Determinants of Special EPF Withdrawals Among Malaysian Employees Amidst the COVID-19 Pandemic

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DOI : https://dx.doi.org/10.47772/IJRISS.2024.804224

Received: 04 April 2024; Accepted: 16 April 2024; Published: 15 May 2024

ABSTRACT

In response to the COVID-19 pandemic, Malaysia has implemented various financial relief measures to support those adversely affected by the crisis. These measures primarily target individuals who have experienced job loss or a reduction in wage due to the pandemic. One of the options available to individuals was the premature withdrawal from their social security account, specifically the Employees Provident Fund (EPF) account, through various programs such as i-Lestari, i-Sinar, and in 2021, i-Citra, and also "Pengeluaran Khas," in 2022, even though such withdrawals are said to be potentially risky. Conducting a qualitative method by using an in-depth interview, this paper determines the factors associated with employees' EPF withdrawals during the COVID-19 pandemic in Malaysia. Therefore, this paper identifies the factors of withdrawals and the relationship between characteristics such as financial hardship, precautionary demand for cash, uncertainty over finances, and immediate financial obligations and uses it as a guideline for building a framework to enhance the current social security system in Malaysia and manage future unforeseen crises. Based on the findings, this study proposes a range of policies based on the identified factors of early EPF withdrawals.

Keywords: factors; employees' provident fund; social security; qualitative research; Malaysia

INTRODUCTION

Employees contribute to the Employees Provident Fund (EPF) for social security, ensuring their financial security in old age and during emergencies. Social security is critical to helping raise society's living standards in this decade. Without a sound social security system, a decent living standard may be hard to achieve. According to Bloom and McKinnon (2013) and Mchomvu, Tungaraza, and Maghimbi (2002), social security serves as a fundamental human right, assisting individuals in maintaining a reasonable quality of life amidst social and economic challenges. Therefore, individuals could also use social security as a safety net in unforeseen circumstances, such as unemployment (Jamaluddin, Yuen, & Abu Taher, 2021). The Employees' Provident Fund (EPF) in Malaysia is considered one of the earliest established provident funds globally. Its primary objectives are to ensure a secure retirement for its members and safeguard their investments, while concurrently striving to enhance its service quality. This is achieved through the diligent protection and growth of members' retirement savings. As of the year 2019, the overall number of members in the EPF (Employees Provident Fund) is 14,587,811. Among these members, 7,626,26 are identified as active contributors (Kumpulan Wang Simpanan Pekerja, March 1, 2021).

However, the world was shaken by the COVID-19 pandemic in the year 2020, which caused an increasing trend of early EPF withdrawals among Malaysians under the financial aid approved by the Malaysian government. A study by Salim, Chan, Mansor, Bazin, Amaran, Faudzi, Zainal, Huspi, Khoo, and Shithil

(2020) reveals that the aviation industry primarily facilitated the global spread of the respiratory pandemic known as COVID-19, which originated in Wuhan and has now emerged as a multifaceted problem encompassing public health, social, and humanitarian dimensions. As a consequence of the pandemic, numerous companies have implemented measures such as unpaid leave and layoffs (Nga, Ramlan, & Naim, 2021). According to the findings of Khalid (2020), the COVID-19 pandemic has had an immense impact on the unemployment rate in Malaysia, resulting in a substantial economic cost of RM63 billion as of May 1, 2020. The COVID-19 pandemic has compelled numerous enterprises to implement workforce reductions or enforce unpaid leaves, resulting in a significant rise in unemployment rates.

Governments and authorities worldwide are trying to cope with the unusual situation by offering financial relief to individuals severely affected by the pandemic, including early access to retirement savings. According to "Retirement Savings in the Time of COVID-19" (2020), the strategy of creating a policy for better lives, which initially provides short-term relief to employees through early retirement savings access, actually poses the most future risk. We should ensure that society can sustain decent levels of living standards after retirement through long-term retirement savings. However, Lorca (2020) noted that policymakers in the US, Peru, Mexico, New Zealand, and Malaysia have simplified retirement savings rules and penalties without considering their long-term effects on retirement savings sufficiency. As a result of being able to access their retirement savings prematurely during the pandemic, employees are withdrawing from their retirement savings to maintain their quality of life. As a result, the findings of this study are critical to understanding why individuals choose to take early retirement savings withdrawals despite the risks they will face in the future. Therefore, the objective of this study is to identify the determinants that influence the withdrawal of Employees Provident Fund (EPF) among employees in Malaysia, with a specific focus on the region of Sarawak, in light of the COVID-19 pandemic. The long-term objective is to enable individuals to accumulate sufficient savings for their retirement.

