KHAZANAH RESEARCH INSTITUTE

BUILDING RESILIENCE

TOWARDS INCLUSIVE SOCIAL PROTECTION IN MALAYSIA

BUILDING RESILIENCE

TOWARDS INCLUSIVE SOCIAL PROTECTION IN MALAYSIA

KHAZANAH
RESEARCH
INSTITUTE

Building Resilience: Towards Inclusive Social Protection in Malaysia. – Kuala Lumpur, Malaysia: Khazanah Research Institute

Published September 2021. Published by Khazanah Research Institute at Level 25, Mercu UEM, Jalan Stesen Sentral 5, Kuala Lumpur Sentral 50470 Kuala Lumpur, Malaysia.
Fax: +603 2034 0000; email: enquiries@KRInstitute.org

Information on Khazanah Research Institute publications and digital products can be found at www.KRInstitute.org

Cover photo by Edwin Tan.
The illustrations in the report have been designed using resources from freepik.com.

This report was prepared by the researchers of Khazanah Research Institute (KRI): Hawati Abdul Hamid, Adam Manaf Mohamed Firouz, Jarud Romadan Khalidi, Nur Thuraya Sazali, Puteri Marjan Megat Muzafar and Siti Aiysyah Tumin*.

It was authorised for publication by the Board of Trustees of KRI.

ACKNOWLEDGEMENTS

The team is grateful for the leadership and guidance provided by Tan Sri Nor Mohamed Yakcop, Chairman, KRI and members of the KRI Board of Trustees (BOT) at the time of publication: Datuk Shahril Ridza Ridzuan and Datuk Hisham Hamdan. The trust and advice given by the BOT have expanded the intellectual space for us to pursue this research rigorously and impartially. We would also like to express our heartfelt appreciation to Dr Jomo Kwame Sundaram, Senior Research Advisor of KRI, for his constant source of wisdom and insights throughout the course of the research.

We also extend our sincere gratitude to Dr Stephen Kidd, Principal Social Policy Specialist, Development Pathways for his constructive comments on the full draft of the report. Numerous subject matter experts have provided feedback on various parts of the report: Dr Haniza Khalid; Muhammad Farqani Mohd Noor, Special Officer (Policy and Strategy) at the CEO's office, Social Security Organisation (SOCSO); Dr Saidatulakmal Mohd, Associate Professor, Universiti Sains Malaysia (USM); Dr Mazlynda Md Yusuf, Senior Lecturer, Universiti Sains Islam Malaysia (USIM); Eduardo Klien, Regional Director for Asia, Dr Flavia Galvani, Global Social Protection Advisor and Florian Juergens, Income Security Advisor from HelpAge International; Stephen Barrett, Chief of Social Policy and Ruben Villanueva Rodriguez, Regional Social Protection Specialist, United Nations Children's Fund (UNICEF); and Shea McClanahan, Senior Social Policy Specialist, Development Pathways.

The team is also grateful for the valuable insights from Datuk Hj Shamsuddin Bardan, Malaysian Employers Federation (MEF); Dr Mohd Zaki Awang Chek, Senior Lecturer, Universiti Teknologi MARA (UiTM); Dr Amjad Rabi, Social Security Economist and Chief Technical Advisor (Social Security) at the International Labour Organization (ILO); Charles Knox-Vydmanov, Independent Consultant on Social Protection and former ILO programme officer; and Siti Nur Shuhada Nor Baharin, Head of Actuary and Statistic unit, SOCSO.

We also thank the Ministry of Finance (MOF), SOCSO, Department of Statistics Malaysia (DOS), Lembaga Hasil Dalam Negeri (LHDN), Employees Provident Fund (EPF) and Department of Labour Peninsular Malaysia for providing essential data for our analyses.

We appreciate the constant support from our colleagues from the Chairman's Office, namely Nicholas Khaw, Siti Najyah Johar Salim, Hazilah Abdul Karim, Nurul Ain Fatizah Rahim and Nur Zulaikha Atiqah Mohd Zahril for incessantly working behind the scenes to ensure everything goes smoothly. We would also like to thank Christopher Choong Weng Wai for his instructive comments on the report; Nazihah Muhamad Noor for her excellent editorial assistance; and Khoo Wei Yang, Mohd Amirul Rafiq bin Abu Rahim and Ahmad Ashraf Ahmad Shaharudin for assistance at the publication stage of the report. We are also indebted to Siti Aisyah Razali Chan, Noor Azwanee Sarah Roslee and Grace Loh Wan Chi for their diligent and dedicated assistance during their internships at KRI.

In writing this report, we are indebted for the contributions of the people mentioned above. Interactions with many others, not mentioned here, have also been instructive in shaping our thinking and providing reality checks of the policy proposals. However, any fault lies with the authors.

*Except the lead author, remaining authors are listed alphabetically

CONTENTS

ABBREVIATIONS

Act 4/ESSA 1969	:	Employee's Social Security Act 1969
Act 265/EA 1955	:	Employment Act 1955
Act 789/SESSA 2017	:	Self-employment Social Security Act 2017
Act 800/EIS 2017	:	Employment Insurance System Act 2017
ADB	:	Asian Development Bank
AFC	:	Asian Financial Crisis
ASEAN	:	Association of Southeast Asian Nations
b	:	Billion
B40	:	Bottom 40%
BKK	:	Bantuan Kanak-kanak
BMI	:	Body mass index
BNM	:	Bank Negara Malaysia
BPN	:	Bantuan Prihatin Nasional
BPR	:	Bantuan Prihatin Rakyat
BR1M	:	Bantuan Rakyat 1 Malaysia
BSH	:	Bantuan Sara Hidup
BWE	:	Bantuan Warga Emas (formerly known as Bantuan Orang Tua)
DOS	:	Department of Statistics Malaysia
EIS	:	Employment Injury Scheme
EPF	:	Employees Provident Fund
Epfas	:	EFP Annuity Schemes
ERP	:	Employment Retention Programme
EU	:	European Union
GDP	:	Gross Domestic Product
GFC	:	Global Financial Crisis
GST	:	Goods and services tax
HRDF	:	Human Resource Development Fund
ICESCR	:	International Covenant on Economic, Social and Cultural Rights
ICU	:	Implementation Coordination Unit
IFI	:	International Financial Institutions
ILO	:	International Labour Organization
IMF	:	International Monetary Fund
JKM	:	Jabatan Kebajikan Masyarakat (Department of Social Welfare)
JPA	:	Jabatan Perkhidmatan Awam (Public Service Department)
JPM	:	Jabatan Perdana Menteri (Prime Minister's Department)
JSA	:	Job search allowance
JTK	:	Jabatan Tenaga Kerja (Department of Labour)
k	:	Thousand
KBS	:	Kementerian Belia dan Sukan (Ministry of Youth and Sports)
KDN	:	Kementerian Dalam Negeri Malaysia (Ministry of Home Affairs)

ABBREVIATIONS

KeTSA	:	Kementerian Tenaga dan Sumber Asli (Ministry of Water, Land and Natural Resources)
KKR	:	Kementerian Kerja Raya (Ministry of Works)
KPDNHEP	:	Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna Malaysia (Ministry of Domestic Trade and Consumer Affairs)
KPLB	:	Kementerian Pembangunan Luar Bandar (Ministry of Rural Development)
KPM	:	Kementerian Pendidikan Malaysia (Ministry of Education)
KPN	:	Kementerian Perpaduan Negara (Ministry of National Unity)
KPT	:	Kementerian Pendidikan Tinggi (Ministry of Higher Education)
KPWKM	:	Kementerian Pembangunan Wanita, Keluarga dan Masyarakat (Ministry of Women, Family and Community Development)
KRI	:	Khazanah Research Institute
KSM	:	Kementerian Sumber Manusia (Ministry of Human Resources)
KWAP	:	Kumpulan Wang Persaraan (Public Service Pension Fund)
KWP	:	Kementerian Wilayah Persekutuan (Ministry of Federal Territories)
LHDN	:	Lembaga Hasil Dalam Negeri (Inland Revenue Board)
LOE	:	Loss of employment
LTAT	:	Lembaga Tabung Angkatan Tentera (Armed Forces Fund Board)
m	:	Million
M40	:	Middle 40%
MAFI	:	Ministry of Agriculture and Food Industries
MGII	:	Malaysian Government Investment Issue
MGS	:	Malaysia Government Securities
MINDEF	:	Ministry Of Defence
MISSOC	:	European Union Mutual Information System on Social Protection
MITB	:	Malaysian Islamic Treasury Bills
MOE	:	Ministry of Education
MOF	:	Ministry of Finance
MOHE	:	Ministry of Higher Education
MOHR	:	Ministry of Human Resource
MOT	:	Ministry of Transport
MOTAC	:	Ministry Of Tourism, Arts and Culture
MPI	:	Global Multidimensional Poverty Index
MPIC	:	Ministry of Plantation Industries and Commodities
MTB	:	Malaysian Treasury Bills
MySPC	:	Malaysia Social Protection Council
NHMS	:	National and Health Morbidity Survey
OECD	:	Organisation for Economic Co-operation and Development
PEMERKASA	:	Program Strategik Memperkasa Rakyat dan Ekonomi
PEMULIH		Pelan Perlindungan Rakyat & Pemulihan Ekonomi

ABBREVIATIONS

PENJANA	:	Pelan Jana Semula Ekonomi Negara (Short-Term Economic Recovery Plan)
PERMAI		Perlindungan Ekonomi dan Rakyat Malaysia
PLI	:	Poverty line income
PMD	:	Prime Minister's Department
ppt	:	Percentage point
PRIHATIN	:	Pakej Rangsangan Ekonomi Prihatin Rakyat
PRS	:	Private Retirement Scheme
RM	:	Ringgit Malaysia
SIP	:	Social Insurance Pension
SOCSO	:	Social Security Organisation
SP	:	Social Protection
SSA	:	Social Security Administration
SSC	:	Shared Service Centre
SSPN	:	Skim Simpanan Pendidikan Nasional
SST	:	Sales and service tax
T20	:	Top 20%
UCB	:	Universal child benefit
UK	:	United Kingdom
UN	:	United Nations
UNCRC	:	United Nations Convention on the Rights of the Child
UNFA	:	United Nations Population Fund
UNICEF	:	United Nations Children’s Fund
US	:	United States
USD	:	United States dollar
WHO	:	World Health Organisation
WSP	:	Wage Subsidy Programme

GLOSSARY

Active labour market policies	:	Policies concerning labour market integration for those looking for jobs, usually the unemployed, but also the underemployed and the employed who are looking for better jobs. Typical measures include training, job creation in the form of public and community work programmes, programmes to promote enterprise creation and hiring subsidies. *Source: ILO (2003c)*
Aged population	:	When the population aged 65 years and over reached 14% of the total population. *Source: DOS (2021a)*
Ageing population	:	When the population aged 65 years and over reached 7% of the total population. *Source: DOS (2021a)*
Child poverty	:	Child poverty refers to the state of children living in poverty. One indicator of child poverty is the child poverty rate which is the number of poor children i.e. children from families/households earning below the poverty line income, divided by the total number of children. *Source: Adapted from UNICEF (n.d.-a), Redmond et al. (2016)*
Child-related tax reliefs	:	Tax reliefs allow a taxpayer to deduct a certain amount, usually money spent, in that assessment year from the total annual income. Child-related tax reliefs refer to tax reliefs for child-related expenses including reliefs for unmarried children aged under 18, unmarried children aged 18 and above who are studying and disabled children; purchase of breastfeeding equipment for own use on children aged 2 years and below, childcare fees for children aged under 7 and net savings in SSPN. *Source: Adapted from LHDN (n.d.-c)*
Children	:	Internationally, children are persons aged under 18 as defined in the United Nations Convention on the Rights of the Child. This definition is in line with Malaysia's Children and Young Persons (Employment) Act 1966 (Act 350) although the Act distinguishes children from young adults. Children are persons aged under 15 and young adults are persons aged 15 to 17. *Source: Adapted from UNICEF (n.d.-b), GOM (1966)*
Contributory scheme	:	A scheme in which contributions made by protected persons directly determine their entitlement to benefits. The most common form usually covers workers in formal wage employment, where contributions are paid by both employees and employers. In some countries, contributory schemes also cover the self-employed and groups unable to contribute (e.g. unpaid caregivers, the unemployed, or those with too low of an income), being partly financed by government or other sources to cover the deficit. Other common types of contributory schemes include national provident funds that usually pay a lump sum to beneficiaries when particular contingencies occur (typically old age, invalidity or death). *Source: ILO (2017b)*

GLOSSARY

Economies of scale	:	Economies of scale arises when the cost per unit decreases as scale or output increases. In the context of households, economies of scale occurs when people live together and make collective provisions for essentials, making the cost per person lower as household size increases. *Source: Adapted from OECD (2003), Hawati Abdul Hamid, Ho, and Ismail (2019)*
Employer liability	:	Legislative provisions that specify the responsibilities of employers to provide social protection for workers. For example, employers might be required to provide benefits if workers are injured or suffer occupational diseases, or provide paid maternity or paternity leave allowance, or provide severance payments upon the termination of employment. *Source: ILO (2017c)*
Exclusion error	:	Exclusion error refers to the extent to which persons in the targeted group do not receive assistance/benefits even though they are entitled to them. *Source: World Bank (2020c)*
Fiscal space	:	The resources available as a result of the active exploration and utilization of all possible revenue sources by a government *Source: ILO (2019b)*
Formal/informal employment	:	Formal employment refers to persons who are employed and are not in informal employment. Informal employment is defined as employees or other employed persons who are not protected by national labour legislations, including non-affiliation to social security schemes or employment benefits like paid leave; entrepreneurs of informal production units; and contributing family workers. *Source: ILO (n.d.-d)*
Formal/informal sector	:	Formal sector refers to incorporated enterprises. Informal sector refers to unincorporated enterprises that produce at least partly for the market and are not registered. Informal sector excludes households that produce exclusively for own final use, subsistence agriculture, construction of own dwellings, etc. *Source: ILO (n.d.-c)*
Insurance premium	:	Contribution fee paid or made towards an insurance scheme. *Source: Adapted from OECD (2016)*
Life annuity	:	An annuity or regular payments that continue until the annuitant's or individual's death, providing to the annuitant protection from outliving one's financial resources (longevity risk). *Source: OECD (2016)*
Means-tested scheme	:	A scheme that provides benefits upon proof of need and targets certain categories of persons or households whose means fall below a certain threshold. *Source: ILO (2017b)*

