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# A New Vision for Social Protection in Malaysia

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## Introduction

A new year has come, marking just over a month since the formation of the new federal government. Much attention has already been given to various pressing issues such as the rising cost of living and flooding.

However, much has yet to be articulated on Malaysia's overall social protection system, against long-standing issues such as retirement savings inadequacy, uneven protection among workers and mothers, and more. Given the magnitude of reforms needed and the approaching Budget 2023, it is a matter that should be promptly discussed and acted upon.

## The Urgency for Social Protection Reforms

Pre-existing gaps in the system were exposed by the Covid-19 crisis, relating to the adequacy, coverage and administration of protection. Many have fallen through the cracks as shown by various indicators.



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The poverty rate increased from 5.6% in 2019 to 8.4% in 2020[1]. By 2022, around 6 million EPF members (or 50%) had under RM10,000 in retirement savings, of which 3.6 million members had under RM1,000[2] while an estimated 60% of working-aged adults aren't even in any retirement scheme[3]. Worker protection remains uneven, against risks such as unemployment, amid the rise in gig/informal work, while housewives are largely unprotected[4]. Children also face issues, such as malnutrition which cuts across all income groups[5].

Meanwhile, however, piecemeal aid from the government is still being rolled out or considered, with arising issues of narrow targeting, bureaucracy and fragmentation. Narrow targeting is particularly worrisome, given the heightened discussions of reallocating blanket subsidies in favour of targeted cash transfers or subsidies[6].

Whilst somewhat justified due to fiscal prudence, targeting only the "deserving" is not always an exact science, whether based on the poverty line income or the arbitrary bottom 40% threshold. Many in need may be left without assistance. The official poverty rate may stand at 8.4%, but many more are vulnerable and hover just above the line. For example, 22.4% of households earn under RM3,000, not much more than the average poverty line income of RM2,208[7]. Meanwhile, an early KRI study on 2014 consumption data showed that household welfare of the middle 50% is not all that better than the bottom 20%[8].

Still, rather than simply targeting the bottom 70%, policies must also acknowledge that poverty or income security is dynamic and hardly static. Any individual regardless of income may face shocks such as joblessness, injury, disability or other health issues. Means-testing or income targeting may be costly and ineffective as anyone can move in and out of poverty over time, and arguably results in greater fragmentation as many different programmes are created to address specific target groups[9]. Plus, not all households are the same even if they are of the same income group, with each comprising different individuals who face different risks.

## Proposed Considerations

All individual persons (across all incomes and social backgrounds) must be included in the social protection system. The system may then deliver aid through a mix of non-contributory social assistance (e.g., cash transfers) and contributory or social insurance schemes (e.g., EPF savings and SOCSCO worker protection schemes). These all must be coordinated holistically while supported by effective administration and progressive taxation.

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[1] DOS (2021)
[2] EPF (2021)
[3] KRI (2021)
[4] KRI (2021)
[5] Jarud Romadan Khalidi and Puteri Marjan Megat Muzafar (2022)
[6] Bernama (2022)
[7] DOS (2021)
[8] Hawati Abdul Hamid, Ho, and Suraya Ismail (2019)
[9] KRI (2021)

Social protection programmes must be reorientated to be primarily risk-targeted, mitigating various risks faced by individuals during childhood, the working age and old age—alongside cross-cutting vulnerabilities relating to disability, health, gender, ethnicity and citizenship.

In addressing such lifecycle risks, a ‘social protection floor’ should be provided by the federal government and its statutory agencies. KRI’s report published in 2021 offered some fundamental policies for each group that could be implemented to ensure basic income security[10].

## Establishing a universal basic income for children

For children, a universal child benefit scheme is suggested, where a basic monthly income is given to all children and their families until they turn 18 years old. This is to prevent children from being left behind during this important stage of cognitive, physical and social development, while recognising the contribution of parents in raising their children.

As children’s issues such as health and nutrition are prevalent across all income groups[11], a universal approach is necessary. This is compounded by the fact that children are not able to provide for themselves and are dependent on others.

Registering all children into the scheme is important as it would also enable other need-specific interventions to be better designed, as well as ensuring inclusion in other social protection schemes when the children enter the working age and old age.

## Expanding social security to all working-aged adults

For working-aged adults, mandatory coverage should be expanded for existing formal schemes of social insurance against the risks of work injury, invalidity and joblessness; as well as introducing a maternity income scheme under the purview of SOCSO.

This is because many of the working age are still largely unprotected. This includes the self-employed and informal workers, as well as those outside the labour force such as housewives and youth making the transition from school to work.

In addition to employers and employees, it is recommended that the government step in as a third contributor for adults such as the above, who face challenges in contributing the insurance premiums.

Many of these measures are in line with SOCSO’ recent initiatives and are thus a matter of fully implementing them[12], with the continued support from the new federal government.

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[10] KRI (2021)
[11] IPH (2020)
[12] Aliza Shah (2022)

## Ensuring old-age income security

For elders, a social insurance pension should be established to ensure basic income security during old age.

Currently, EPF is only mandatory for formal workers, while the persistence of low wages and irregular/informal work minimises the ability of many others to build their retirement savings. Meanwhile, government funded social assistance for elders such as Bantuan Warga Emas is limited only to those living below the poverty line.