LITERATURE REVIEW

In response to the COVID-19 pandemic in Malaysia since 2020, the government has implemented various financial assistance programs aimed at ensuring the well-being of individuals affected by the crisis, particularly those who have experienced job losses or salary reductions. The Employees Provident Fund (EPF) has introduced a special provision, in addition to the regular withdrawal options available, allowing members to access a portion of their retirement savings specifically for unforeseen emergencies. Notably, initiatives like i-Lestari, i-Sinar, i-Citra, and "Pengeluaran Khas," established during the COVID-19 pandemic, facilitate early withdrawal from the EPF account, also known as the social security account.

As stated by the International Labour Organization (2003), social security encompasses the measures implemented by a society to safeguard individuals and households, granting them access to healthcare and ensuring income stability. This is particularly crucial in situations involving old age, unemployment, sickness, invalidity, work injury, maternity, or the loss of a breadwinner. Thus, employees save their money during their active employment so that they can have financial security during times of emergencies and after retirement (Onwuka, 2021). Therefore, when their income increases, employees tend to save more, but when their income decreases due to job loss or reduced pay, they tend to save less (Lim, Tenk, Teoh, & Lee, 2021; Lee & Hanna, 2020). Consequently, during the COVID-19 outbreak, lower-income households are more likely to utilize government financial assistance programs, including early retirement savings withdrawals (Argento, Bryant, & Sabelhaus, 2014; Zulfaka & Kassim, 2020). A number of scholars have initiated investigations into the determinants of premature withdrawals of retirement savings. However, the previous study mostly examined early withdrawals before the pandemic rather than doing comprehensive studies of the factors contributing to withdrawals specifically related to the COVID-19 pandemic. Gustman and Steinmeier (2013) recommend that future studies investigate the underlying reasons behind individuals' preference for early withdrawal of social security payments, despite the practical advice to delay withdrawal. The study of withdrawal patterns could assist in determining the potential impact of restricting early withdrawals as a means to ensure adequate retirement funds for retired individuals (Mohd Jaafar, Awang, Mansor, Jani, & Abd Rahman, 2020). Nurhisham Hussein, the chief strategy officer for the Employees Provident Fund in Malaysia, says that COVID-19 withdrawals have hurt the savings of Employees' Provident Fund contributors over the last two years, with only 3% able to pay for their retirement (BERNAMA, 2021). The outcome is worrying because it points to risks in the future. Why do individuals continue to withdraw funds from their retirement accounts before they should? This study is important to understand the factors that lead to early withdrawal, especially during the pandemic. Hence, the goal of this study is to find out what causes people to take money out of their retirement savings early during the COVID-19 pandemic.

The life-cycle theory, proposed by Franco Modigliani and Albert Ando, provides an important framework for individuals to make decisions on retirement savings and is widely recognized and often referenced in the field of social security, particularly in the context of retirement planning (Modigliani, 2005). Previous research mostly examined retirement planning practices before the onset of the pandemic. Onwuka (2021) proposes an extension of the life-cycle theory to include scenarios where employees rely on their savings not only during retirement but also in challenging times like the current coronavirus outbreak. Lim et al. (2021) stated that, from the life-cycle theory, people accumulate assets while working and spend them after retirement, and therefore, saving is high when income is high and low when income is low. Lee and Hanna (2020) indicated that premature withdrawal is considered dissaving, and people rationally dissave when income is low to smooth consumption, especially in times of crisis. Therefore, the current study employs life-cycle theory to explore the determinants associated with early withdrawals from the Employees Provident Fund (EPF) among Malaysians during the COVID-19 outbreak by looking at various variables related to retirement fund withdrawals.

Thus, this study will bridge the theoretical gap by using life-cycle analysis to interpret early retirement fund withdrawals during the COVID-19 pandemic.