GLOSSARY

Non-monetary deprivations	:	Poverty is defined in both monetary and non-monetary deprivations. Non-monetary deprivations reflect the lived reality of people's experiences which may not be captured through the poverty line income. Indicators of non-monetary deprivations often focus on education, health and standard of living. *Source: OPHI and UNDP (2020)*
Non-standard employment	:	An umbrella term for different employment arrangements that deviate from standard employment. They include temporary employment, part-time and on-call work, temporary agency work and other multiparty employment relationships, disguised employment and dependent self-employment. Non-standard employment features prominently on digital labour platform. Working from home could also be considered a diverse employment arrangement. *Source: ILO (n.d.-d)*
Passive labour market policies	:	Policies providing income replacement for those looking for jobs, usually the unemployed, but also the underemployed and the employed who are looking for better jobs. Typical measures include unemployment insurance and assistance and early retirement. *Source: ILO (2003c)*
Poverty line income (PLI)	:	The minimum income needed by a household to meet the basic food and non-food needs for each of its members. The Food PLI is the amount of income necessary to meet a household's daily nutritional requirements as determined by the Ministry of Health. The non-food PLI is the amount of income necessary to meet the minimum requirements for items such as clothing, housing, transport and other non-food needs by sex and age of a person and is based on the expenditure patterns of low-income households. *Source: DOS (2020a)*
Social assistance	:	The provision of benefits financed from general government revenue rather than by individual contributions. Schemes are typically means-tested, targeting low income and vulnerable individuals or households. *Source: ILO (2015a)*
Social insurance	:	A scheme that guarantees protection through an insurance mechanism, typically based on: (1) the prior payment of contributions i.e. before the occurrence of the insured contingency; (2) risk sharing or "pooling"; and (3) the notion of a guarantee. The contributions paid by (or for) insured persons are pooled together and the resulting fund is used to cover the expenses incurred exclusively by those persons affected by the occurrence of the relevant (clearly defined) contingency. *Source: ILO (2017b)*

GLOSSARY

Social protection	:	Social protection is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income. *Source: ADB (2001)*
Social protection floor	:	Nationally defined sets of basic social security guarantees which secure protection aimed at preventing or alleviating poverty, vulnerability and social exclusion. *Source: ILO (2012)*
Social security	:	Social security is the protection that a society provides to individuals and households to ensure access to health care and to guarantee income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a breadwinner. *Source: ILO (n.d.-b)*
Standard employment	:	There is no official definition of standard employment, but historical movements and economic changes roughly alluded to the conditions expected from standard employment, typically understood as work that is full time, indefinite, as well as part of a subordinate relationship between an employee and employer. *Source: Adapted from ILO (2016), Nur Thuraya Sazali and Tan (2019)*
Super-aged population	:	When the population aged 65 years and over reached 20% of the total population. *Source: DOS (2021a)*
Tax savings	:	Tax savings (or tax credits) provide support to eligible income-tax-paying households by reducing the amount of tax owed or by providing a refund for excess tax paid. *Source: ODI and UNICEF (2020)*
The missing middle	:	The missing middle refers to households and persons not covered by neither social assistance nor social insurance. Workers in the informal sector usually comprise the missing middle due to the following: (1) not poor enough for social assistance; and (2) not formal nor rich enough to contribute to social insurance. *Source: ILO (2017b)*
Tripartism or tripartite arrangement	:	Tripartism is a division into three representative groups. In the context of industrial relations in Malaysia, a tripartite set-up consists of the employer, the employees and the government. *Source: Nankervis, Rowley, and Salleh (2016)*

GLOSSARY		
Triple burden of malnutrition	:	Malnutrition refers to the lack of proper nutrition due to either one or a combination of the following: not eating enough, not eating enough of the right things or being unable to use the food that one does eat. The triple burden of malnutrition refers to three stands of malnutrition: undernutrition, hidden hunger due to deficiencies in essential vitamins and minerals, and overweight and obesity. Source: UNICEF (2019b)
Universal basic income/Universal child benefit	:	Universal basic income is a periodic cash payment unconditionally delivered to all citizens or legal residents on an individual basis, without a means-test or behavioural requirement. It is paid to individuals at regular intervals over time. Universal child benefit is similarly defined but is targeted to children. *Source: ODI and UNICEF (2020)*
Working-age population	:	Internationally, the working-age population is commonly defined as persons aged 15 years and older, although the age limits can vary from country to country. In Malaysia, the working-age group is defined to be between 15 and 64 years old. *Source: Adapted from ILO (n.d.-e), DOS (n.d.)*

EXECUTIVE SUMMARY

The Covid-19 pandemic has exposed pre-existing gaps in Malaysia's social protection system with many individuals falling through the cracks. Most social assistance programmes continue to be associated with the idea of a short-term buffer and lack sustainable financial and legal foundations, resulting in unpredictable benefits, under-coverage and programme fragmentation.

Social insurance schemes implemented by social security institutions have demonstrated great agility and speed in providing relief, but their reach continues to be limited to formal sector workers who are making contributions. It is an opportune time for the current model to be reconfigured in preparing for a more volatile and challenging future which could contest the sustainability of the social protection system in the coming decades.

This report advocates an inclusive social protection system in Malaysia with a forward-looking approach in preventing poverty and addressing vulnerability. It recommends the adoption of the life cycle approach and emphasises on a universal provision of **social protection floor** against major risks at each stage of everyone's life.

Our policy recommendations are as follows:

1. **Investing in Universal Basic Income for Children**

   For children, we propose establishing a universal child benefit (UCB) scheme that provides universal basic income for all children and their families to prevent the risk of any child being left behind during this important stage of cognitive, physical and social development. Social protection is vital for children as childhood is an inherently vulnerable stage of life, not least because children are not able to provide for themselves and are dependent on others.

   As children's issues including education, health and nutrition are prevalent across all income groups, a universal approach for children's social protection is necessary. The proposed UCB serves as an important scheme in building an inclusive and comprehensive social protection system. Registering all children into the scheme would 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.

2. **Expanding Social Security to all Working-age Individuals**

   For the working-age adults, we propose expanding the mandatory coverage of existing formal schemes of social insurance against the risks of work injury, invalidity and joblessness as well as introducing a maternity income security scheme under the purview of the Social Security Organisation (SOCSO). Currently, such provisions continue to mainly benefit employees in the formal sector while neglecting a large share of the working-age population, including the self-employed and informal workers, as well as those outside the labour force such as homemakers.

The tripartite arrangement under the social insurance system is recommended to be strengthened with greater government involvement as the third contributor in addition to employers and employees. We call for the government to share the contributory costs for the protection of residual working-age subgroups who face challenges to contribute such as workers with informal and non-standard employment and those outside the labour force. Expanding the coverage of such existing schemes ensures working-age individuals are not discriminated due to their employment status or sector—a pertinent solution given the increasing informalisation of jobs.

3. Establishing Social Insurance Pension for Old Age

For elders, we propose establishing a Social Insurance Pension (SIP) scheme as a basic income security during old age. Currently, social protection for old-age income security from contributory schemes remains limited in coverage as well as adequacy. These issues prevail as the Employees Provident Fund (EPF) contributory scheme is only mandatory for workers with clear employers, while the persistence of low wages and irregular work minimises the ability of workers to contribute sufficiently to their retirement savings.

Meanwhile, tax-funded social assistance for the elder such as Bantuan Warga Emas (BWE) is limited only to those considered poor. Thus, a universal social pension is critically needed to provide basic old-age income security. We propose this to be delivered via a contributory social insurance model where contributions are made by not only workers and employers, but also shared by the government for working-age subgroups such as homemakers, unemployed individuals and workers with informal and non-standard employment.

4. Financing and Progressive Realisation Strategy

Assuming all schemes are rolled out simultaneously and expanded in phases, the total initial investment required would be RM17.5 billion or 1.1% of GDP. However, we propose progressive implementation strategies with the UCB scheme to cover children aged 0 – 12 during the inception year and expanded annually to achieve full coverage within the subsequent 5 years. The expansion of social security schemes for the working-age adults can be realised by anchoring the benefits at the minimum standards first and incorporating more aspirational targets over a longer term.

The SIP is recommended to be rolled out later in 2025 or by the time the UCB scheme reaches full coverage. The scheme could kick start by covering individuals aged 20 – 24 and gradually expanding every year. Assuming the SIP will only be launched later, we estimate that the investment for children and working-age population's protections will be around RM16.4 billion.

However, savings rising from consolidation of several existing programmes would result in an additional expenditure of only around RM2.4 billion in the first year of implementation. This progressive realisation strategy recognises the essential arrangement to build institutional capacity, including the amendment of relevant legislation as well as providing more time for the government to shore up finances.

While the government revenue base must be broadened, complementing social insurance model with tax-based funding has greater potential of ensuring a social protection system that is sustainable fiscally, economically and socially. Building on principles of risk sharing, collective funding and solidary, greater government involvement under the social security tripartite arrangement will be a more effective strategy in extending the protection floor to all. Inclusive social protection will induce a virtuous cycle of strengthening the social contract, fostering trust in government and enhancing government revenue.

5. Building a National Social Security Institution and a Unified Registry

In addition to sustainable funding, Malaysia's social protection system also requires an administrative system that is efficient and transparent to ensure good-quality service delivery and responsiveness to shocks. We propose expanding the role of existing institution as the National Social Security Institution to implement and administer both extended and new social security schemes.

Additionally, we propose establishing a National Social Protection Registry to centralise the information of every member of the population and enable a more efficient channelling of social security and services. Since multiple databases are already available, digital technology can be utilised to improve the efficiency of information flow by integrating these databases. The MyKad number can be used as a single unique identification code to enable integration of data from various institutions.

Our recommendations are built on, and not devoid of, existing social services, namely public healthcare, social housing, the education system and other basic amenities. They are proposed to complement, instead of replacing, the current tax-funded universal provision of social services. While the report has made the case that these recommendations are necessary to protect individuals from income insecurity throughout their lives, the schemes would not be sufficient on their own. True to the social protection floor principle, our proposals seek to instil a solid foundation for income security against well-documented risks. Cognisant of implementation and fiscal challenges, this report strives to offer practical, equitable and sustainable policy proposals in the context of Malaysian social protection.

CHAPTER

01

CHAPTER 1

INTRODUCTION

Social protections build sound economies and healthy societies. They can be crucial, life-sustaining tools to enable access to health care and education, protect the right to housing and food, and shield people from extreme poverty. There is also increasing evidence that failure to uphold people's economic, social and cultural rights can be a contributing factor in violence and conflict. By protecting those fundamental rights, social protections help to ensure public confidence in institutions, and social peace.

Michelle Bachelet (2020)[1]

1.1 Social Protection: Meeting Present and Future Challenges

Calls for social protection reform have gained prominence in public and policy discussions[2] as the Covid-19 pandemic exposed gaps in Malaysia's existing system. Social protection can generally be understood[3] as a set of public policy measures that intend to achieve three key objectives: (1) ensuring basic income security for all; (2) ensuring universal access to basic needs; and (3) enhancing people's capability to be productive and resilient to vulnerabilities (see Box 1.1).

From a long-term standpoint, Malaysia's social protection policies appear to have moved in tandem with the country's needs as a developing nation. Various policy tools introduced over the years have served the population relatively well, especially in supporting poverty alleviation objectives. Although much has been achieved in terms of poverty eradication, gaps in terms of coverage and adequacy of social protection remain serious problems to a large segment of Malaysia's population.

One such challenge is that social assistance programmes funded by government revenue are often short-term in nature and lack sustainable financial and legal foundations. This often results in unpredictable benefits, under-coverage and programme fragmentation. Meanwhile, benefits under the social insurance schemes mostly accrue to the relatively "well-off" workers with formal employment arrangement[4] who, together with their employers, are making contribution for the social insurance premiums. Often neglected are the "missing middle", who are neither "rich" nor "poor". Largely in informal employment, they are not in the position to benefit from social insurance because they are not employed in the formal sector (public institutions or registered private sector firms) yet may not be living in poverty by national standards, hence do not qualify for targeted social assistance[5]. As social insurance is only available to contributing workers employed in the formal sector and are making contributions for the insurance, those in the informal sector are not in the position to benefit from these social insurance schemes.

[1] OHCHR (2020)
[2] For example, see World Bank (2020c), World Bank (2020a), BNM (2021a)
[3] Based on concepts adopted by international agencies such as United Nations, ADB, World Bank and ILO. See Table 1.1
[4] Workers are considered to have formal jobs if their employment arrangements, in law or in practice, are subjected to national labour legislation and tax policies, covered by a formal social protection system or entitled to certain employment benefits such as paid leaves and medical insurance. Source: Hawati Abdul Hamid and Nur Thuraya Sazali (2020)
[5] UNDESA (2018)

Against this backdrop, there are several long-standing issues and emerging forces that could contest the sustainability of the nation's social protection system in the coming decades. First, although Malaysia is classified as an upper middle-income country, it has been stuck in this middle-income status for more than two decades since 1994[6]. Lacklustre growth prospect will make this transition more challenging. Despite, Malaysia's economy has shifted away from being predominantly agriculture-based, the incomes of the country's agricultural workforce are still subject to volatility in commodity prices and prone to seasonal unemployment owing to unfavourable weather conditions. While the agriculture sector in recent years make up only around 10% of Malaysia's total workforce, it has consistently reported a higher incidence of fatal injuries. The agriculture sector also has a higher proportion of informal and non-standard workers, likely unprotected by formal social protection schemes such as employment injury insurance[7].

Meanwhile, around 60% of Malaysia's workforce is employed in the services sector, in which more than half are involved in sales and services activities. These include wholesale & retail, food & beverages and accommodation services that typically offer lower pay and more precarious employment arrangements such as self-employment, temporary and part-time work. While the manufacturing and other industrial activities are supposed to offer stable paid employment in the formal sector, the number of medium and large enterprises in Malaysia is small: in 2015, medium and large enterprises made up only 3.7% of all establishments in the country. The remaining 75.4% of the establishments are *micro* enterprises and another 20.9% are classified as small[8].

The trend in recent years has also shown a rise in vulnerable employment as technological advancement and digitalisation have spurred the gig and platform economy. The phenomenon has created new types of work relationships that pose a challenge in enforcing present labour market regulations and protection schemes, which typically require a clear employer-employee relationship[9].

Second, Malaysia is a rapidly ageing society. While Malaysia has had a favourable demographic profile that provided a large working-age population that has been beneficial for economic growth, the country was estimated to have reached the tail end of the demographic dividend period in 2020. Malaysia's population has been ageing at a very high pace. In 2020, Malaysia has already become an "ageing nation", whereby more than 7% of the population is aged 65 and above. By 2044, the country is set to become an "aged nation" when those aged 65 and above exceed 14% of the total population. As the number of elderlies continues to rise, the old-age dependency ratio (the number of persons aged 65 and above compared with the working population aged 15 – 64) will also rise from 10.4% in 2020 to 21.7% in 2040[10]. Rapid ageing poses a challenge to Malaysia's socio-economic policies including those related to the labour market, income security post-working age, as well as health and old-age care.

