BUILDING HEALTH CAPITAL: TRANSITIONING EPF ACCOUNT 3 INTO A UNIVERSAL MEDISAVE ACCOUNT

SOCIAL DEMOCRACY MALAYSIA

SEPTEMBER 2026

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ITEMS

Introduction

There is always a huge outcry when Malaysia faces a growing double burden: rapid population ageing and soaring out-of-pocket (OOP) healthcare expenditures. EPF's Akaun Fleksibel (Account 3)—which currently receives 10% of monthly contributions—allows unrestricted cash withdrawals. While intended for short-term liquidity, unearmarked withdrawals risk depleting critical long-term financial buffers without addressing health security.

SocDem Malaysia proposes transforming EPF Account 3 into a ring-fenced Medisave Account. To ensure smooth adoption, allocation will start by re-routing 50% of Account 3 contributions (5% of overall EPF) to Medisave, gradually scaling to 100% (10% of overall EPF). Funds will be usable across both public and licensed private healthcare facilities, giving Malaysians guaranteed medical purchasing power while safeguarding retirement capital.

Problem Statement

The Risk of Unearmarked Liquidity

High Out-of-Pocket Medical Burden: OOP payments account for over 30% of total health expenditure in Malaysia, exposing B40 and lower-middle-class households to medical impoverishment during catastrophic illness.

Leakage of Social Security Savings: unrestricted Account 3 cash withdrawals are frequently spent on non-essential consumption rather than building long-term financial resilience.

Public Hospital Overcrowding:

Lacking dedicated health savings or affordable private coverage options, working-class citizens default to overcrowded Ministry of Health facilities, creating systemic bottlenecks.

Proposed Solution

Instead of liquid cash access, Account 3 will be re-designated as a dedicated health asset account, modeled on proven social-democratic health-financing frameworks.

Current EPF Allocation	Proposed Medisave Phase-In (Account 3)
Account 1 (Persaraan) 75%	Account 1 (Persaraan): 75%
Account 2 (Sejahtera) 15%	Account 2 (Sejahtera): 15%
Account 3 (Fleksibel) 10%	Phase 1: 5% Fleksibel | 5% Medisave Phase 2: 0% Fleksibel | 10% Medisave

Phase 1 (Implementation Year 1–2): Split Allocation

- 50% of Account 3 (5% of total EPF contribution) is locked into the Medisave Account.
- 50% of Account 3 (5% of total EPF contribution) remains in Akaun Fleksibel for liquid emergency use.

Phase 2 (Implementation Year 3 Onward): Full Medisave Transition

- 100% of Account 3 (10% of total EPF contribution) is directed into the Medisave Account.

Scope & Strategic Usage Guidelines

To ensure equity and sustainability, Medisave funds will operate under defined spending rules:

Universal Facility Access: Funds can be used at **any licensed public or private medical facility** (MOH hospitals, university hospitals, polyclinics, and private GP clinics/hospitals licensed under Act 586).

Permissible Spending Categories:

1. **Inpatient & Surgical Bills:** Co-paying hospitalization and surgical fees to reduce immediate cash outlays.
2. **Essential Outpatient & Preventive Care:** Chronic disease management, routine health screenings, vaccinations, and diagnostic tests.
3. **Universal Insurance Premiums:** Paying baseline premiums for national health schemes or basic social insurance policies (e.g., MOF/MOH baseline plans).

Family Shared Risk Pool: Account holders can utilize their Medisave balance to cover immediate family members (spouse, children, and dependent elderly parents).

Expected Socio-Economic Impact

Reduces OOP Impoverishment: Guarantees working Malaysians a growing financial buffer reserved exclusively for healthcare emergencies.

Relieves Public Health Strain: Enables lower-middle-class patients to utilize affordable private GP clinics and day-surgeries, reducing patient loads at MOH facilities.

Preserves Primary Retirement Funds: Prevents members from dipping into Account 1 (Akaun Persaraan) or Account 2 (Akaun Sejahtera) for routine medical expenses.

Income Bracket (Gross Monthly Salary)	Monthly Medisave Redirect (Phase 1 / Phase 2)	Typical Annual Out-of-Pocket Cash Saved	Net Impact on Essential Goods Spending	Unlocked Medical Services
B40 Minimum Wage(RM 1,700)	RM 20.40 / RM 40.80	RM 300 – RM 600	Net Positive: Shields daily salary from sudden, unplanned clinic bills.	Outpatient GP consultations, chronic NCD medications, basic blood tests.
Lower-Middle M40(RM 3,500)	RM 42.00 / RM 84.00	RM 800 – RM 1,500	Net Positive: Offsets specialist fees; stabilizes monthly household budgets.	Baseline health insurance premiums, diagnostic imaging (x-rays/ultrasounds).
Upper-Middle M40(RM 6,000)	RM 69.00 / RM 138.00	RM 1,500 – RM 3,000	Positive: Prevents budget shocks during unexpected day-surgeries.	Day-surgery co-payments, comprehensive health screening packages, family care.
T20 High Income(RM 12,000)	RM 138.00 / RM 276.00	RM 3,000+	Net Neutral: Builds a structured, tax-advantaged health capital buffer.	Private insurance policy riders, specialized preventive care, dependent coverage.

Next Steps

Legislative Amendments: Amend the Employees Provident Fund Act 1991 to define Medisave statutory usage bounds.

Third-Party Integration: Connect the EPF i-Akaun infrastructure directly with MOH and private provider billing systems (e.g., via MySejahtera or direct hospital e-payment gateways) for automated claims settlement.

Public Awareness Campaign: Roll out nationwide educational efforts positioning Medisave as a tool for personal health security rather than a restriction on savings.

We at Social Democracy Malaysia are dedicated to paving the way for a more socially democratic Malaysia. Our focus is on empowering policy makers with insights that have the potential to shape the nation's future. We believe in the power of progressive policy-making to drive change and create a better tomorrow for all Malaysians.

The principles of Freedom, Justice and Solidarity form the pillars of Social Democracy, and the basis to every structure that enables it.

We hope to achieve these through advocacy on three fronts:

- Climate Action
- Democracy and Governance
- Urban Planning

Social Democracy Malaysia provides policy-makers with the information they need to make informed decisions that will only benefit us all.

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