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Social Protection in Malaysia

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ABSTRACT

Social protection programs in Malaysia can be classified into two categories: social security and social insurance programs. Social Security Programs cover the social security retirement benefits of two major groups of employees: government civil servants and private sector workers. Civil servants are protected under the pension scheme, a defined benefit program based on length of service and last drawn salary, while private sector workers are protected under the Employee Provident Fund, or EPF, a defined contribution retirement scheme with shared contribution of employee and employer. The armed forces of other rank not protected under the pension scheme are protected under the Armed Forces Fund, a defined contribution retirement scheme. The bulk of the Social Insurance Program falls under the Social Security Organization, which covers employees with a monthly income of RM 3,000 or less. In addition, workers are also protected under the work related compensation schemes. Despite the tangible benefits to their members, the existing social protection programs have proven to be inadequate to provide comprehensive coverage to their members, leaving many susceptible to poverty, particularly during the 1997 Asian Financial Crisis. With the Global Economic Crisis of 2008/2009, greater emphasis must be placed on the enhancement of the social protection programs to ensure comprehensive coverage. Today, there is a call for a stronger family support and personal saving to compliment the current social protection programs.
I. INTRODUCTION

As an Asian society, family support, a cultural and ideological norm, was the accepted traditional social protection mechanism in Malaysia for many centuries, and continues to play a central part in Malaysia today. Jones (1993) defines family support in Asia as an ‘Oriental Culture’ or ‘Confucian Welfare State’, where societies are portrayed as consisting of coherent families with strong mutual support between family members, and a harmonious society built on cooperation between different ethnic groups, race, gender, and class. However, as argued by Chan (2006), family structure and family relationship are a changing entity rather than a static one. Economic growth, industrialization, urbanization and modernization have caused major changes to family relationships. As with much of the world, the concept of an extended family is being replaced by nuclear family and the concept of individualism is on the rise. Perception of the concept of family has changed with the females pursuing higher education, later marriage, less children and to a certain extent greater rates of divorce. The declining birth rate has led to a higher dependency ratio and the problems associated with an ageing society, while the increasing divorce rate has led to other social problems and challenges such as juvenile delinquency, single parent or single mother households. With the changes in the social pattern of society, more formalized and rigorous social protection programs are needed to protect society from the increasing inadequacy of family support, once rhetorically thought as being important.

Historically, social protection programs in Malaysia dated back to the 1800s with the establishment of the pension scheme in 18751 and the introduction of the Penang Municipal Provident Fund in 1898 mainly to provide retirement income for workers. A few other provident funds were subsequently established, starting with the retirement schemes for workers in the plantation and mining industries in 1949. Each fund operated individually with different entitlement benefits. The disparity between the private provident funds led to the realization by the government of a need to safeguard the financial well-being of lower income groups. The idea of contributory schemes for retirement was triggered by the Joint Wages Commission. The idea lay dormant until 1949, when the Federal Labor department set up an Employee Provident Fund (EPF) as a saving institution for labor whose monthly income was less than RM 400. This was enacted as the Employee Provident Fund Ordinance in 1951. A year after that, the Employer’s Liability Scheme covering employment compensation was introduced followed by the Worker’s Compensation Scheme to determine the terms and amounts of compensation in the case of death or accident. In 1969, the Employee’s Social Security Act was established under the Social Security Organization (SOCSO) to protect low income earners through their program namely, the Employment Injury Insurance and the Invalidity Pension scheme. At present, employees receiving a monthly income of RM 3,000 or less are covered under the SOCSO scheme.

The adequacy of these social protection programs is a matter of regular questioning and debate, particularly the adequacy of the pension scheme and the EPF in providing retirement income and the adequacy of the social insurance scheme to protect low wage earners. During the 1997 Asian Financial crisis, the weaknesses in these schemes were exposed, for instance in inadequate retrenchment benefits, increasing urban poverty and lack of insurance for both domestic and foreign workers (Ragayah ca. 2005). Nevertheless, it is often thought that Malaysia has a good social security retirement program funded by the EPF scheme.