RESEARCH METHODOLOGY

The present study employed a qualitative research methodology to investigate the determinants and variables related to withdrawals from the Employees Provident Fund (EPF) during the COVID-19 pandemic in Malaysia. The research utilized in-depth interviews as the primary method of data collection. The in-depth interview is a common method used in qualitative research. Because qualitative research is a way of studying and comprehending the meaning of social or human issues, the qualitative data are informative and diverse (Creswell, 2009; Gibbs, 2018). Through the utilization of a qualitative methodology, participants were able to articulate their subjective perspectives, thereby enhancing and substantiating the findings based on personal experiences. This approach facilitated the construction of a comprehensive narrative to investigate the reasons contributing to employees' withdrawal of their retirement funds.

This current research conducted in-depth interviews with 21 hotel employees in Kuching, Sarawak, who are members of the EPF and have withdrawn their EPF under the special withdrawals during the COVID-19 pandemic. Using the purposive sampling method based on the willingness to participate in this study, the in-depth interviews, which lasted approximately 30 minutes per informant, were conducted in hotels and coffee shops.

Table 1 provides the profiles of the employee informants engaged in this current investigation. The profiles of the employee informants reveal a diverse range of backgrounds, including gender, age, marital status, ethnicity, length of service, and tenure with the EPF.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue IV April 2024

Table 1 Profiles of Employee Informants from This Current Study

Attributes	Collective	Quantity (person)	Percentage ratio
Age	Under the age of 29	Three	14.29
	Ages between 30 and 39 years	Nine	42.86
	Age range: 40-49 years	Seven	33.33
	50 or greater	Two	9.52
Gender	Female	Eleven	52.38
	Male	Ten	47.62
Ethnic Background	Malay	Four	19.05
	Iban	Nine	42.86
	Bidayuh	Seven	33.33
	Chinese	One	4.76
Marital Status	Unmarried and without any dependents	One	4.76
	Unmarried, with dependents	Nine	42.86
	Married with dependents	Eleven	52.38
Academic qualification	Grade Six	One	4.8
	Professional Certifications	Two	9.5
	PMR	One	4.8
	SPM	Seven	33.3
	Diploma	Three	14.3
	Degree	Seven	33.3
Salary Range	RM1500-RM2500	Fifteen	71.43
	RM2500-RM3500	Three	14.29
	RM3500-4500	Two	9.52
	RM4500 and above	One	4.76
What is the duration of employment with the current organization?	Less than 5 years	Eleven	52.38
	5-10 years	Six	28.57
	10-15 years	Three	14.29
	15-20 years	Non	0.00
	More than 20 years	One	4.76
Tenure with the Employees' Provident Fund (EPF)	Less than 5 years	One	4.76
	5-10 years	Six	28.57
	10-15 years	Four	19.05
	15-20 years	Two	9.52
	More than 20 years	Eight	38.10

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue IV April 2024

Occupational situation within the COVID-19 pandemic	Decreased working hours	Twenty	95.24
	Hours remained constant or increased.	Non	
	Joblessness as a result of the COVID-19 pandemic	One	4.76
Evaluation of Earning Capacity Amidst the COVID-19 Pandemic	Reduced earnings	Twenty	95.24
	More earnings	Non	
	No earning due to unemployment	One	4.76

Source: Author

FINDINGS

The Role of Industrial Actors in Malaysia During the COVID-19 Pandemic

In light of the implications of the pandemic on employment, it is vital that the government, employers, and trade unions play crucial roles in safeguarding the welfare of employees, regardless of the wide-ranging effects of the pandemic. Prior to examining the factors influencing withdrawals among the participants of the current study, it is important to understand the underlying causes that facilitated these withdrawals in the first place. Hence, it is essential to look into the respective roles of the government, employers, and employee representatives (trade unions) in facilitating the feasibility of those withdrawals.

In response to the COVID-19 epidemic, Malaysia has implemented various financial relief measures to support individuals adversely impacted by the crisis. These measures primarily target individuals who have experienced job losses or income reductions due to the pandemic-induced economic downturn. One of the available options for individuals to withdraw funds from their EPF account prematurely includes the i-Lestari, i-Sinar, and i-Citra schemes, the last of which was introduced in 2021. In the year 2022, the government of Malaysia implemented an additional economic assistance program known as the "Pengeluaran Khas" through the Employees Provident Fund (EPF). EPF members have the right to make withdrawals from their EPF accounts, specifically Account 2, subject to the criteria established by the governing bodies. Despite the decision made by the government, the other industry players, including the employees’ and employers’ representatives, were against such moves.