[6] KRI (2018), Woo (2009)
[7] Nur Thuraya Sazali and Siti Aiysyah Tumin (2020)
[8] DOS (2016a)
[9] Hawati Abdul Hamid and Nur Thuraya Sazali (2020)
[10] World Bank (2020a)

Third, Malaysians are now living longer, yet not necessarily healthier. On average, a baby born in 2019 can expect to live up to 75 years old given prevailing conditions i.e. over a decade longer compared to newborns in 1970. However, 9.5 years of those years would be spent in poor health. Since 1990, Malaysia has recorded marginal improvements in healthy life expectancy, increasing from 62.8 years in 1990 to 65.5 years in 2019, but not large enough to reduce the number of years in poor health. High prevalence of non-communicable diseases such as heart disease, cancer and mental health problems are major contributors to this phenomenon[11].

Health problems are not limited to adults and elderlies. In 2019, one in five children 5 years and under are too short for their age (i.e. stunted). Meanwhile, one in three children under the age of 18 is overweight or obese, thus placing Malaysian children among the most obese in Southeast Asia[12]. Beyond that, the Covid-19 pandemic is reversing decades of accomplishments in health. These problems coupled with ageing population mean that the demand for health services will continue to rise, putting pressure on the nation's health sector.

Box 1.1: Framework for Social Protection

The definition of social protection varies across different schools of thought, organisations and countries as interpretations have evolved over time. Based on definitions adopted by international agencies (Table 1.1), it can be surmised that the objectives of social protection are toward addressing and mitigating risks, emphasising protection from falling into poverty and deprivations.

Towards achieving these ends, social protection policies generally strive to ensure basic income security for all, universal access to basic needs and enhancing people's capability to be productive and resilient to vulnerabilities. More recently, an emerging new dimension in social protection involves transformative solutions that intend to provide incentives for the society to develop altogether, not only to alleviate poverty, but also to provide a decent and sustainable living for all.

Social protection tools include a combination of social insurance (i.e. contributory forms of social provisioning), social assistance (i.e. distribution of transfers by the state often funded by public resources) as well provision of social services and basic amenities such as health, education and water (Figure 1.1)

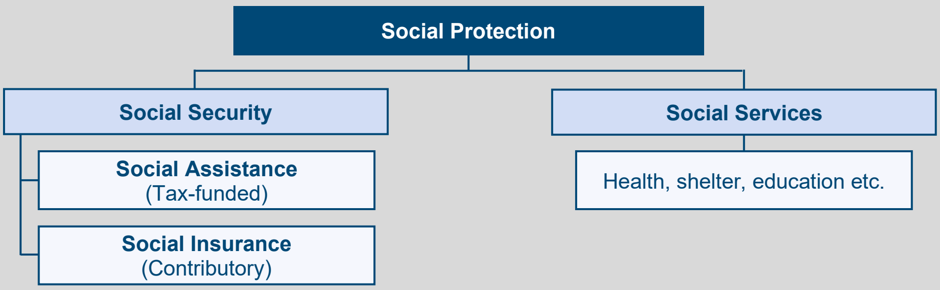
[11] KRI (2020a)
[12] Jarud Romadan Khalidi and Tan Zhai Gen (2020)

Table 1.1: Key definitions of social protection

Agencies	Definitions
United Nations Economic and Social Council	Social protection is a set of public and private policies and programmes undertaken by societies in response to various contingencies to offset the absence or substantial reduction of income from work, to provide assistance for families with children as well as provide people with healthcare and housing.
International Labour Organization	Social protection is the set of public measures that a society provides for its members to protect them against economic and social distress caused by the absence or a substantial reduction of income from work as a result of various contingencies (sickness, maternity, employment injury, unemployment, invalidity, old age or death of the breadwinner), the provision of health care and the provision of benefits for families with children."
World Bank	Social protection consists of a collection of public measures intended to assist individuals, households and communities in managing risks in order to reduce vulnerability, improve consumption smoothing, and enhance equity while contributing to economic development in a participatory manner.
Asian Development Bank	Social protection is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income.

Source: UN (2000), ILO (2003a), World Bank (1999), ADB (2001)

Figure 1.1: Social protection components



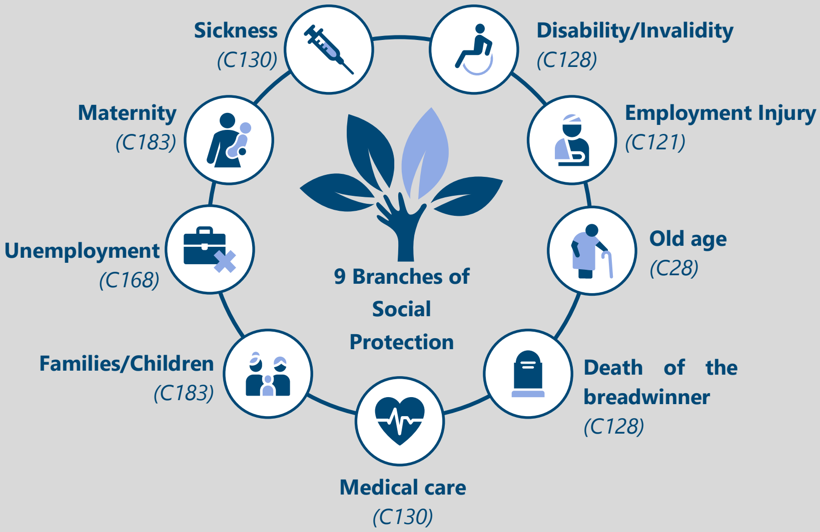
Source: Adapted from Development Pathways (2020)

Nine branches of minimum standard in social protection

The ILO has developed a series of international standards that set out a framework for social protection to guide the development of policies for nations across the world. As an overarching framework, the Social Security (Minimum Standards) Convention, 1952 (No. 102)[13] outlines minimum standards to guide the development of benefit schemes and social security systems, based on good practices from all regions of the world. It outlines nine core risk areas that potentially can reduce one's welfare, either due to a loss of income or an increase in demand for income (Figure 1.2). The nine risks areas include (1) sickness, (2) maternity, (3) employment injury, (4) unemployment, (5) invalidity, (6) survivorship i.e. death of breadwinner, (7) old age, (8) healthcare and (9) family and children. Under each of these nine risk areas, the ILO has formulated further detailed conventions.

[13] ILO (1952)

Figure 1.2: Nine key branches of social protection as guided by ILO Convention No. 102



Source: KRI illustration

The ILO's Social Protection Floors Recommendation, 2012 (No. 202)[14] complements existing social protection standards by further guiding nations in guaranteeing at least a basic level of social protection for all. This entails the establishment of a nationally defined "social protection floor", above which every individual's basic needs to live at a minimum acceptable standard are met. The floor should comprise at least the following: (1) access to essential health care, including maternity care; (2) basic income security for children, providing access to nutrition, education, care and any other necessary goods and services; (3) basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; (4) basic income security for older persons.

Three elements of social protection

Social protection intervention measures typically entail three elements namely protective, preventive and promotive (3Ps). These can also represent the evolution of social protection as society progresses[15].

Protective measures are intended to provide relief for individuals who have fallen below what is considered a socially-acceptable minimum standard of living (i.e. the social protection floor). Reliefs are often provided through welfare assistance in the form of income and consumption transfers as well as free access to basic amenities and social services. Protective measures are particularly important for countries at an early stage of development when poverty rates are high as the fundamental aim is to ensure people live at a least above the minimum living standard.

[14] ILO (2012)
[15] Devereux and Sabates-Wheeler (2004)

Preventive measures represent the forward-looking approach that serves to avert the risk of falling below the floor due contingencies and livelihood shocks. Preventive measures, often provided in the form of insurance, is grounded by the solidarity value in which society as a whole standing together and pool resources in coping with contingencies. As countries develop, social protection typically evolves from primarily serving a protective function aimed at ensuring a minimum living standard to a more “proactive” function aimed at mitigating the risks of falling into poverty and squalor.

Promotive measures focus on investment for individual’s human development. The measures are designed to enhance productivity and build resilience of the population to safeguard against potential vulnerabilities i.e. “enhancing their capacity to protect themselves against hazards and interruption or loss of income”[16] and “empower(s) them to adjust to changes in the economy and in the labour market”[17]. Promotive measures include initiatives aimed at breaking the cycle of poverty and promoting upward social mobility by enhancing capabilities through a range of empowerment programmes such as skills development and early childhood education. Fundamentally, the goals of the 3P measures are to promote poverty reduction and sustainable development.

1.2 Objective and Scope of the Report

The aim of this report is to examine key trends in the context of social protection in Malaysia and to recommend a set of strategic policies in addressing the challenges and mitigating the emerging risks. For a cohesive social protection system, this report advocates for a life cycle approach that strives to ensure that the entire population could overcome social and economic risks throughout their lifetime. The recommendations hinge upon a socially acceptable standard of living to ensure a “social protection floor” for everyone and subsequently to continuously deliver the protective, preventive and promotive strategies sustainably.

This report encompasses seven chapters. This chapter has briefly outlined the theoretical framework and approaches to social protection as the foundation to the discussions in ensuing chapters. Chapter 2 presents an overview of social protection in Malaysia, covering schemes designed as social assistance, social insurance and labour market interventions, and the responsible institutions. This is followed by a general discussion of the overarching issues and challenges faced, in terms of coverage and adequacy of social protection. These discussions set the foundational basis of establishing a social protection system that is more coherent and inclusive.

[16] ILO (2003b)
[17] ADB (2001)

The succeeding three chapters are organised based on the proposed life cycle approach by classifying the population into three broad phases of life: childhood, working age and old age. Chapter 3 focuses on the population before entering the working age namely protection for children and the associated family related risks. Childhood is considered as an inherently vulnerable stage in life as children are not able to provide for themselves and highly dependent on others to meet their basic needs. Chapter 4 discusses the challenges and gaps in the labour market and highlights measures to build resilience and mitigate contingency risks of the working-age population, including those entering, residing and outside the labour market. Chapter 5 examines the social protection needs of the post-working age population taking into account the gaps in terms of coverage and adequacy during old age amid Malaysia rapid ageing scenario.

Chapter 6 ties all the recommendations presented in the preceding chapters and proposes some institutional arrangements in delivering the services effectively. Chapter 7 concludes the report, highlighting the potential of expanding social protection schemes beyond the minimum standards.

Overall, it is important to highlight that this report focuses on ensuring an inclusive provision of basic social security for everyone (as illustrated in the left-hand side of Figure 1.1 in Box 1.1). We acknowledge that social protection also encompasses the provision of social services and basic amenities such as shelter, health, education, water and sanitation (right-hand side of Figure 1.1). The provision of social services is undeniably a critical component of social protection. This is addressed separately from this report as they are extensive and cross-cutting issues in the context of social protection from cradle to grave. Discussions on housing are already extensively covered in KRI's work and remain a key area of research[18]. The provision of health services in the context of social protection will be explored in a forthcoming publication. Likewise, education and other social services in the context of social protection remains KRI's future research agenda.

[18] For example, see KRI (2015), Suraya Ismail et al. (2019)

CHAPTER

02

CHAPTER 2

OVERVIEW OF SOCIAL PROTECTION IN MALAYSIA

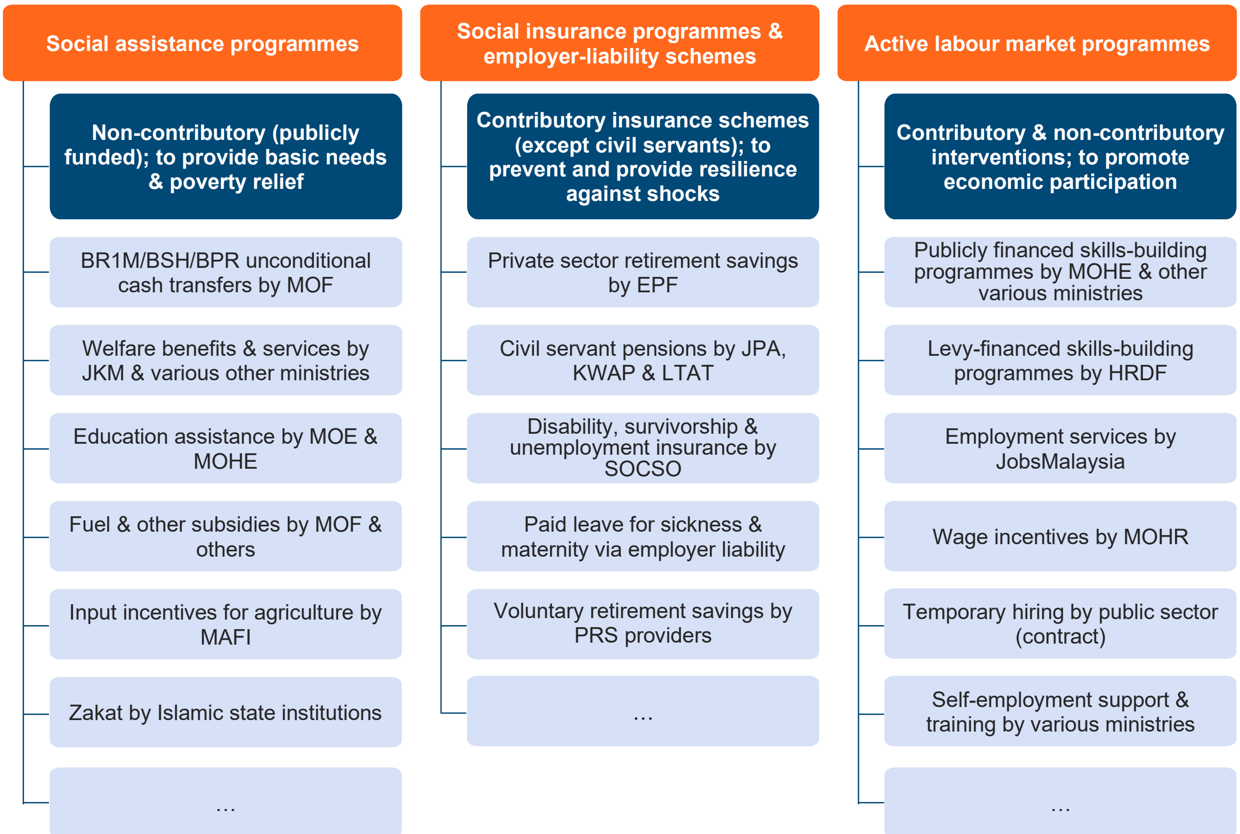
Our Development Plan is national in character, national in intent and in scope. We carry out development in accordance with priorities because it is our intention first and foremost to give all our people of all races wherever they live the basic amenities of life and to raise their standard of living so that they can live as decent, civilized human beings.

Tun Abdul Razak Hussein (1964)[19]

2.1 Social Protection Schemes in Malaysia

Social protection in Malaysia consists of various initiatives that can broadly be categorised as either social assistance, social insurance, employer-liability or active labour market programmes (Figure 2.1).