Hence, a contributory social insurance model is suggested, where insurance contributions are made by not only workers and employers but also shared by the government for working-aged subgroups, such as homemakers, the unemployed and informal workers.

This model maximises long-term coverage more so than making tweaks to EPF, such as introducing progressive dividends or raising the retirement age. It also minimises costs to the federal government given that they would only fund the insurance premiums for individuals who couldn't—compared to a solution like expanding coverage for direct cash aid like Bantuan Warga Emas, which would require the federal government to fully bear its exorbitant cost especially in light of Malaysia's rapid ageing.

## Rethinking targeted measures and household-based aid

The three aforementioned proposals target core lifecycle risks that are potentially the root causes of poverty, acting as the preferred first layer of protection. As a 'social protection floor', they ought to be universal. Beyond these core schemes, supplementary and more targeted measures can be designed to alleviate any unmet needs faced by certain vulnerable groups.

Such measures include household-based targeting—the primary approach for social assistance nowadays for schemes like the flagship Bantuan Keluarga Malaysia. In targeting households, much can be improved on the arbitrary B40 targeting to minimize neglecting those in need. One consideration may be to account for geographic disparities, as certain areas may face higher living costs. Another would be to account for household composition, as some households may have more dependents such as children and the disabled, who may have greater needs.

The principle of household-based targeting should not be overly concerned with minimizing inclusion errors but to minimise exclusion, as the latter is more detrimental to social welfare. It is also important for recipients to avoid a 'benefit-cliff'—a sudden decrease in social aid just from a small increase in income.

## Building a Unified Registry and Revamping the Administrative and Tax System

Malaysia's social protection system also requires an administrative system that is efficient and transparent to ensure quality service delivery and responsiveness to shocks. There ought to be a One-Stop Service Centre and National Social Protection Registry to centralise data of every member of the population (not just the poor) and enable a more efficient channelling of social security and services.

Presently, there are multiple administrative databases under various ministries and institutions in Malaysia. While there are six major ones as listed below, there are potentially many others given the existence of many narrowly targeted programmes by many other administrators[13]. Each vary in their coverage, methods of registration and eligibility verification, and frequency of updates. This worsens fragmentation, redundancy and duplication.

**Key social protection administrative registries**

| Data registry | Custodian | Unit of data |
|---|---|---|
| BR1M/BSH/BPR | MOF | Individual & household |
| e-Kasih | ICU, PMD | Household |
| e-Bantuan | JKM | Individual |
| i-EPF | EPF | Individual |
| assist-PERKESO | SOCSO | Individual |
| myPesara | JPA/KWAP | Individual |
| i-Wira | LTAT | Individual |

Source: KRI compilation

The MyKad number has the potential to be used as a single unique ID to integrate personal data from various institutions. Meanwhile, a one-stop service centre has been initiated by Majlis Perlindungan Sosial Malaysia (MySPC)[14], and it is hoped that it will continue to capture all social protection programmes and inspire governments at the state and local levels to do the same.

## Taxing better and progressively for greater fiscal space

The social protection system must be supported by a more progressive tax system, to expand funding for greater social protection programmes and recuperate any aid or transfers to the rich, while also further reducing inequality.

This entails revising top marginal income tax rates and exploring other forms of capital gains taxes, considering that tax collection has fallen behind GDP growth[15].

Existing tax reliefs could also be reassessed, as they incur a great amount in tax forgone for the government but yet are mostly enjoyed by the better-off who earn enough to pay taxes. For example, RM7.5 billion was forgone in tax revenue for child-related tax reliefs, such as reliefs for registered childcare centres and deposits in SSPN. This amount is close to the amount spent for the flagship Bantuan Kelaurga Malaysia scheme.

Elsewise, enforcing income declaration to tax authorities and extending it beyond just those earning at least RM34,000 annually may also prove helpful in identifying the needy and well-off[16].

[13] KRI (2021)
[14] Majlis Perlindungan Sosial Malaysia (MySPC) (n.d.)
[15] KRI (2021)
[16] Kidd et al. (2020)

## Fullfilling Promises and Setting the Motion for Reforms

Some of the manifesto offers made by the political parties are similar to the proposals we make here, while other offers are also potentially welcoming. Thus, it is a matter of fulfilling them and improving where necessary.

Pakatan Harapan for example had similarly announced a universal child benefit, deposited monthly to children up to the age six. The amount offered is unclear and is unlike our recommended age 18 limit, though it is a welcome promise to start off with given fiscal constraints. For elders, a restructuring of SOCSO was offered to ensure a safety net after retirement. However, no details have been provided.

Overall, there needs to be an urgent and clear commitment to social protection reforms. While somewhat justified, there may be some temptation to maximise fiscal prudence by furthering the act of only aiding the very deserving as identified by the government, without addressing the fragmentation of programmes (which are in part due to the narrow targeting of programmes) and without holistically considering all programmes together.

A coherent and inclusive social protection system centred around individual risks throughout their lifetime, with universal provisions equally to the poor and rich, whether it be via direct aid or insurance, maximises our ability to alleviate poverty, address vulnerability and reduce inequality. Not only that, it would also enhance trust in government, increasing the willingness to pay tax and allowing for greater revenue collection. It is a model that could strengthen solidarity between individuals, communities, employers and the state, hence instilling greater economic, social and political stability.

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