This paper aims to discuss the social protection programs in Malaysia with a focus on their role in providing non-labor income to workers and retirees. The second part of this paper provides a brief overview of the existing social protection programs in Malaysia, while the third part of the paper provides an in-depth analysis of each of the programs. The paper ends with a brief conclusion.

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1 There is no record to indicate when exactly the pension scheme was first introduced. The committee of the Federal Legislative Council surmised that the scheme was established only after 1875 for there is no record of its existence prior to that date (Wahid 1970 as cited in Yaacob 2000).
II. SOCIAL PROTECTION PROGRAMS IN MALAYSIA

Malaysia has had social protection programs since it gains independence in 1957 through various public programs of health, income support, pension, and education scheme. Nevertheless, as a developing country, Malaysia is more concentrating on economic expenditure for economic growth, a similar adoption of the welfare systems of the Newly Industrialized Countries (NICs) (Korea, Taiwan, Hong Kong and Singapore) and Japan who spent relatively little on social benefits and pursuing a strategic economic role (Gough 2000). More than fifty percent of development expenditure is allocated for economic services and the amount continues to increase until the 1997 financial crisis. The realization of inadequate social protection programs during the crisis has led to an increase of government budget for the social services. Initially, expenditure in social services concentrates on education, health and family planning. In the 80s, more attention was given to housing services that was concurrent with the property boom that time. In the 90s, and the post financial crisis era, more expenses were allocated for social and community services. In the year 2003, the first National Social Policy was introduced to develop strategies and cater for the need of social welfare and development of the community.

Social Protection Programs in Malaysia can be classified into two main categories: social security and social insurance. Social Security Programs are broadly defined as retirement programs covering two main groups of workers: civil servants and private sector workers under the Pension and Employee Provident Fund (EPF) schemes respectively. Social Insurance Programs provide work related compensation such as the Employer’s Liability Scheme, Worker’s Compensation Scheme and Social Security Organization (SOCSO) protections. A more general social protection program targeting a more general group of widows, dependents, elderly, children and disabled is under the responsibility of the Ministry of Women, Family and Community Development.

A. PUBLIC WELFARE PROGRAMS

Public welfare programs are the responsibility of the Department of Social Welfare under the Ministry of Women, Family and Community Development. While the Department focuses on broad social development goals in the community social welfare programs, it is also concentrating on various community programs focusing on certain target groups. Among the target groups and programs are children, the elderly, general assistance, foster children, the disabled, grants, victims of natural disaster and artificial body parts. The elderly is the largest group of people receiving assistance from the public welfare programs.

There are four major general assistance programs under the public welfare programs covering widows and dependents, school assistance (except text books), prisoners’ dependents and unemployment benefits. Unemployment benefits are for the workers who are destitute and their numbers of claimants and expenditures are the lowest. There is no comprehensive unemployment insurance or unemployment assistance to help the unemployed in Malaysia. This is partly due to the continuous economic growth in Malaysia that has led to low unemployment rates. Nevertheless, the 1997 financial crisis and the 2008 global crisis have caused an increase in the rate of unemployment involving fresh graduates and retrenchment workers. In 1998, the government launched the unemployed graduate scheme to recruit fresh graduates at government agencies for a few months with minimum monthly allowance. This scheme was established to provide the fresh graduates with some work experience before dispersing in the labor market in addition to providing them a minimum income. In 2008, a special program named ‘retraining program’ was developed under the Labor Department, Ministry of Human Resource to retrain the unemployed and to assist them with new jobs. During this training, the trainees would receive a monthly allowance to assist them with their expenses.

The Department of Social Welfare also provides assistance in the form of lump sum grant monetary value, subsidy-in-kind such as clothing and food parcels, apprenticeship training and small business launching grants. This scheme is strictly means-tested, and low income is the principle determinant of eligibility (Ragayah ca. 2005). Monthly allowance social assistance payments are given at a rate of RM80 per person, up to a maximum of RM 350 per family. Elderly citizens above the age of 60 years who are destitute and do
not have any relatives to depend on for support are eligible to apply for assistance of up to RM 200 a month. There is a tendency, however, that the benefits are biased towards claimants in the urban areas as most rural dwellers are excluded either through ignorance or through the administrative procedures of receiving and processing applications in the large urban centers (Ragayah ca. 2005).