Figure 2.1: Social protection in Malaysia, by category



Note: List of programmes is not exhaustive
Source: Adapted from World Bank (2020c)

[19] Cited in Abdul Rahman Abdul Aziz (2014)

Social assistance refers to non-contributory programmes that require no direct contribution from beneficiaries (or their employers), as they are instead publicly funded through taxes or other government revenues[20]. Meanwhile, social insurance mainly encompasses contributory schemes that work through an insurance mechanism, entailing contributions by beneficiaries and the notion of a guarantee, where benefits are paid exclusively to those persons affected by the occurrence of clearly-defined contingencies. Alongside social insurance schemes are employer-liability schemes that are likewise backed by legislation or contract law, where the costs of provisions are borne by employers. Lastly, there are also active labour market programmes, which are designed to promote economic participation and have been key given the emerging developmental aspects of social protection.

In Malaysia, social assistance schemes include a wide range of programmes administered and funded by various federal government agencies, state governments and non-governmental organisations (NGOs). For federal programmes, the largest social assistance scheme in more recent years is Bantuan Rakyat 1 Malaysia (BR1M), an unconditional cash transfer programme for households in the bottom 40% of the income distribution (B40) introduced in 2012. BR1M has since been revised and rebranded as Bantuan Sara Hidup (BSH) in 2018 and later as Bantuan Prihatin Rakyat (BPR) for 2021. In addition, there are also various welfare benefits and services provided by the Department of Social Welfare (Jabatan Kebajikan Masyarakat, JKM), primarily for specific vulnerable groups such as poor families, poor elders and the disabled. There are also numerous education-related programmes offered by the Ministry of Education (MOE) and various others to provide support, either in cash or in-kind, to students in school. Subsidies have also been a key component of Malaysia's social assistance, including consumption subsidies such as for fuel and food items. Fuel subsidies in particular were the largest component of social assistance spending in Malaysia prior to its rationalisation in the early 2010s and subsequent introduction of BR1M/BSH. Other types of subsidies also exist as incentives for various actors across the production value chain, such as agricultural input subsidies for fertiliser and seeds by the Ministry of Agriculture and Food Industries (MAFI) and replanting incentives by Ministry of Rural Development (Kementerian Pembangunan Luar Bandar, KPLB).

In terms of social insurance in Malaysia, these include various statutory schemes provided by several government agencies[21]. For old-age income security, there is the Employees Provident Fund (EPF) retirement savings scheme, which is a contributory scheme that is compulsory for private sector and non-pensionable public sector employees[22]. EPF enrolment is also available for the self-employed, workers in the informal sector, foreign workers and unpaid homemakers, but at a voluntary basis. For the public sector, employees who opt for the government pension scheme are entitled to the non-contributory pension upon retirement. Essentially, this scheme is a 'pay as you go' system that is financed annually from government revenue. Given the issues of its sustainability, the Public Service Pension Fund (Kumpulan Wang Persaraan, KWAP) was established to work towards financing the pension liability. Lastly, there is also the Armed Forces Board Fund (Lembaga Tabung Angkatan Tentera, LTAT) for the Malaysian Armed Forces, which is a compulsory contributory scheme.

[20] In Malaysia, fiscal guidelines require that operating expenditure (which includes subsidies and social assistance) be financed by revenue, whilst borrowings are only for development expenditure. Source: MOF (2018)
[21] For greater detail on the existing social insurance and legislated provisions for the working age and older adults, including their limitations, refer to Chapter 4 and Chapter 5, respectively.
[22] EPF (2016b), EPF (2018)

For working-age related risks, the Social Security Organisation (SOCSO) provides protection in the form of cash benefits against unemployment, work injury, invalidity/disability, survivorship, sickness and medical care[23]. Registration with SOCSO is compulsory for employees as classified under the Employees Social Security Act 1969, and voluntary for the self-employed under the Self-employment Social Security Act 2017 (except for the passenger transport sector where workers need to be registered with SOCSO to apply for an e-hailing license). Employer-liability schemes, whilst not considered as social insurance, are placed under the same pillar as they are similarly back by legislation and operate under the notion of a guarantee given the occurrence of a risk. They are provided for formal and public sector employees, and include paid leave for sickness and maternity, entitling them to their full salaries paid by their employers.

In the third category of social protection initiatives in Malaysia, active labour market programmes encompass various training and entrepreneurial programmes, provided by agencies such the Human Resource Development Fund (HRDF) and other ministries such as the Ministry of Youth and Sports (Kementerian Belia dan Sukan, KBS), the Ministry of Human Resource (MOHR) and the Ministry of Higher Education (MOHE). Other measures also exist, some of which can be categorised as social assistance (particularly in Malaysia's fiscal item classification), with schemes such as MAFI's input subsidies and incentives for farmers.

2.2 Overarching Issues and Challenges

2.2.1. Social insurance and legislated provisions

Given the multiplicity of social protection initiatives in Malaysia, it is important to recognise that legislative frameworks are essential in anchoring social protection systems in human rights[24]. In Malaysia, these legislations are primarily limited to contributory social insurance schemes and other employer-liability provisions afforded by labour and contract laws.

However, among these statutory provisions, coverage is limited in terms of the scope of risks covered, the extent of the population protected and the adequacy of benefits provided. The existing legislated provisions in Malaysia for each of the major branches of social protection risks areas, as prescribed by ILO Convention No. 102, are outlined in Table 2.1.

Incomplete protection against core risks

The first notable limitation of statutory social protection in Malaysia is the lack of any provision of benefits for child and family risks. This results in families and children having to seek social assistance measures without any legal foundation, namely from government bodies or NGOs, but these available schemes are only means-tested and intended for the low-income population. The lack of any legal or universal social protection provision for children in Malaysia implies a limited upholding of children's entitlements, as the United Nations Convention on the Rights of the Child (UNCRC) has recognised children's rights to social security. Further issues related to social protection for children are discussed in Chapter 3.

[23] SOCSO (n.d.-g)
[24] ILO (2017d)

Table 2.1: Statutory social protection schemes in Malaysia, by risk

Risk	Statutory provisions
1. Child & family	Not available
2. Maternity	Employment Act 1955
3. Unemployment	Employment Act 1955, Employment Insurance System Act 2017
4. Employment injury	Employee's Social Security Act (ESSA) 1969, Self-employment Social Security Act (SESSA) 2017, Workmen Compensation Act 1952
5. Disability/invalidity	ESSA 1969, SESSA 2017
6. Survival/death	ESSA 1969, SESSA 2017
7. Old age	EPF Act 1991, KWAP Act 2007, Tabung Angkatan Tentera Act 1973, Article 147 of the Constitution, Capital Markets and Services Act 2007
8. Sickness	ESSA 1969, SESSA 2017, Employment Act 1955
9. Medical care	Fees Act 1951

Note: While civil servants are not covered by the Employment Act 1955, they have similar protection for work-related injury under the Ex-Gratia Bencana Kerja scheme. The Fees Act 1951 outlines that public healthcare fees for Malaysian citizens are subsidised
Source: KRI compilation

Limited population coverage and inadequacy

There also population coverage gaps within other risk areas faced by the working-age and old-age population, despite the existence of some legal provisions. These are discussed in length in subsequent chapters (see Chapter 4 and Chapter 5) but generally this is because the schemes are limited to labour law provisions, catering primarily to those in standard employment arrangements. The limited legal scope thus has large implications on the effective coverage of social protection, as many are then left legally excluded and unprotected. This includes those who do not participate in the labour force such as homemakers, as well as many workers who are self-employed and in the informal sector. While new schemes have been established for self-employed workers, they remain undersubscribed[25] due to issues such as limited awareness, lack of financial capability to contribute, and perhaps because it is only compulsory for those in the passenger transportation sector, while protection against certain risks such as unemployment are not provided.

There are also further ramifications for workers depending on whether they are employed in the private or public sector, or even with the Malaysian Armed Forces, as each sector entails unique old-age retirement provisions. Overall, these characteristics have implications on the portability and cohesiveness of social protection, as workers can transition between different sectors—especially in the current everchanging nature of work of increasing informality[26]. This also limits the adequacy of social protection, most notably with old-age retirement savings[27]—and this is further reinforced by lacking to non-existing supplementary contribution from government revenue to ensure greater adequacy[28].

[25] The Star (2021a), The Star (2020b), TMR (2020b)
[26] KRI (2020b)
[27] EPF (2020), World Bank (2020c), KRI (2016)
[28] Top-up contributions from government are available for EPF retirement savings under the i-Suri and i-Saraan scheme, offering up to RM480 per year for housewives under i-Suri and RM250 per year for self-employed workers under i-Saraan. For employment injury risks to date, SOCSO has recently introduced subsidised contributions for one year for delivery riders under SESSA 2017.

2.2.2. Social assistance and subsidies

The number of schemes have proliferated but value of assistance is increasingly spread thin

While social insurance and legislated provisions in Malaysia remain limited, various social assistance programmes and subsidies exist primarily for the needs of the poor and low-income population. In this respect, it can be argued that there has been an overreliance on social assistance mechanisms. However, the landscape of social assistance is not without its challenges, as it remains fragmented and limited in its coverage and adequacy of benefits.

By 2020, the number of federal social assistance and subsidy programmes increased to 137 from 95 in 2012 (Figure 2.2)[29]. This is before even accounting for the various new ad-hoc schemes introduced in 2020 and 2021 to combat the socio-economic effects of Covid-19. Despite this proliferation, the total spending had not increased and instead dropped after a peak in 2012 (Figure 2.3).

Figure 2.2: Number of social assistance programmes, 2012 – 2020

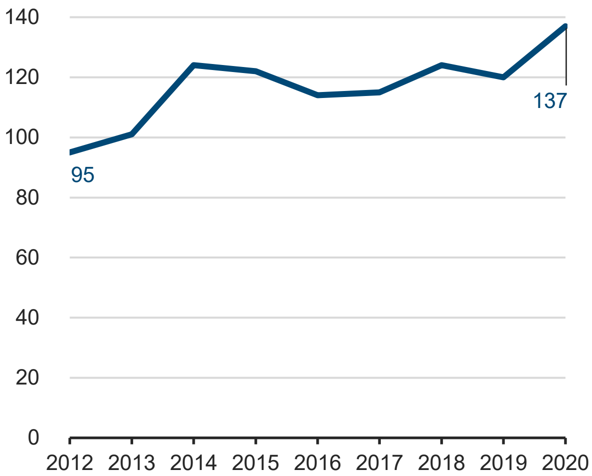
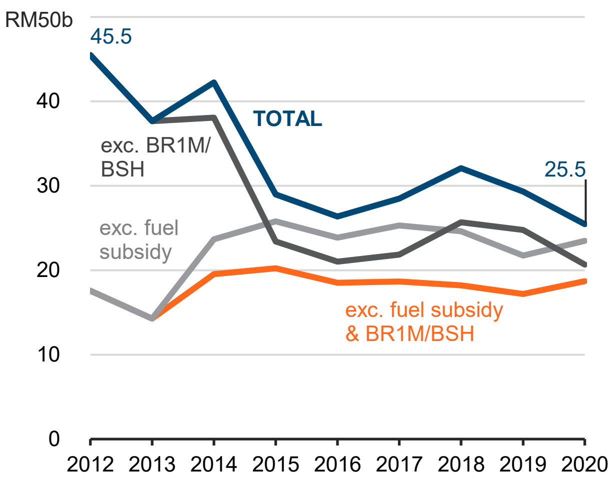


Figure 2.3: Fiscal spending on social assistance, 2012 – 2020



Note: The above refers to federal government programmes and excludes programmes under the Covid-19 stimulus packages
Source: MOF (2021a), KRI calculations

Given that fuel subsidies made up a large portion of overall spending, the decrease in total spending was due to the rationalisation of fuel subsidies on the back of high oil prices in 2012. While BR1M was introduced in 2014 to counteract the rationalisation of fuel subsidies and its effects on cost of living, total spending had not returned to 2012 to 2014 levels, remaining at low levels relative to most upper-middle income countries and even the average for low-income countries[30]. In fact, spending for programmes other than fuel subsidies and BR1M/BSH remained largely the same as far as 2008 despite the increasing number of programmes.

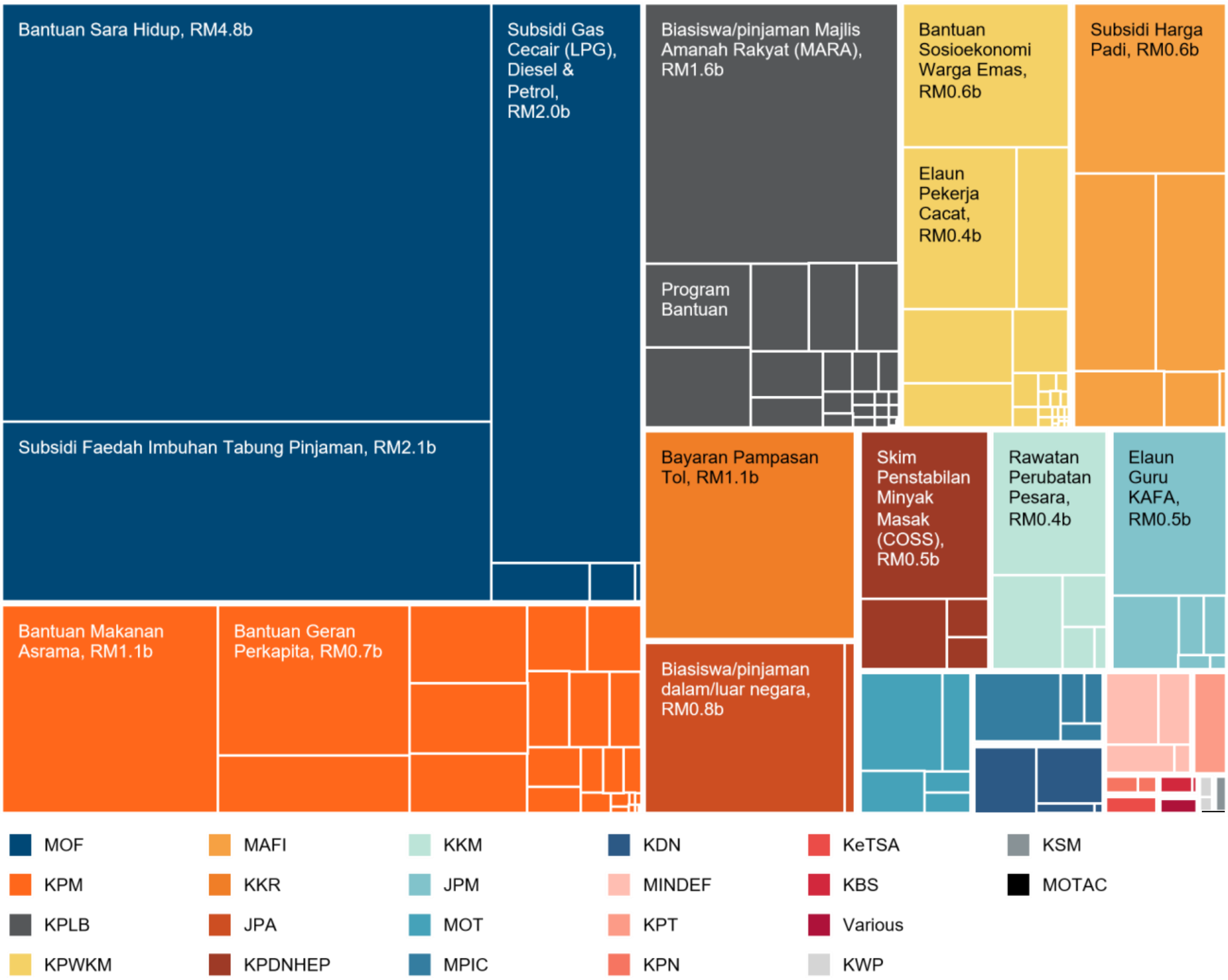
[29] Only federal programmes that have incurred fiscal expenditures for a given year are counted. These programmes are all classified under subsidies and social assistance by MOF and may not necessarily fit under all definitions of social protection as exemplified in Box 1.1. The number of programmes should be taken as an estimate given that a few programmes are grouped together and counted as one for certain years in the dataset. See Choong and Adam Firouz (2020) for the list of subsidy and social programmes from 2006 to 2018 as an illustration of what types of schemes are available in Malaysia.