In June 2020, the Malaysia Trades Union Congress (MTUC) expressed concern regarding the withdrawals allowed by the government, claiming that the i-Lestari withdrawals were potentially highly risky and dangerous. Their concern stemmed from the fact that certain members of the Employees Provident Fund (EPF) had already depleted their Account 2 within two months of availing of the RM 500 monthly withdrawal allowance under the i-Lestari program (Zulfaka & Salina, 2020). In addition, Mohd Effendy Abdul Ghani, the acting president of the Malaysia Trade Unions Congress (MTUC), expressed the organization's acceptance of the government's decision to permit withdrawals from the Employees Provident Fund (EPF). However, he emphasized the MTUC's firm opposition to such withdrawals, asserting that the government should provide financial assistance instead of relying on employees' personal funds intended for their retirement years (Mohamed Radhi, 2022).

Apart from that, the Malaysian Employers Federation (MEF) also took the same stance as MTUC, as the organization said that it is advisable to discontinue any further withdrawal schemes from the Employees' Provident Fund (EPF) savings before members reach the age of 60 in order to ensure sufficient savings for retirement. The Malaysian Employers Federation (MEF) voiced great concern regarding the withdrawals from the savings of Employees Provident Fund (EPF) members through the i-Lestari, i-Sinar, and i-Citra facilities, totaling up to RM101.1 billion, and raised fears about the potential risks to members after retirement. (The Sun Daily, 2021).

Despite the various opinions by the industrial relations actors, the decision has been made, and employees have made the decision to withdraw their funds under the i-Lestari, i-Sinar, i-Citra, and “Pengeluaran Khas” initiatives. Consequently, it is important to understand the factors of withdrawal among employees to enable us to look further into the impact and the strategies to help lessen the impact, such as poverty among those who will be affected in their old age due to the withdrawals.

Factors Associated with EPF Withdrawals During the COVID-19 Pandemic in Malaysia

The outcomes of the in-depth interviews with the informants of this study show that the main factors associated with the EPF withdrawal during the COVID-19 pandemic are: financial hardship, precautionary demand for cash, uncertainty over finances, and immediate financial obligations.

Financial Hardship The majority of the research informants in the in-depth interviews responded that the reason they decided to withdraw from the EPF during the pandemic was due to financial hardship. According to Kim (2021), financial hardship refers to the challenges experienced by households in meeting their regular expenses, such as food, rent or mortgage, and loans. In this study, all of the informants from two different hotels in Kuching experienced reduced incomes of up to 50% during the pandemic. Despite the salary reduction, all the informants continued to fulfill their commitments and cover their daily expenses as usual. That became a burden because of the income shortage, so they resorted to EPF withdrawals once the government announced the first stimulus, which was the i-Lestari. Zila, sales officer typically earning between RM3500-RM4500 per month prior to the pandemic, shares her experience of her salary reduction at the onset of the pandemic.

"The economic conditions and income level did affect my decision to withdraw, as my salary was on hold for two months at the start of the pandemic. The reduction in my salary occurred after my maternity leave. I need to pay for my commitments from personal loans, phone bills, and medical needs.".

Ella recounted the hardships she encountered throughout the pandemic, stating that her salary was reduced and her husband was also on unpaid leave. Therefore, regardless of the nature of the matter, she had to make withdrawals from her EPF for survival.

The informants from this current study shared that they had to withdraw because their income was low, thus reducing their retirement savings. This result is consistent with the life-cycle theory, in which people save more when income is high and dissave when income is low, especially in times of unexpected events. Some informants also mentioned that they will not apply to withdraw if there is no necessity to do so, as they are aware of the potential risks of making early withdrawals to their financial well-being upon retirement.

Precautionary Demand for Cash From the in-depth interviews, the informants took out their EPF under the special EPF withdrawal assistance during the pandemic due to the precautionary demand for cash.

According to Keynes' theory, we require precautionary balances because we are unsure of the precise rate of cash spending in the future (Sciortino, Huston, and Spencer, 1987). Therefore, there is a need for a precautionary demand for cash to cover our financial needs in times of emergencies. The vast majority of the informants shared that their decision to withdraw was because they needed cash flow in cases where they needed immediate cash during emergencies, especially during the COVID-19 pandemic. As Sein, a chef at one of the hotels involved in this study, states:

The pandemic cut off my salary in the early stages. So, I was worried that, in an unexpected situation, I must have some cash flow in my savings account that I can use immediately, which is from my EPF withdrawal. 20% of the withdrawal I used to cover my salary has been reduced.".