B. PENSION SCHEME

The Malaysian pension scheme is a non-contributory benefit retirement scheme specially designed by the government to reward civil servants\(^2\) for their loyalty and hard work. There is no record to indicate when exactly the scheme was first introduced. The committee of the Federal Legislative Council estimates that the scheme was established only after 1875 for there is no record of its existence prior to that date (Wahid 1970 as cited in Yaacob 2000). The first consolidated pensions law came about in 1928 for the Federated Malay States and it became an ordinance in 1951 (Sujata 2007). While this is a non-contributory fund for public-sector employees, the employer (the Malaysian government) allocates a minimum of 17.5 per cent of a civil servant salary into a pension trust fund (KWAP) every month. The Pension is a retirement income protection granted to the public servant or her (his) dependant(s) upon retirement, disease(s) that prevent an employee from continuing work, or death. Act 227 of the federal constitution declares that the pension is the responsibility of the federal government. Benefits include those relevant to employment injury, disability, superannuation or gratuity payment upon retirement and dependents’ pension in the event of death while in service and death after retirement.

On retirement, public sector employees are entitled to pension benefits, gratuity and a “golden hand-shake”\(^3\) payment (if applicable). The pension benefits and gratuity would be paid one month after retirement whereas the “golden hand-shake” is paid on the last day on the job. The gratuity is paid as a lump sum upon retirement, whereas the pension benefits are paid monthly upon retirement for the rest of the pensioner’s life. The pension and grant rates are dependent upon the length of service and last drawn salary received by the employee. Civil servants are entitled to a 50 percent replacement rate if the length of service is more than 25 years. If length of service is less than 25 years, the pension entitlement is based on the following formula: 1/600 x length of service taken into account x final monthly salary received. A different calculation of minimum pension benefits applies to an employee who retires because of health reasons, appointment in society or organization, or death. The minimum pension benefits received is one fifth of the final salary if the length of service was less than 10 years. Pensioners are also entitled to free health treatment in government clinics and hospitals. In 2006, the government spent approximately RM 53 million on healthcare costs for pensioners.

C. EMPLOYEE PROVIDENT FUND (EPF)

EPF is a compulsory saving scheme designed to cater for the needs of private sector employees for retirement purposes. Established on 1 October 1951, EPF is the first ever-national employees’ provident fund in the world. The fund is financed by members’ and employers’ monthly contributions with the contribution rates shown in Table 1. Upon reaching retirement age at 55, the member can still continue to contribute to the fund provided that the (s)he is still working. At present, the number of EPF members above 55 years old is approximately 160,000 people with a total accumulated saving of RM10.9 billion. Contributions to the fund are terminated if the member withdraws savings from the fund for the second time after the first withdrawal at the age of 55. To date, working individuals aged above 55 years old must continue contributing to the EPF until the age of 75. However, the contribution rates for these workers are

\(^2\) Civil servants include the military and police force, judiciary and legal service, the federal and state administration service and the railway and the education service.

\(^3\) ‘Golden hand-shake’ is a facility accorded to public servants to accumulate up to a maximum of 90 days of their annual leave in exchange for cash payment at the end of their service and is calculated on the basis of the last drawn salary, inclusive of all allowances, and the accumulated leave, being leave not taken on the ground of exigencies of service.
significantly lower at 5.5% for the employee and 6% for the employer compared to the normal rates of 11% for the employee and 12% for the employer.