[30] World Bank (2021a)

The proliferation of programmes that is not accompanied with greater spending suggests greater fragmentation, diseconomies of scale and overlaps between programmes. This is compounded by the fact that these programmes are administered by various ministries and agencies (Figure 2.4). Among the ministries with the largest allocations are the Ministry of Finance (MOF) with its administration of BR1M/BSH and fuel subsidies, the MOE with various education-related assistance and the KPLB.

Figure 2.4: Fiscal spending on social assistance, by programme and ministry, 2020

Total spending = RM25.5b



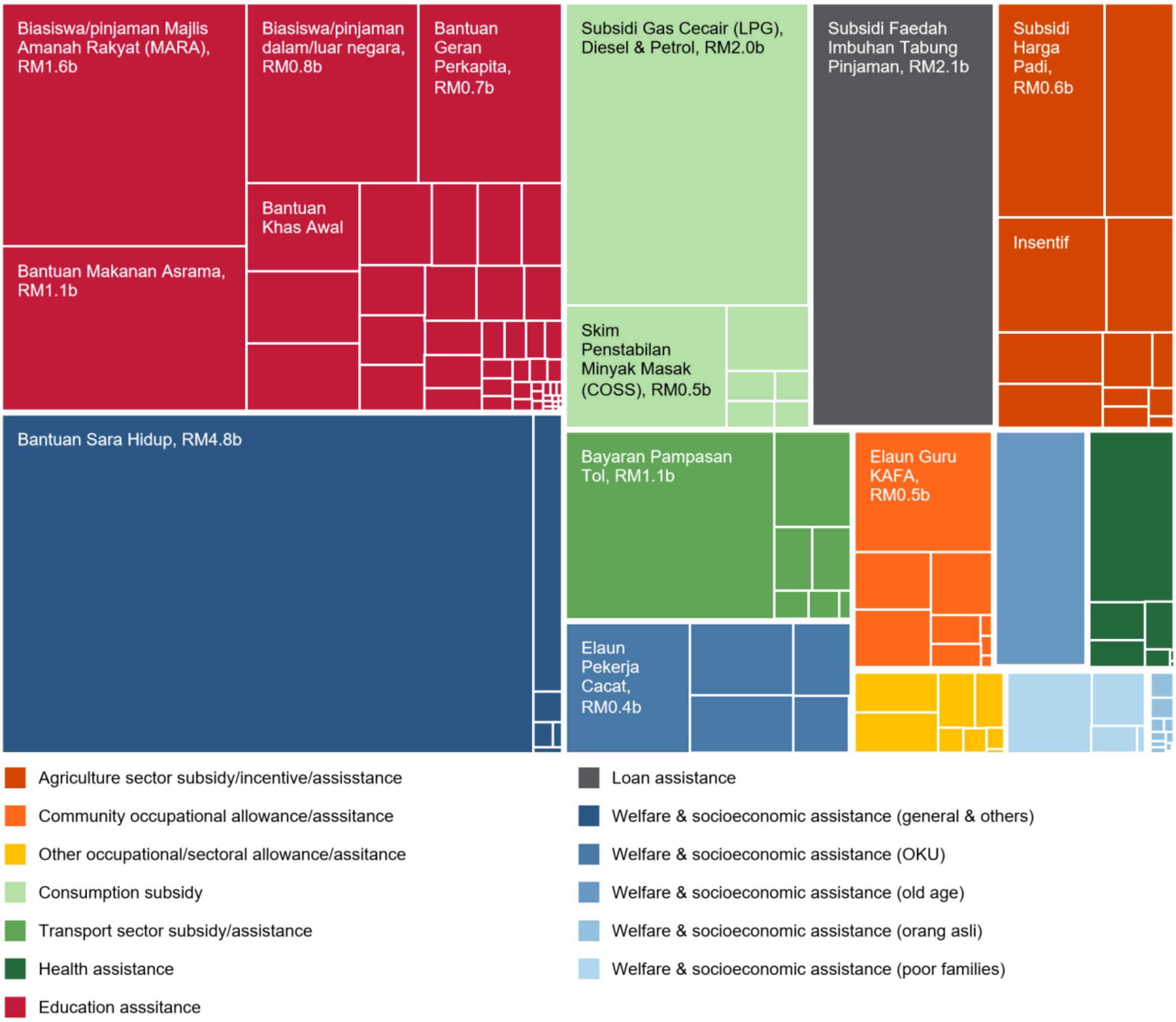
Note: The above refers to federal government programmes and excludes programmes under the Covid-19 stimulus packages
Source: MOF (2021a), KRI calculations

Fragmentation of schemes driven by overly narrow targeting approaches…

Furthermore, many programmes incur very little fiscal expenditures as a reflection of their very specific target groups and objectives, as illustrated further in Figure 2.5. For example, among welfare assistance alone, different schemes exist for different target groups such as poor families, disabled persons and the indigenous population. For each of these target groups, there exist further various separate schemes for very unique types of assistance and mechanisms, such as for food baskets, school bus transportation, school feeding and so forth.

Figure 2.5: Fiscal spending on social assistance, by programme and category, 2020

Total spending = RM25.5b

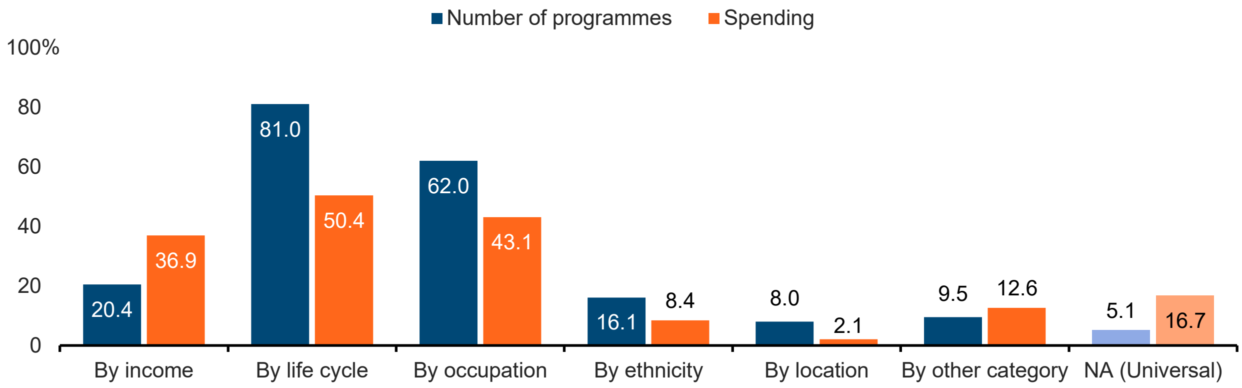


Note: The above refers to federal government programmes and excludes programmes under the Covid-19 stimulus packages
Source: MOF (2021a), KRI calculations

Few programmes are truly universal as only 5% of all programmes (about 7 programmes) in 2020 did not entail specific targeting mechanisms (Figure 2.6)—these comprise mainly of untargeted consumption and transport subsidies. The majority of programmes combine multiple forms of targeting and means-tests, in line with the government's main approach of providing assistance to only those they deem to be in need, a dominant approach ever since Malaysia's independence. Among the targeting mechanisms, most are intended to benefit specific age or life cycle groups, followed by specific occupational groups (including students)[31]. Fewer programmes entail income thresholds, but these programmes incurred much higher spending relative to how many they are, attributed largely to BR1M/BSH. This is in contrast with targeting by life cycle or occupation, which comprise a high portion of the number of all programmes but relatively less of overall total spending.

[31] See Choong and Adam Firouz (2020) for a detailed explanation on how social assistance programmes are classified according to their targeting mechanisms.

Figure 2.6: Share of number of programmes and fiscal spending on social assistance from their respective total, by targeting mechanism, 2020



Note: The percentages do not add up to 100% given that programmes combine multiple forms of targeting. The above refers to federal government programmes and excludes programmes under the Covid-19 stimulus packages
Source: MOF (2021a), KRI calculations

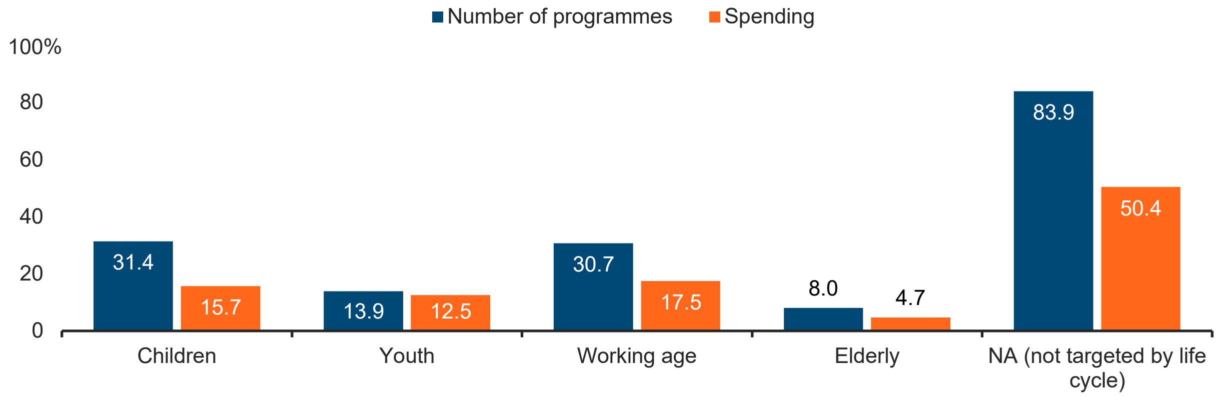
…limiting adequacy of protection and worsening administrative burden

While incorporating targeting mechanisms for social assistance may be justified on the basis of prioritising groups who need help most in view of limited fiscal space, this practice can place undue administrative costs and further limit population coverage, missing out even the vulnerable and in need[32]. Furthermore, with the proliferation of programmes in Malaysia that are mostly narrowly targeted and without a commensurate increase in spending, these trends have indirect implications on the adequacy of benefits provided by existing programmes. For social assistance at the aggregate level, the average monthly social transfer amounted to only just RM34 per person in the bottom 20% of households in 2016[33]. Low benefit levels in turn translate to modest impacts on poverty and inequality reduction[34].

Low spending and adequacy are further seen across the different target groups. Between the life cycle groups[35], most programmes in 2020 were targeted to children and the working age, but these programmes comprised a smaller portion of total spending, comparable to spending for programmes for youth (Figure 2.7). Meanwhile, programmes for elders were far fewer in number and in spending. Nonetheless, spending levels across all life cycle groups is shown to be low given that spending levels for each group in 2020 had remained comparable or even less than the years prior (Figure 2.9), even though the number of programmes grew (Figure 2.8). This further illustrates the extent of increasing diseconomies of scale and fragmentation.

[32] Michael, Ingrid, and Kenneth (2006)
[33] World Bank (2021a)
[34] World Bank (2021a), Choong and Adam Firouz (2020)
[35] Classifying programmes by life cycle target is based on a loose demarcation not subject to specific age ranges. This is because most schemes do not impose specific age limits for eligibility but naturally intend to assist certain age groups through categorical targeting (e.g. programmes for primary school students imply targeting children). Generally, programmes for children have been defined as schemes for individuals in secondary schools and below, while youth programmes are for individuals in post-secondary education and those transitioning to or in their early years of employment. Working-age programmes are for any individuals in employment. Lastly, old-age programmes are those that address old-age risks and assist those past working life.

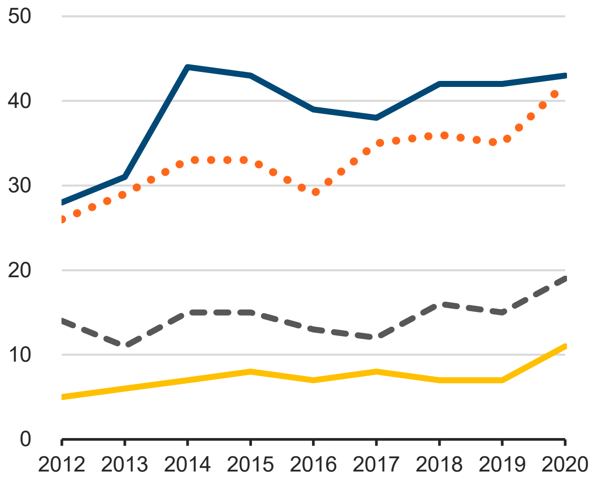
Figure 2.7: Share of number of programmes and fiscal spending on social assistance from their respective total, by life cycle target, 2020

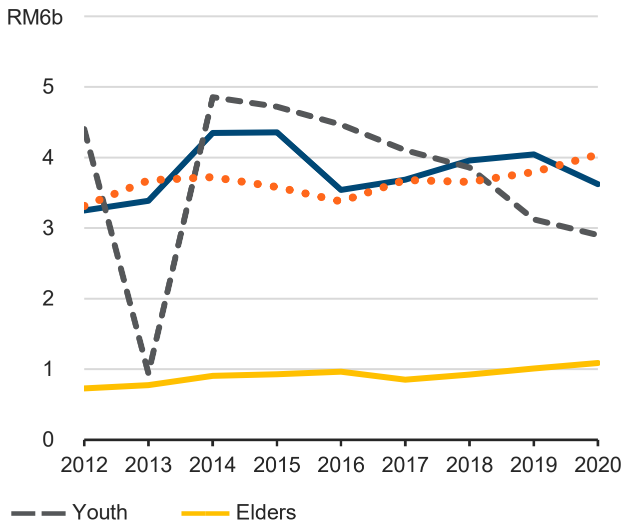


Note: The percentages do not add up to 100% given that some programmes target more than one age group. The above refers to federal government programmes and excludes programmes under the Covid-19 stimulus packages
Source: MOF (2021a), KRI calculations

Figure 2.8: Number of social assistance programmes, by life cycle target, 2012 – 2020

Figure 2.9: Fiscal spending on social assistance, by life cycle target, 2012 – 2020





Note: The above refers to federal government programmes and excludes programmes under the Covid-19 stimulus packages
Source: MOF (2021a), KRI calculations

The coverage and adequacy for such life cycle groups are further limited seeing that many of these programmes are targeted further narrowly, as they combine additional targeting mechanisms and eligibility criteria such as income. This is particularly true for programmes intended for children and elders, as more than half of total spending for these two groups in 2020 were meant for specific income groups. For the working age, while the majority of programmes for this group have not entailed specific income requirements, these programmes instead target specific occupational groups typically deemed as vulnerable, such as agricultural workers who tend to occupy the lower income brackets in Malaysia. Adding to the complexity and burden of administration is the fact that many of these programmes in turn have specific objectives, mechanisms and conditions, rather than being provided as general unconditional cash transfers.