“My son is asthmatic, so I used the money mostly for his medical expenses. And I gave birth on the 7th of March 2020, just before the lockdown on the 18th of March 2020. I gave birth at a private hospital, so the medical bills were high too” (Zila, mother of 2).

The various phases of Malaysia's movement restriction order during the pandemic have left everyone uncertain about the government's next move. Therefore, the precautionary demand for cash is high, as it could assist individuals in emergencies. Sein's family relies on him as the breadwinner for five dependents, including his parents, despite his 50% salary reduction. Therefore, he made the EPF withdrawal up to RM20,000 to make sure that he had cash in hand for immediate needs. Zila, on the other hand, made all four types of withdrawals for emergency situations and to cover her son's and her own medical expenses. Bateman et al. (2022) say that one in four respondents in their study seems to be taking precautions because they are worried about future financial stresses and the value of their assets going down because of the uncertainty about how long and how bad the economic downturn caused by the pandemic would last. Hence, some of the informants in this study also shifted the location of their EPF withdrawal to different investments, like the "*Amanah Saham Bumiputera*." According to Lim et al. (2021), the number of employees who prioritize "saving for retirement" has declined from 54% before the pandemic to 45% now since they have taken money out, and he argued that budgeting and investing prudently are crucial for retirement planning throughout the pandemic.

Uncertainty Over Finances On the other hand, the feeling of uncertainty over finances also prompted the informants of this study to withdraw from their EPF during the COVID-19 pandemic. There were a lot of uncertainties associated with the COVID-19 pandemic, including the fact that there was a lot of uncertainty over finances because of the global financial crisis (Yagil and Cohen, 2023). In the current study, job insecurity and economic uncertainty contributed to the financial uncertainty that prompted the decision to make the EPF withdrawals. Findings from an in-depth interview with the study's informants support this.

"Economic conditions did affect me, as the economy is currently full of uncertainties and there are increases in the prices of goods. There had already been an increase before the implementation of the minimum wage. So, how do we cover it with our income? As for being cautious, I was not able to predict the future during the pandemic, as all of us were experiencing the same thing. Thus, the withdrawal. During the pandemic, even other hoteliers, not from this particular hotel, faced retrenchment, including Ali, a driver and breadwinner with five dependents.

"I am also cautious as a backup in case I face retrenchment. It is for our financial security because many people were on unpaid leave during the pandemic since not all sectors are essential. Everything needs money" (Lina, a human resources officer with seven dependents, including parents and husband, was on unpaid leave during the pandemic).

Employees with large dependents who are the sole breadwinner in the family are prone to making withdrawals due to uncertainty over finances, as they have to be ready for every circumstance. With the job insecurity during the pandemic, most of the informants in this study had to withdraw their EPF to make sure that they would have enough resources for their families in case of retrenchment. The current study's results align with Bateman's (2022) Australian study, where respondents withdrew to compensate for lost income due to the economic conditions. If the economy deteriorates, it can lead to negative consequences such as an increase in the unemployment rate and job loss, necessitating early withdrawals from retirement accounts to cover unforeseen expenses.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue IV April 2024

Immediate Financial Obligations Apart from that, 66.67% of the informants in this study stated that they decided to withdraw from their EPF during the pandemic for immediate financial obligations that include rent or mortgage, loans, and daily expenses. The informants of this study experienced a reduction in their monthly expenses due to their reduced salary. They still have to pay for rent, loans, and groceries for their daily consumption, but the reduced salary lessens their purchasing power. In order to have a decent standard of living while at the same time not failing to pay for commitments, the in-depth interviews for this study found that the informants decided to make EPF withdrawals to meet their immediate financial obligations. The informants described their financial obligations as follows:

"I used up the money for daily consumption and road tax." (Damien, a chef with a newborn baby, resigned due to failure to commit to house rent.).

Despite receiving a moratorium, I was unable to utilize it due to the recent purchase of our house. After pleading for the moratorium, my application received acceptance a few months later, albeit not in full. *I still have to pay the minimum amount."* (Lina's salary was reduced by 50% during the pandemic, but she still has to pay for her house loan.)