Table 1 - EPF Contribution Rates 1952 – 2009

<table>
<thead>
<tr>
<th>Years</th>
<th>Employee (%)</th>
<th>Employer (%)</th>
<th>Total (%)</th>
</tr>
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<tbody>
<tr>
<td>1952 - Jun 1975</td>
<td>5</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>July 1975 - Nov 1980</td>
<td>6</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Dec 1980 - Dec 1992</td>
<td>9</td>
<td>11</td>
<td>20</td>
</tr>
<tr>
<td>Jan 1993 - Dec 1995</td>
<td>10</td>
<td>12</td>
<td>22</td>
</tr>
<tr>
<td>Jan 1996 - Mar 2001</td>
<td>11</td>
<td>12</td>
<td>23</td>
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<tr>
<td>Apr 2001 - Mar 2002</td>
<td>9</td>
<td>12</td>
<td>21</td>
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<td>Apr 2002 - May 2003</td>
<td>11</td>
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<td>23</td>
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<td>Jun 2003 - May 2004</td>
<td>9</td>
<td>12</td>
<td>21</td>
</tr>
<tr>
<td>Jun 2004 – Jan 2009</td>
<td>11</td>
<td>12</td>
<td>23</td>
</tr>
<tr>
<td>Jan 2009 - Present</td>
<td>8</td>
<td>12</td>
<td>20</td>
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</tbody>
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Source: [http://www.kwsp.gov.my](http://www.kwsp.gov.my)

Originally the EPF was meant to meet the retirement financial requirements of its members. Beginning in 1968, the EPF introduced its first partial withdrawal scheme that allowed its members to withdraw up to one third of their accumulated savings. Since then, the EPF has undergone various structural changes, especially with regard to pre-retirement withdrawal arrangements. At present, the EPF is divided into two main accounts: 70 per cent of members’ contributions are credited to Account I for retirement purposes, and the remaining 30 per cent of their contributions are deposited in Account II that may be used for pre-retirement purposes such as withdrawals for house acquisition, health, education and financing pre-retirement expenses.

D. ARMED FORCES FUND (LTAT)

Since 1973, the Armed Forces Fund, LTAT, has made it compulsory for members of other rank⁴ in the armed forces to become LTAT members. Similar to the EPF, LTAT is funded by contributions from employees and employer. In this case, the employer is the Malaysian government. The current contribution rate to the fund is 10% of the monthly salary, with an additional 15% contribution from the government. For military officers, this scheme acts as a saving scheme where they can contribute voluntarily to the fund. The contribution starts from a minimum of RM 25 up to a maximum of RM 500, where a contribution should be in multiples of five. Previously the maximum amount was RM 200. Voluntary members will not receive any additional contribution from the government. An added advantage of being a member whether compulsorily or voluntarily is that members enjoy the disablement benefit scheme and their dependants gain from the death scheme.

A member could only withdraw the entire savings from the fund at the age of 50 and no option is given for monthly payments to be made during retirement. The payments could be divided into two different categories: Members who receive a pension from the government would only receive the employee’s contribution upon retirement; whereas, a non-pensionable⁵ member would receive the employee’s contribution, the government’s contribution and other accumulated benefits. Payments, however, are subject to any government loans which would be deducted from the amount paid before retirement. A non-pensionable member can also withdraw the entire savings from the fund one-month after dismissal from the army. For a voluntary member, however, there is no restriction on withdrawal of money from the fund. But once savings are withdrawn, the LTAT membership is terminated.

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⁴Other ranks are all military personnel below commissioned officers in rank. This includes Warrant Officers, Non-Commissioned Officers, and Privates.

⁵Non-pensionable members are those who have been dismissed from the army.
LTAT also permits a member to withdraw money from the fund to purchase a low-cost house one time only. The amount allowed for withdrawal is up to 40% of the balance in the account or a maximum of RM 100,000, whichever is lower.

E. SOCIAL SECURITY ORGANIZATION (SOCSO)

The Employee’s Social Security Act of 1969 formed the basis of the social insurance system in Malaysia. The scheme covers workers who earn less than RM 3,000 a month and is financed by contributions from both employees and employers, and administered by the Social Security Organization, a central government agency popularly known as SOCSO. SOCSO was established under the Ministry of Public Works to provide for the safety and welfare of workers. The number of members and registered employers has been on the rise since its establishment increasing from 1 million in 1978 to 8 million in 1999 and almost 10 million today. Since April 1993, foreign workers have been excluded from coverage by this scheme and they have had to rely on the Workmen’s Compensation scheme instead.