For children, the bulk of assistance has largely been for education-related purposes (Figure 2.10)—with some programmes even meant for children in specific educational institutions. The largest allocation has been attributed to MOE by a considerable margin. However, provisions for children's education are also made by KPLB and by others, such as Ministry of Defence (MINDEF) with schemes that benefit the children of veterans—illustrating some potential overlaps in schemes for children between the various ministries.

Furthermore, it can be seen that the multitude of schemes have varying transfer mechanisms (be it via grants, subsidies, direct cash or in-kind transfers) and target specific children groups (e.g. children in boarding schools, disabled children, poor children, etc.). Despite this proliferation that likely places undue administrative burden, general child benefits as recommended by the ILO under Convention No. 102 is lacking while care service provisions are also limited. The existing provisions, namely those provided by JKM[36], cater only to poor households, such Bantuan Kanak-kanak (BKK). The scheme (with an allocation of just RM192.7 million) benefited only 62,000 families in 2020, which is less than 1% of total Malaysian households, with an average monthly benefit of RM255 per household[37]. Thus, current provisions are limited and have arguably also not been facilitative in expanding the care sector—a raising concern given the increasing burden of care needs in dual-earner households[38], along with other pressing issues related to children in Malaysia such as malnutrition[39].

For the working age, a high number of schemes also exist, many of which intend to benefit specific workers in certain jobs (Figure 2.11). For example, while MAFI had the largest allocation in 2020 with their agricultural subsidies and incentives, similar schemes are also provided by Ministry of Plantation Industries and Commodities (MPIC) and the KPLB, thus exemplifying the fragmentation and overlaps of Malaysia social assistance for the working age.

For elders, Bantuan Warga Emas (BWE) by JKM is the programme with the highest allocation, at RM600 million in 2020 (Figure 2.12), but it is intended only for elders under the poverty line. In 2020, just less than 4% of old-aged individuals (aged 60 years and above) were recipients of the scheme, receiving a monthly amount of RM350[40]. It is further concerning that other social assistance schemes entail additional targeting/eligibility requirements other than income, such as retirees from specific occupations from the public sector, with many having little to do with ensuring sufficient old-age income for the general population. This is concerning given that old-age savings remain inadequate for many in Malaysia[41].

---

[36] JKM is under the Ministry of Women, Family and Community Development (Kementerian Pembangunan Wanita, Keluarga dan Masyarakat, KPWKM)

[37] MOF (2021a). This is based on an assistance value RM100 per child or a maximum of RM450 per family. However, Budget 2021 increased the value of assistance to RM150 per child aged seven to 18 years and RM200 per child aged six years and below, or a maximum of RM1,000 per family. The number of expected beneficiaries is also expected to increase considerably, although still limited to families below the poverty line. These changes follow the revision in the PLI measure. Source: PMO (2020)

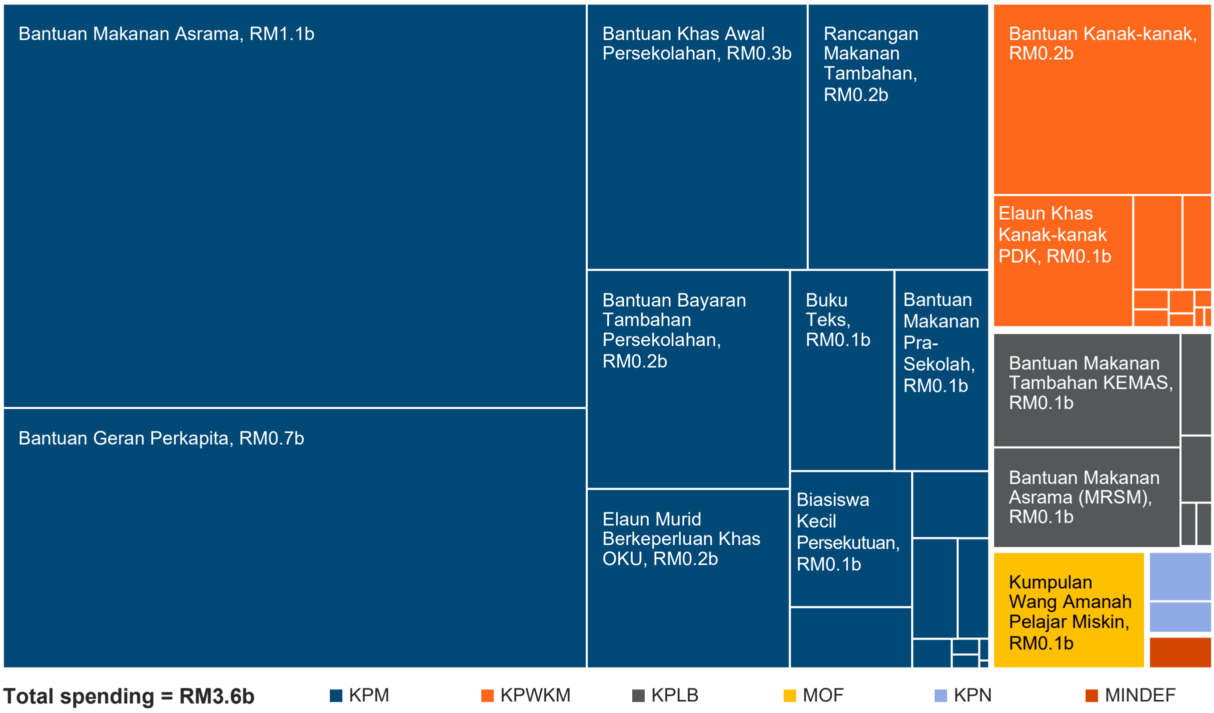
[38] KRI (2019)

[39] Jarud Romadan Khalidi and Tan Zhai Gen (2020)

[40] MOF (2021a)

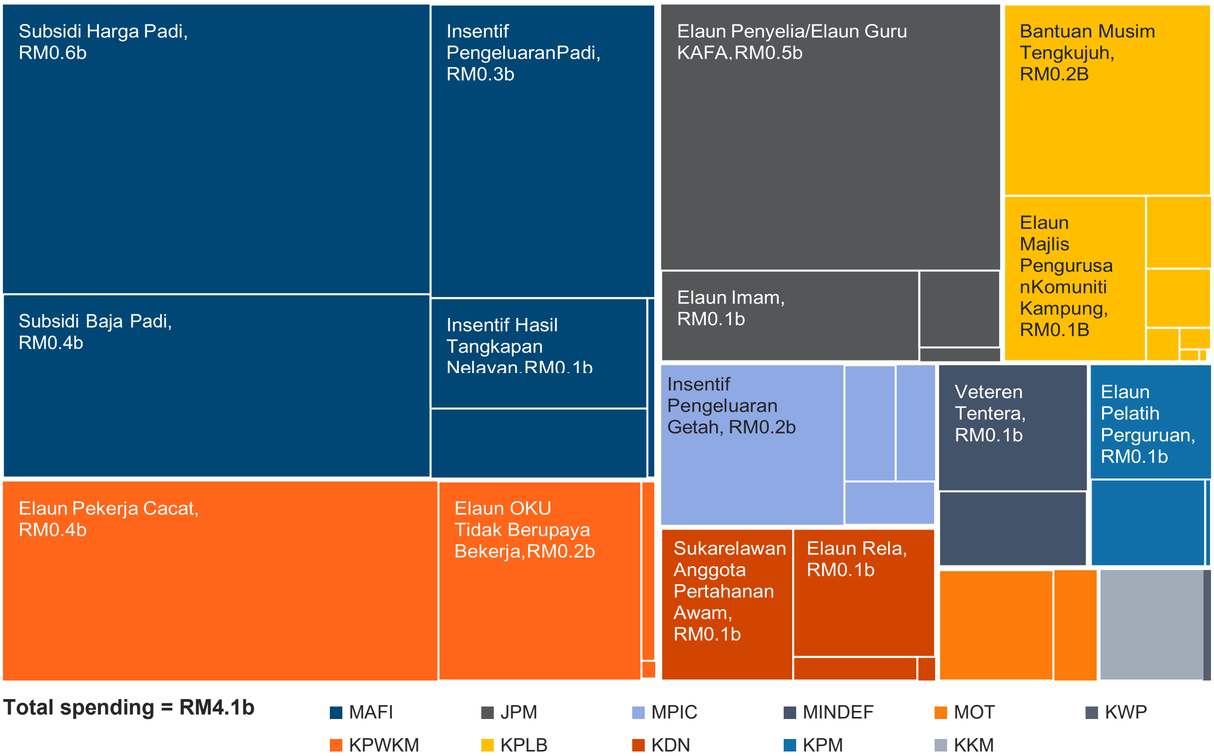
[41] See Chapter 5 for further discussion on issues related to old-age social protection.

Figure 2.10: Fiscal spending on social assistance for children, by programme and ministry, 2020



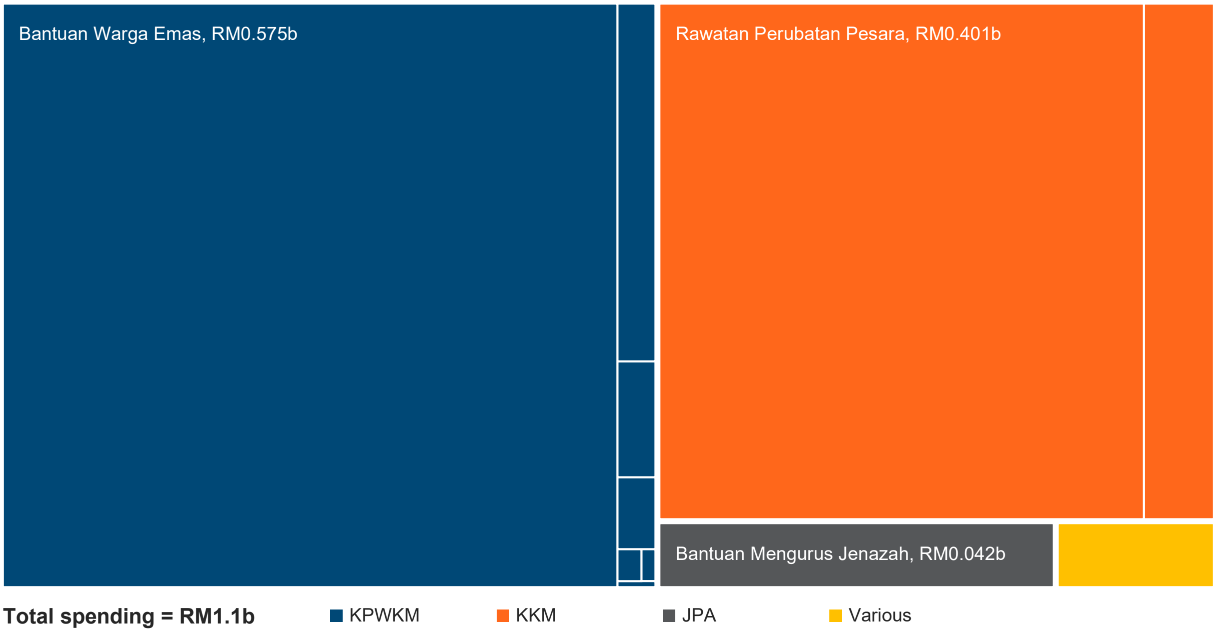
Note: The above refers to federal government programmes and excludes programmes under the Covid-19 stimulus packages
Source: MOF (2021a), KRI calculations

Figure 2.11: Fiscal spending on social assistance for working age, by programme and ministry, 2020



Note: The above refers to federal government programmes and excludes programmes under the Covid-19 stimulus packages
Source: MOF (2021a), KRI calculations

Figure 2.12: Fiscal spending on social assistance for old age, by programme and ministry, 2020



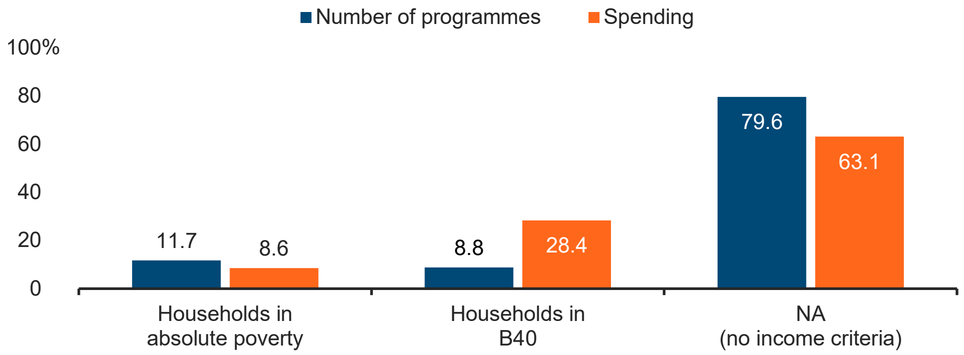
Note: The above refers to federal government programmes and excludes programmes under the Covid-19 stimulus packages
Source: MOF (2021a), KRI calculations

In terms of how social assistance is distributed between different income groups, schemes can broadly be categorised as targeting two income groups: those in poverty as defined by the poverty line income (PLI) and those in the B40. The B40 group is a fairly recent target in Malaysia's social assistance landscape, introduced as a much wider target relative to households in poverty. This came with the introduction of BR1M as an attempt to minimise the increased cost of living pressures following fuel subsidy rationalisation. The maximum household income threshold for assistance to the B40 is commonly set at around RM4,000[42]. Meanwhile, though the PLI was updated in mid-2020 thereby increasing the average value to RM2,208 in 2019 from RM980 in 2016[43], social assistance schemes in 2020 continued to use the older PLI for eligibility[44] The new PLI has only been operationalised by programmes starting in 2021.

Overall, there are a higher number of programmes targeting those in poverty than those in the B40, but these programmes incurred a smaller share of total spending in 2020 (Figure 2.13). In comparison, programmes targeted for the B40 incurred a much higher share of total spending relative to how many B40 programmes existed in 2020—attributed largely by BR1M/BSH. It was also higher relative to programmes targeting households in poverty—largely a given considering that the target group is larger by a multiple of one hundred, from about 0.4% of Malaysian households (the 2016 poverty rate using the previous methodology[45]) to 40%.

