare fund, pension fund and workman compensation fund.

"However, the Socso component, in particular, must decide whether it wants to be a social security fund, health insurance scheme, provide employment and income replacement insurance, be involved in occupational safety and health, and provide health services. It cannot be doing all of this, and expect to be effective," Azrul said.

It's possible that consolidating the two entities could see the amalgamation of Socso into a third account or "Account 3" under EPF, where withdrawals can be made solely for workplace accidents or retrenchments.

Currently, EPF savings are stored in two accounts — Account 1 and Account 2 — with a 70% and 30% distribution respectively.

Money from the first account can only fully withdrawn at the age of 55, while money from the second account can be withdrawn for various pre-retirement purposes such as education, healthcare, housing and pilgrimage for Muslims.

"If there is to be an 'Account 3', it could operate similarly to an insurance savings plan similarly to what is available commercially today," Azrul said.

"However, Socso must divest services which arguably should not be the purview of a social security fund, such as operating rehabilitation and dialysis centres, and implementing health-screening programmes."

These services fall under the purview of healthcare systems, not Socso, he added, noting that Socso spends more than RM200 million annually to provide dialysis treatments.

"While these services are much needed and vital for many who depend on them, they are not only utilising significant funding and resources, but also duplicating functions and mandate belonging to other agencies such as the Ministry of Health," Azrul said.

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SUMMARIES

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