The SOCSO schemes include the Employment Injury Insurance scheme and the Invalidity Pension scheme. Under the first scheme, the benefits provided include medical benefit, temporary disability benefit, permanent disability benefit, dependent’s benefit, death benefit, and rehabilitation benefit. On the other hand, the Invalidity Pensions scheme provides coverage against invalidity or death due to any cause. The benefits provided are related to temporary or permanent disability and rehabilitation, funeral grant, survivor’s pension and education benefits. Benefits are paid out in the form of periodical payments calculated on an earnings-related basis.

The Employment Injury Insurance Scheme provides protection to workers from Skim services disease (penyakit khidmat) and accidents during travel on work related matters. It offers temporary disability benefits with a minimum payment of RM10 per day or 80% of wages, permanent disability benefit with a minimum payment of RM10 per day or 90% of wages and dependent benefits. The Invalidity Pension Scheme provides 24 hour protection from death or invalidity and offers pension even before the age of 56. Initially, the contribution rate was 1.25 percent of monthly salary for Employment Injury Scheme and 1 percent for Invalidity Pension Scheme. At present, the contribution rate is 0.5 percent for the former and 1.75 percent for the latter.

F. EMPLOYER’S LIABILITY SCHEME

The Employer’s Liability Scheme covers two main types of benefits: the employment injury compensation under the Workmen’s Compensation Act of 1952; and the sickness and maternity benefits provided under the Employment Act of 1955. Paid sick leave entitlement, as stipulated by the Employment Act, 1955, depends on the employee’s length of service. It ranges from 14 days for those employed for less than two years, 18 days for those employed between 2 to 5 years and 22 days if the employee has served the employer for more than 5 years. Those covered by SOCSO are excluded from the scheme.

G. WORKERS’ COMPENSATION SCHEME

The Workers’ Compensation Scheme was conceived under the Workers’ Compensation Act 1952. The injured or deceased workman is compensated by the employer, who is required to insure his company from such liabilities. Unlike SOCSO, this scheme operates as a law governing the terms and amounts of compensation in the case of death or accident. It does not handle the funds itself; the employer is fully responsible for the social insurance through private companies.

The scheme protects manual and non manual workers earning less than RM500 per month. Workers who are covered under SOCSO are not covered under the scheme. In addition, casual workers, domestic servants, outworkers, tributers and family workers are also not covered under the scheme.
II. ANALYSIS OF THE PROGRAMS

The analysis of the social protection programs in Malaysia will be divided into three broad headings. The first looks at the structure of the protection programs and the need to redefine family values to ensure comprehensive protection. The second discusses the adequacy of the social security retirement benefits i.e. the EPF and the pension scheme, in providing non labor income to the retiree. And the third analyses the expenditure of the government in maintaining and providing the benefits of the social protection programs.

A. REDEFINING FAMILY VALUES

The World Bank (2004) suggests The Three Pillar Model of a social security scheme. The first pillar is the public defined benefit or pay-as-you-go (PAYGO) scheme aimed at poverty reduction through redistribution. The second pillar is a mandatory private defined contribution scheme aimed at consumption smoothing, and the third pillar is a voluntary saving account. The Malaysian social insurance scheme can be regarded as falling under the second pillar, with extensive coverage, covering the whole working population, SOCSO could serve as the social safety net in Pillar number two. The social security retirement programs fall under the third and forth pillars with the defined benefit pension scheme and the defined contribution provident fund, respectively. Adding up family support and personal savings, Malaysia will have a Five-Pillar Model of a social security scheme. Figure 1 below describes the Five-Pillar Model of Malaysia.