[42] This threshold has been used by programmes such as BR1M (starting in 2015) and BSH (in 2018 to 2020). However, the threshold for the B40 gross household income in 2019 was RM4,850, based on official statistics (DOS (2020a)). Nonetheless, BPR has increased its eligibility threshold to RM5,000.
[43] DOS (2020a)
[44] MOF (2021a)
[45] DOS (2020a)

Figure 2.13: Share of number of programmes and fiscal spending on social assistance from their respective total, by income group target, 2020



Note: The above refers to federal government programmes and excludes programmes under the Covid-19 stimulus packages
Source: MOF (2021a), KRI calculations

However, the historical trend of spending suggests that there is a need for greater spending to increase the adequacy of assistance, considering that the number of programmes for both income groups is overall higher in 2020 than in 2012 (Figure 2.14). For programmes targeting those in poverty, spending had remained stagnant largely because of the use of the old PLI that long needed an update in line with Malaysia's increasing living standards (Figure 2.15).

Figure 2.14: Number of social assistance programmes, by income group target, 2006 – 2020

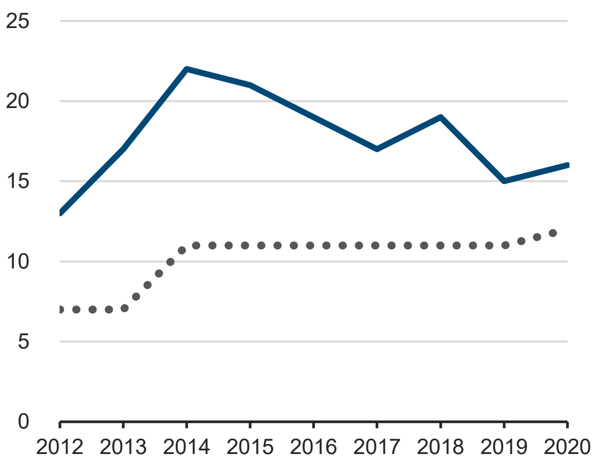
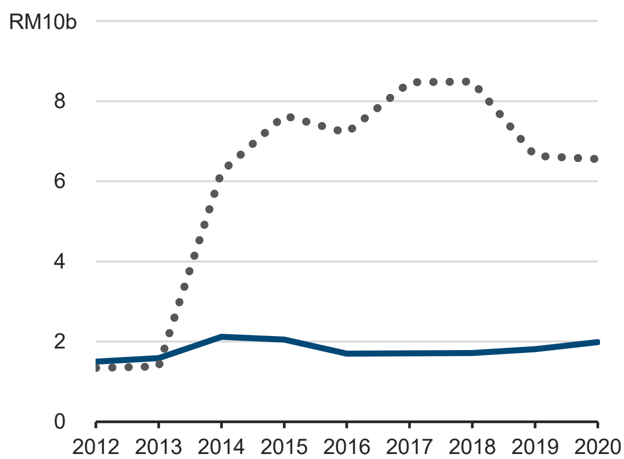


Figure 2.15: Fiscal spending on social assistance, by income group target, 2006 – 2020



Households in absolute poverty B40 households

Note: Data shown are estimates, given that programme classification is based programme characteristics in 2020. Programmes in 2020 that target the B40 may have targeted those in poverty in prior years. Therefore, the number of B40 programmes in the earlier years shown may be lower. Note: Data shown refers to federal government programmes and excludes programmes under the Covid-19 stimulus packages.
Source: MOF (2021a), KRI calculations

Meanwhile, spending for B40 programmes ballooned from RM1.4 billion in 2013 to RM6.2 billion in 2014 following the introduction of BR1M, and continued to increase up to RM8.5 billion in 2017 after the subsequent BR1M enhancements. However, spending dropped in the following years when BR1M was revised as BSH. Nonetheless, taken together, total spending for the lower income is indeed higher in 2020 than in 2012 with the introduction of B40 programmes, and is arguably a step closer towards greater population coverage as it moved beyond targeting only those in poverty. However, the adequacy of benefits remains limited as highlighted earlier, as is in part due to the increase in spending not being entirely proportionate to the increase in population coverage. While the shift from targeting poverty to the B40 implied an increase in coverage of about one hundred times, spending in total for income targeted programmes only went from RM2.84 billion in 2012 to RM8.4 billion in 2014 after BR1M was introduced—an increase of under three times.

Other issues also remain. Whilst the two income groups are the main categories of groups targeted within the income distribution, there is no standardised income targeting mechanism and procedure in practice[46]. This includes differences in data registries (i.e. eBantuan by JKM, eKasih by the Implementation Coordination Unit under the Prime Minister's Department (ICU PMD) and BR1M/BSH registry by MOF/Inland Revenue Board (Lembaga Hasil Dalam Negeri, LHDN)). There are also differences in the unit of targeting (i.e. household or individual), and eligibility verification methods[47]. There is also the lack of further adjustment to account for different household sizes. These issues reduce the equity and efficiency of Malaysia's social assistance programmes. Nonetheless, whatever the practices of income targeting are in Malaysia, there will be inevitable issues with income targeting, which puts a case for a more universal approach to social protection (see Box 2.1).

Box 2.1: Pitfalls of narrow poverty targeting

Against fiscal constraints, policies in Malaysia have strived to aid only the "deserving" poor. Despite the usefulness of poverty measures to understand the prevalence of poverty, standards used to measure poverty can be minimally defined such that they become obsolete over time and fall behind reasonable standards. Furthermore, they are extremely sensitive to subjective decisions in formulating the thresholds.

Thus, whatever the PLI is in Malaysia, households above the PLI may still be vulnerable, without income security nor decent living. In 2019, the official poverty rate was 5.6%, based on the 2019 revised methodology with an average household PLI of RM2,208 per month. However, relative poverty (defined as half the median income) is considerably higher at 16.9%, even though the relative poverty line is only RM728 higher at RM2,936. This exemplifies how many households are living just above the official absolute poverty line, prone to poverty if income shocks are to occur, such as losing a job or accidents.

[46] World Bank (2020c)

[47] For eKasih, eligibility is determined based on a questionnaire administered periodically. For BR1M/BSH, self-declaration and cross-validation against other databases is used. For eBantuan, a separate applicant questionnaire collects detailed information and home visits and other verification procedures are undertaken when eligibility is uncertain. Source: World Bank (2020c)

In recent years, the focus of welfare policies has shifted to the B40. However, the choice of the 40% cut-off point that delineates one as eligible to aid is even more arbitrary. A study by KRI on Malaysian household consumption[48] found that the bottom 20% of households are barely able to meet their basic needs, while only the top 30% exhibit some aspirational traits of more diverse 'middle-class' consumption. Households in the 50% middle income group often face spending constraints leading to various consumption trade-offs, especially if hit by unexpected circumstances. The hardship of the bottom 20% of households and the modest consumption of the middle 50% suggest that government welfare policies matter to at least the bottom 70% (B70), well beyond just the B40 and those living under the PLI.

2.3 Towards an Inclusive and Cohesive Life Cycle Social Protection System

While social protection is still seen by many as relief for the poor[49], poverty targeting alone is not sufficient to guide social protection policies. Poverty may be temporary, recurrent or persistent over longer periods. The relative and dynamic nature of poverty means that anyone can move in and out of poverty over time. This implies high costs of administering effective and equitable welfare programmes, a complication for a social protection paradigm that is fixated with a narrow targeting approach. Narrow poverty-targeting is also prone to inclusion and exclusion errors and its limitations often lead to failure in developing sustainable pre-emptive measures to prevent more from falling through the cracks now and in the future. At the same time, the current social protection ecosystem still fails to provide a basic floor for all including those in need.

It is imperative for Malaysia to gradually move from the charity-model (poverty targeting) into a more inclusive model that is forward looking in preventing poverty and addressing vulnerability. Instead of targeting poverty explicitly, we should shift our policy to a life cycle approach that is embedded with poverty mitigating mechanisms. The life cycle approach acknowledges that individuals are constantly exposed to various types of risks throughout their life span and the risks may vary from one phase of life to another. The risks can be idiosyncratic—occurring at an individual or community level (e.g. work injury, death of breadwinner); and/or systematic—affecting many communities or countries (e.g. pandemic, earthquake, flood). External factors stemming from economic and social development such as demographic and climate changes, economic crisis and social conflicts also can result in greater insecurity and vulnerability, potentially pushing people into poverty at any phase of their lives.

[48] Hawati Abdul Hamid, Ho, and Suraya Ismail (2019)
[49] Barrientos and Hulme (2008), World Bank (2015)

Furthermore, individuals' lives do not always follow a linear path of events: birth → education → work → marriage → family → retirement → death. Instead, life events can be cyclical in nature with education, work and family potentially re-occurring a few times throughout one's life. Some individuals could return to education after being retrenched; marry, divorce or re-start another family later in life. Some do not marry and never have children, or marry but never join the workforce. Longer life expectancies have made elders continue to work beyond mandatory retirement age either for subsistence or out of own willingness. Vulnerability can be perpetuated throughout the life phases with the condition in the earlier phases serving as a strong predictor of a person's standing in following phases. In the context of family life, there can also be a link between the economic standing of parents (breadwinners) and children's life outcomes, with implications on intergenerational social mobility.

The above instances demonstrate the role of social protection that targets core risk areas such as disability, sickness, unemployment, childhood and old age, hence ensuring everyone is able to overcome any catastrophic threats they may face throughout their lifetime. During childhood, social protection plays a key role as investment to advance every child's potential by providing the conditions and capabilities to live a decent life. This investment prepares children to undertake productive work when they reach working age, rather than trying to address their problems reactively in later stage. Examples include maternity, nutritional and health protections, child benefit and care allowance, and education.

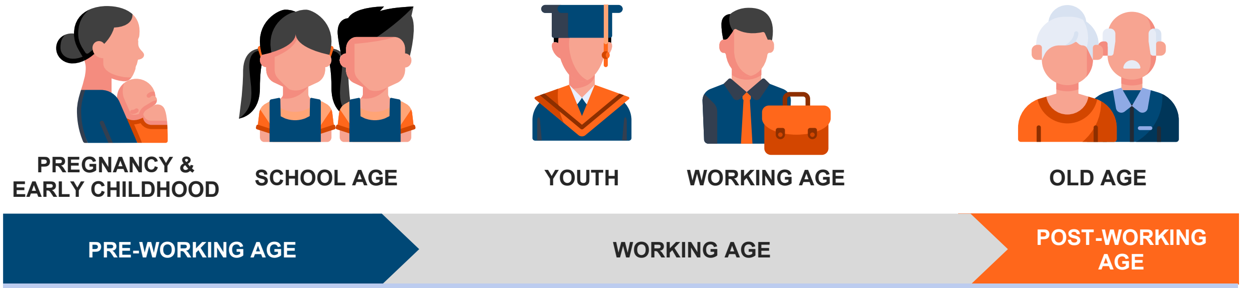
During the working age, social protection has multiple functions in promoting decent work for all workers regardless in the formal or informal economy. According to the ILO's Decent Work Agenda[50], this entails opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organise and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men. Examples include benefits for training, unemployment, injury and invalidity.

During old age, the critical function of social protection is to allow elders to live in dignity with at least a guaranteed basic income and/or access to essential goods and services, including food, shelter, health and care. At the same time, social protection such as survivor benefits serves to lessen the consequences of breadwinner death on survivors and dependents.

While Figure 2.16 depicts many life cycle risks and social protection needs at each stage of life, existing international frameworks discussed in Box 1.1 provide guidance and a valid policy roadmap to narrow things down. Given the proliferation of programmes of which many are small and narrowly targeted, there is room for consolidation and greater coordination for social protection system in Malaysia to be transformative.

[50] ILO (2002)

Figure 2.16: Life cycle risks and social protection needs



PRE-WORKING AGE	WORKING AGE	WORKING AGE	POST-WORKING AGE
LIFE CYCLE RISKS			
• Malnutrition • Loss of parent • Lack access to schooling • Child labour and abuse Additional for fetus/infant • Lack ante and postnatal care	School-to-work youth • Unemployment • No/lack working experience/skills	• Under/ unemployment • Injury • Disability • Inadequate wages • Excessive debt Additional for women • Pregnancy/ maternity • Nursing/ breastfeeding	• Inability to work • Frailty and sickness • Care needs
SOCIAL PROTECTION NEEDS			
• Nutrition and school feeding • Childcare and allowance • Orphan care • Child protection Additional for fetus/infant • Immunisation and healthcare	School-to-work youth • Skill training • Job search allowance • Apprenticeship	• Unemployment benefits • Job search services • Education and skill training Additional for women • Maternity leave and care • Medical care and nutrition during pregnancy	• Social/old-age pension • Medical and old-age care needs

Source: Adapted from Kidd et al. (2016)

While not all social assistance programmes necessarily have to be replaced in the short term, holistic assessments are needed to phase out or improve existing programmes, including on addressing how they can be better coordinated among implementing agencies but also with social insurance programmes. In the meantime, core schemes that target major life cycle risks can be introduced as social protection floors and these are explored in the subsequent chapters.

CHAPTER

03

CHAPTER 3

ESTABLISHING UNIVERSAL BASIC INCOME FOR CHILDREN

The best investment we can make is in childhood. It's an investment that yields remarkable results—not only in the lives of the world's children, especially those who are most vulnerable, but for the future we all share.

Save the Children (n.d.)

3.1 Introduction

Childhood is an important stage of one's life[51]. It is the period when foundational capabilities—from cognitive and linguistic gains to progress in emotional, moral and social capacities[52]—are developed. Unquestionably, the foundation laid has profound effects on children's development and their outcomes in adulthood.

Given the importance of this stage in life, this chapter presents arguments on why social security is essential in protecting children and promoting children's development. The chapter begins by discussing the rights of children to social security, followed by a situational analysis of the state of Malaysia's children and a review of child-related assistance in Malaysia. Based on the findings, this chapter proposes establishing universal basic income for children to create a social protection floor from the start of life.

3.2 The Rights of Children to Social Security

Children make up a significant portion of the Malaysian population. In 2021, children—defined as individuals aged under 18[53]—made up an estimated 28% of the population, or 9.2 million people[54]. The number of children has increased around 1.4 times in the last five decades but is expected to decline in the next few years[55]. In fact, the share of children has been declining since 1970—when it was 51% of total population—and forecasted to shrink to 20% in 2050[56]. Regardless of this expected decline in size, children will remain a key demographic group within the social protection system owing to children's rights.