According to Zulfaka and Kassim (2020), individuals with lower income levels, specifically those belonging to the B40 category, show a greater tendency to utilize government services such as PRIHATIN, i-Lestari withdrawal, and statutory employee contribution reductions as a means of obtaining financial relief amidst the ongoing COVID-19 pandemic. Therefore, the author found that the reduced salary during the pandemic led to employees' low income, prompting them to make an EPF withdrawal to cover their immediate financial obligations and compensate for their lost salary.

We expect to establish a research model with four variables (financial hardship, precautionary demand for cash, uncertainty over finances, and immediate financial obligations) using the Life-Cycle Theory based on the identification of factors that determine Employees' Provident Fund (EPF) withdrawals among Malaysian employees.

DISCUSSION AND CONCLUSION

The COVID-19 pandemic has impacted employees worldwide, especially regarding social security. Despite the limited consequences, we should appreciate the efforts made by governments and policymakers to address the pandemic's negative impacts. Australia, Belgium, Canada, Colombia, Denmark, Estonia, Finland, France, Iceland, Peru, Portugal, Chile, the Slovak Republic, Spain, the United Kingdom, Malaysia, and the United States, among others, are the countries that facilitate early access to retirement savings. Nevertheless, to secure social security despite the potential future risks brought by the early withdrawals, it is recommended for future studies to resolve some of the concerns about securing social security, as the current social security system has already been negatively affected by the unprecedented events caused by the pandemic. Financial advisors can use the four factors identified in this study—financial hardship, precautionary demand for cash, financial uncertainty, and immediate financial obligations—as a guide to advise clients on how to use their withdrawn retirement savings. Drawing from the life-cycle theory, the life-cycle perspective indicates that the implications differ among various life stages. Younger individuals risked their future financial security, while older individuals encountered a decrease in their retirement funds. Despite the potential negative impact on their future financial stability, the younger employees in this study expressed no remorse for their withdrawals, as they found them necessary for surviving the financial challenges posed by the pandemic. Nevertheless, they acknowledge the fact that their retirement funds will be diminished. Consequently, many have opted to reassess their retirement objectives by either increasing their contributions to their Employees Provident Fund (EPF), seeking employment with a higher salary, or prolonging their working years in order to continue making contributions for an extended period of time.

Only a few of the participants in the middle and older age groups expressed regret over their withdrawals and said that, given the opportunity, they would choose not to make those withdrawals.

Hence, for policymakers, the factors from this study can be used to create awareness among employees based on their life stages—young employees, middle aged employees, and those near retirement—of the benefits of savings instead of early withdrawals and also to come up with a better solution to immediately help those who are being retrenched from work refrain from using up all of the savings that have been withdrawn. Apart from that, this study can help industrial relations stakeholders cooperate in strengthening the current policies regarding labor in times of crisis. Furthermore, the findings from this study are useful for improving the current social security systems of the countries that allow early withdrawals and for finding solutions to secure retirement savings in times of crisis. Despite the government's initiative to assist those who were affected by the pandemic by allowing the EPF withdrawals, it was evident that the employers and employees' representatives were concerned about the decision, although they accepted it.

Therefore, the government, employers, employee representatives, or trade unions should cooperate and discuss the future of retirement savings to come up with a sound solution to prevent employees from living in poverty upon retirement due to low retirement savings balances. The findings mentioned above indicate that there is an urgent need for an improved social security system in order to alleviate the negative consequences of the pandemic on the welfare of Malaysians, particularly those belonging to low-income individuals.

ACKNOWLEDGMENT

The author wishes to acknowledge and express gratitude for the support provided by the sponsor, the Ministry of Education of Malaysia (MOE), and Universiti Malaysia Sarawak through the Academic Training Scheme scholarships IPTA (SLAI) (UNIMAS). The authors express gratitude to Universiti Malaysia Sabah (UMS) and the Faculty of Social Sciences and Humanities (FSSK) for their support in conducting this study as part of the results of the Ph.D. project "Early Employees Provident Fund (EPF) Withdrawals During the COVID-19 Pandemic: Assessing Factors, Impacts, and Strategies to Enhance the EPF".

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ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue IV April 2024

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