![Five-Pillar Model of Malaysian Social Protection Schemes](image)

Despite the notion that family structure is changing, factors such as high living costs and longer life expectancy have called for stronger support from family. The government of Malaysia has taken the approach that it is through family institutions that better social protection could be provided to the needy especially the elderly. The concept of balas-jasa (Yaacob 2000:72), which means “repaying parents” for what they have done, has been the continuing central motor of intergenerational transfers as a source of old age income (Caraher 2003). The government is putting a lot of effort to strengthen the ties of family to enhance traditional family support as the number one welfare protection to the community. As emphasized by Datuk Paduka Badrudin Amiruldin cited in Tan (2007:16)

“… instead of asking the government to spend more money to build a nursing home, it would better if we get the children to care for their elderly parents”

In addition, the Department of Social Welfare wants institutional support to be the last resort of taking care for the elderly. Currently, instead of only the government caring for the elderly, NGOs have also been brought on board. In terms of shelter, for example, there are old people’s homes and elderly day care centres run by both the government and NGOs. NGOs are also involved in the National Elderly Council to design and plan programs to enhance the well-being of the elderly. In addition, participation of local community is also encouraged to ensure that the elderly stays in the community. The Department of Social Welfare is seeking to encourage the elderly to continue living in the community instead of relocating to an institution. One innovative project by the Department of Social Welfare and local NGO involves identifying voluntary ‘carers’ or families to take care of the elderly within the community. These volunteers are not required to
live with the elderly, but are expected to assist them as needed in terms of groceries, cleaning and meal preparation.

**B. ADEQUACY OF SOCIAL SECURITY RETIREMENT BENEFITS**

Adequacy of retirement benefits is defined as 50 percent replacement rate of final drawn salary (Lee 2001). Even for workers who are covered by at least one social security retirement program, the adequacy of their post-retirement financial resources is an important issue as money accumulated or received could be deemed inadequate. A survey conducted by the EPF on the pattern of expenditure of contributors who had withdrawn all their savings since taking retirement in order to cover expenditure on basic needs, excluding medical care for catastrophic illnesses, is between RM 510 to RM 1,000 per month (Rusma 2004). With the high cost of living, even this amount is barely enough. The revised income poverty line in 2008 for Peninsular Malaysia is RM 720 per month, RM 830 per month in Sarawak and RM 960 per month in Sabah. A newspaper report written by Nizam (2007a) indicated that EPF has an accumulated savings of RM 224 billion up to December 2006. However, on average, each contributor will only receive RM 114,000 upon retirement at the age of 55. This means that each retiree will have an income of only RM 475 per month until the age of 75 years old, an amount that is significantly lower than the national regional poverty lines.

In a recent survey undertaken by Prudential Assurance Malaysia Bhd. on 1,038 respondents covering the area of Klang Valley, Penang, Ipoh, Johor Bharu, Kuching and Kota Kinabalu, it was found that only 35 percent of the respondents are confident that the EPF and personal savings are sufficient to support their life when they retire (Chong 2007). The inadequacy of retirement expenses is evident to the low-income groups, forcing them to seek different avenues and security mechanisms for their retirement. This is confirmed by a study by Ragayah (ca. 2003) who found that more than half of the respondents (58.4 percent) are covered by insurance and this includes 23.1 percent of the low-income group.

There are so many reasons that could be associated with inadequacy of retirement benefits. Among them, as cited by Ramesh (2005:198) are the pre-retirement withdrawals for a range of purposes which reduces the sum available for retirement, low returns, absence of redistributive mechanisms, early age of withdrawal (retirement age) and lump-sum benefits of accumulated savings at retirement. As mentioned earlier, while the main objective of the EPF is to assist with retirement income, the fund itself allows for withdrawals for housing, medical as well as pre-retirement benefits that may deplete some members’ accumulated savings by the time of their retirement, a typical administration of a provident fund.

Lee (2001) proposed that purchases of houses should be left off to private banks. From an interview with the EPF Deputy CEO (Management and Organizational Development) withdrawal of EPF accumulated savings for house purchase could be considered as a positive expense for pre-retirement as the house is seen as an asset to the elderly. A sentiment shared by Haim, as reported in Nizam (2007b p.4), that withdrawal for housing is an investment manifestation in terms of asset to ensure a good life during retirement. Overall, withdrawals for housing have shown an increase over time. This is due to the easiness of the withdrawal schemes allowed by EPF. In addition, this situation is also in parallel with the government’s wish to encourage ownership of houses/property.

For SOCSO, the fact that the scheme has the policy of ‘once a member, always a member’ really helps the low income employee to rely on SOCSO for benefits, especially work compensated benefits. And the fact that the income has been increased to RM 3,000 has covered even a bigger proportion of the labor force. SOCSO has been known to providing work related compensation to workers. Nevertheless, the complaints against SOCSO have always been related to the delays in processing claims. Realizing this, SOCSO has introduced payment of claimed savings within three working days for temporary disability benefit and corpse management benefit.

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6 This is the range of minimum account required for maintenance provided that the elderly does not have any more mortgages to pay and does not have to support any more dependants.

7 Current exchange rate: 1USD = RM3.53
C. GOVERNMENT EXPENDITURE

The Government’s efforts to improve the standard of living include increasing the salary of civil servants and retirees in 2007 between 7.5 to 35 percent. This increase has benefited a lot of people and pushed them out of poverty. The President of the Congress of Unions of Employees in the Public and Civil Services (CUEPACS) noted that, prior to the increase in salary of the civil servants; more than 400 thousand pensioners were living in poverty. The Economic Planning Unit reported that the poverty rate for the group of people aged 50 years old and above was 36.7 percent in 1999 and 34.2 percent in 2004. With the salary increase, it is expected that only 2 percent of pensioners will be living in poverty.

The salary increase in 2007 has led to an increase in pensions and gratuities expenditure by approximately RM 1 billion with an expected RM 6.7 billion in 2007 compared to RM 5.9 billion in 2006 and RM 5.7 billion in 2005 (Nizam 2007c). Pension payments as a percentage to GDP are extremely small with an average of 1.2 percent. Pension payments are also seen as negligible if compared to the government’s operating expenditure (Figure 2) ranging between 2 – 8 percent. Nevertheless, as pensions are paid from the operating expenditure, the escalating pension payment is seen as a burden to the government. Therefore the government is planning to change the defined benefit pension system to an alternative system, perhaps resembling the defined contribution of the EPF scheme.

Figure 2: Pension Payment as a Percentage of GDP and Government Operating Expenses (own calculation)

The government’s announcement has raised many objections from the public as many are not sure what they will encounter under the new system. Whether the employees contribute or not should be easily amicable so long as the new system provides similar benefits in terms of monthly pension payments and free health care that are not covered under the EPF scheme (Omar 2007). A contribution scheme could be a favorable scheme to the government as this could reduce government’s burden in its operating expenses. While the percentage of pension payment to government operating expenditure is currently quite small, the amount is expected to escalate in the future considering the increasing number of pensioners, longevity and inflation. The higher the amount of pension payment, the smaller is the amount for other operating expenses and financing could involve an increase in government debt.
III. CONCLUSION

Malaysia has a long history of social protection programs dating back to the 19th century. All the programs have undergone various structural changes to suit their objectives in providing non labor income to the workers and elderly. The mixed structure of defined benefit and defined contribution has led to Malaysia satisfying the minimum set up of social protection program of a three-tier system accomplished through the setting up of the SOCSO, pension scheme and the EPF. Each program was designed to ensure the attainment of the minimum benefit. The benefits include a minimum of fifty percent replacement rate under the pension scheme, a lifetime membership under the SOCSO and wealth accumulation of house acquisition under the EPF. With strengthening of family values and personal savings, a five-tier social protection scheme could be achieved in Malaysia. In addition, with the longer life span and high living costs, the formal social protection scheme might not provide a fifty percent replacement rate. In addition, the escalating government expenses to cover the social protection benefits might no longer be sustained especially when the country is suffering from economic crisis. Hence, the government is calling for a stronger support from family as well as encouraging the people to start saving for their retirement as well as to be prepared for any unforeseen circumstances in regard to labor income earning.
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