[51] For the purposes of this report, we do not distinguish between the different periods in childhood and their relative importance in child development. For example, the most crucial period for development is the first 1,000 days i.e. from conception to the second birthday. This is not to dismiss the importance of later childhood periods as research suggests that these periods present a second window of opportunity to make up for growth deficits suffered in early childhood. Source: UNICEF (2019b), Samson, Fajth, and François (2016)
[52] UNICEF (2019b)
[53] This is as defined in the United Nations Convention on the Rights of the Child. This definition is in line with Malaysia's Children and Young Persons (Employment) Act 1966 (Act 350) although the Act distinguishes children from young adults, with the former being persons aged under 15 and the latter being persons aged 15 to 17. Source: UNICEF (n.d.-b), GOM (1966)
[54] UN (2019b), KRI calculations
[55] UN (2019b), KRI calculations
[56] UN (2019b), KRI calculations

Children have basic universal human rights *and* child-specific rights that recognise children's needs and vulnerabilities. The United Nations Convention on the Rights of the Child (UNCRC), an international human rights treaty, recognises children's rights regardless of ability, ethnicity and religion. It sets out the civil, cultural, economic, political and social rights of children and establishes children's right to:

- special assistance and protection;
- essential services such as education and healthcare;
- develop their abilities and talents to their utmost potential;
- grow up in a happy, loving and understanding environment; and
- know children's rights and empowered to achieve them[57].

Of the 54 articles listed in the UNCRC[58], two articles especially relevant in the context of this report are:

1. Article 26 (1) which recognises children's right to benefit from social security; and
2. Article 27 (1) which recognises children's right to an adequate standard of living for physical, mental, moral, social and spiritual development.

The ILO's Social Security (Minimum Standards) Convention, 1952 (No. 102) complements the protection of these rights by setting minimum standards of social security through child benefits i.e. regular resource transfers either in cash, in-kind or a combination of both. The fundamental objective of child benefits is to ensure the welfare of children and the economic stability of their families[59].

Recognising children's rights and implementing measures to protect their welfare are imperative because children are disproportionately affected by poverty which creates a major barrier to child development. Despite making up only one-third of the global population, almost half of poor persons worldwide are children[60]. While already alarming, monetary measures of poverty alone do not fully reflect deprivations children face. Based on the 2020 Global Multidimensional Poverty Index (MPI)—an index that identifies deprivations in education, health and standard of living—children were more likely to be deprived in these dimensions compared to adults[61].

Not only do poverty and deprivations result in immediate negative consequences such as poor education and nutrition but also long-term implications in cognitive and social development, educational attainment, earnings, health and productivity[62] If a person's potential is curtailed during childhood, productivity in adulthood will likely be weakened and a nation's talent pool is compromised, resulting in reduced economic prosperity[63]. Thus, protecting children's well-being is also in the interest of the community at large.

[57] UNICEF (n.d.-b)
[58] Refer to UN General Assembly (1989) to read the articles.
[59] ILO (2017d)
[60] UNICEF (n.d.-b)
[61] OPHI and UNDP (2020)
[62] Bastagli et al. (2016).
[63] OPHI and UNDP (2020)

As Malaysia becomes an aged nation (explained in further detail in Chapter 5), ensuring our children are protected and grow up in a conducive environment have never been more urgent as our children will soon be the labour force, carers and supporters of society.

3.3 Overview of Child-specific Issues

Malaysia has made considerable progress in improving the lives of its people. The poverty rate has fallen over the decades, from almost half of the population being poor in 1970 to just a little above 5% in 2019[64]. Additionally, laudable improvements have been recorded in health and education. Malaysians are now living longer, in line with the decrease in mortality observed in the past decades, including child mortality[65]. In 1957, over half of the population had no formal schooling[66]. By 2016, the percentage of the population with primary education was almost universal and close to 60% had at least secondary education[67].

Despite this, gaps remain and more needs to be done for our children. Although Malaysia has low childhood mortality rates at the national level, there have been persistent gaps across states. Negeri Sembilan and Sabah, for example, registered much higher child mortality rates relative to other states[68]. Certain populations, particularly the poor, the disabled and those living in secluded areas, still face monetary and physical barriers to basic education[69]. These macro trends indicate that the state of our children can be improved. To show this further, the following outlines several challenges faced by children in Malaysia.

3.3.1. Child poverty

Figure 3.1 shows the percentage of poor households for different household groups in 2019. About 8.7% of households with children live below the PLI[70] compared to 5.6% for all households and 2.1% for households without children[71].

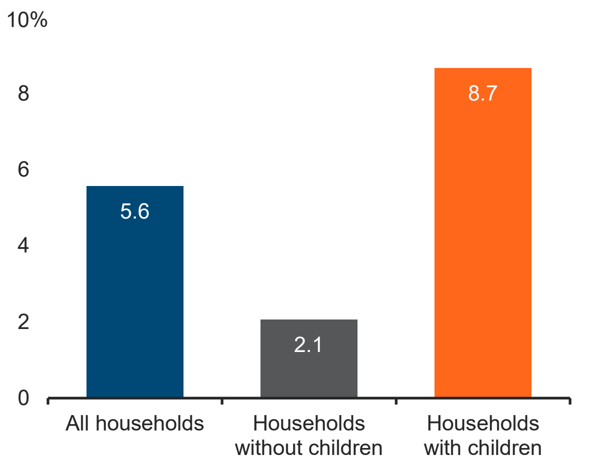
One takeaway is that the poverty rate for households with children is higher than the rate for all households and households without children, highlighting the higher risks of poverty faced by children. The higher poverty rate among households with children support past findings that show positive association between household size and the incidence of poverty[72]. As household size increases, so do the household's basic needs and consumption and inadvertently, the PLI. Thus, larger households such as households with children must earn more to be considered non-poor compared to smaller households without children.

[64] The 1970 poverty rate is based on the 2004 methodology, while the 2019 rate is based on the 2019 methodology. The 2019 methodology sets a higher PLI to better reflect current living standards. This can be seen when comparing the 2019 poverty rate based on the different methodologies: the poverty rate based on the 2019 methodology is 5.6%, 28 times larger than the 0.2% rate based on the 2004 methodology. Source: DOS (2020a)
[65] KRI (2020a)
[66] MOE (2013)
[67] Statistics are for persons aged 25 and above. Source: CEIC (n.d.)
[68] KRI (2020a)
[69] OHCHR (2019), UNICEF (2019a)
[70] DOS (2021b), KRI calculations
[71] At the time of writing, the 2019 child poverty rate i.e. the number of poor children divided by the total number of children, was not available. Readers can refer to Redmond et al. (2016) for past statistics on child poverty but the authors used the PLI based on the 2004 methodology. Thus, the statistics in Redmond et al. (2016) are not comparable to Figure 3.1 and Figure 3.2.
[72] Redmond et al. (2016)

Related to this argument is children's (rightful) prohibition from work and their dependency on others to fulfil their needs. By law, children in Malaysia are generally prohibited from working until the age of 15[73], must attend at least primary education[74] and thus, have limited capacity to contribute to their household's income security and move out of poverty[75]. In contrast, most adults and older persons are at least in principle entitled to work.

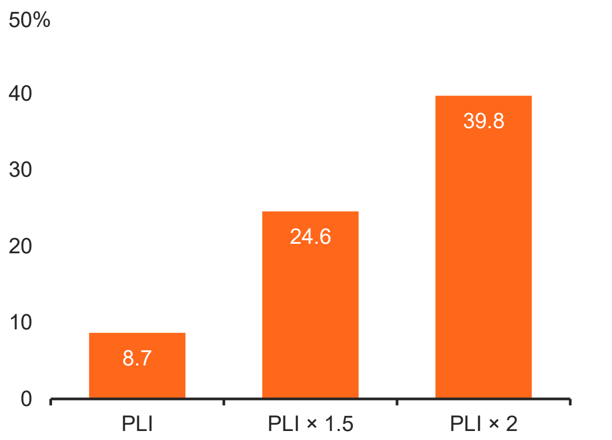
The poverty rate is sensitive to the poverty threshold used. As the official PLI has been criticised for being too low and may not accurately reflect household needs, Figure 3.2 shows the poverty rate based on different PLI thresholds. For instance, if the PLI is doubled, the poverty rate among households with children increases 4.6 times from below 9% to almost 40%, indicating the high vulnerability of households with children. In other words, a significant number of households with children are prone to fall into poverty despite not being classified as poor by the official poverty measure.

Figure 3.1: Poverty rate, by household type, 2019



Note: Children refer to persons aged under 18. PLI is based on the 2019 methodology
Source: DOS (2021b), KRI calculations

Figure 3.2: Share of households with children that earn below PLI, by alternative PLI measure, 2019



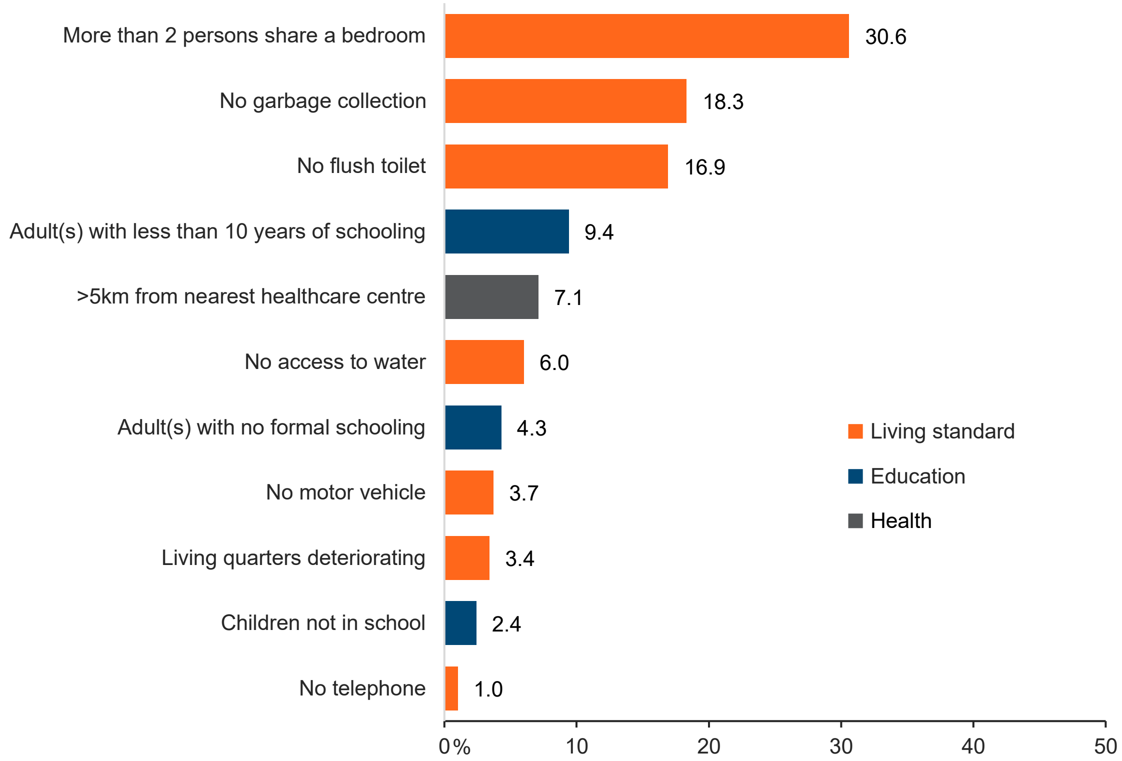
Note: Children refer to persons aged under 18. PLI is based on 2019 methodology
Source: DOS (2021b), KRI calculations

Note that the figures presented thus far have not considered the effects of the Covid-19 pandemic. With rising unemployment and underemployment, and other issues amidst the pandemic, poverty has exacerbated with the national poverty rate increasing from 5.6% in 2019 to 8.4% in 2020[76]. The same is true for child poverty.

[73] Children may be employed in work which poses no threat to the child's health, mental or physical capacities and allows the child to attend school. Source: GOM (1966)
[74] MOE (2013)
[75] Even without these regulations, the significance of education in social mobility makes schooling a major long-term investment to move out of poverty over child labour. Source: Muhammed Abdul Khalid et al. (2017)
[76] Bernama (2021a)

Figure 3.3 charts 11 non-monetary indicators reflective of a person's standard of living, their education and access to healthcare. In 2014, almost one-third of children lived in homes where more than two persons share a bedroom, 18% had no garbage collection, 17% had no flush toilet and 6% had no piped water. 9% of children lived in households where all adults had at most nine years of schooling (i.e. Form 3), 4% lived in households where all adults had no formal schooling and 2% lived in households where at least one child aged 6 to 16 was not in school. For access to healthcare, 7% of children lived in homes that were more than 5km away from the nearest public or private healthcare centre.

Figure 3.3: Share of children, by non-monetary deprivation, 2014[77]



Note: Children refer to persons aged under 18
Source: Redmond et al. (2016)

Importantly, the rates for 10 of the 11 non-monetary indicators were higher than the national child poverty rate in 2014 of about 2%, emphasising the shortcoming of focusing solely on income when understanding the status and extent of poverty.

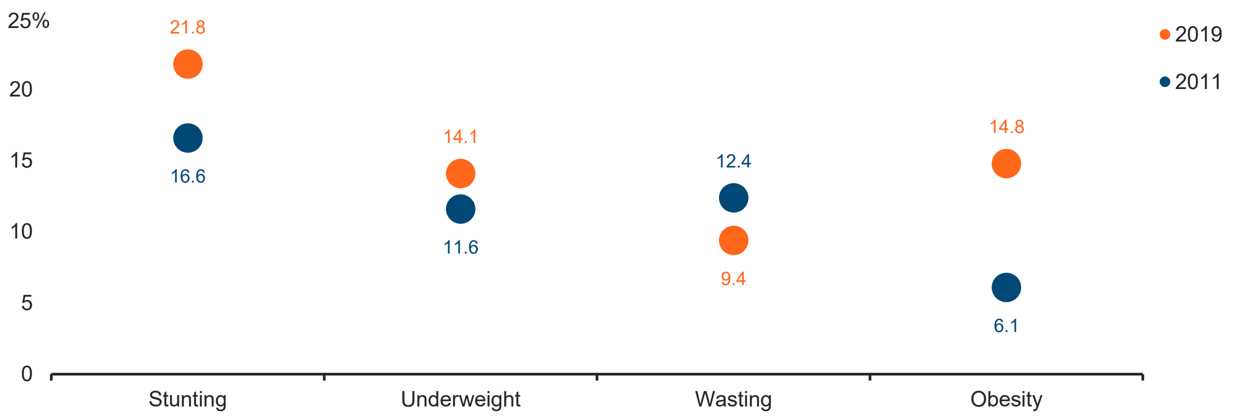
[77] At the time of writing, the 2019 statistics were not available.

3.3.2. Child malnutrition

Despite significant progress in economic development, malnutrition remains a persistent issue among children in Malaysia. Many children in Malaysia suffer from (1) undernutrition including stunting (too short for their age), underweight (too light for their age) and wasting (too light for their height); (2) micronutrient deficiencies or hidden hunger (a lack of important vitamins and minerals); and (3) overweight and obesity (body mass index, BMI[78], too high for their age)—a phenomenon referred to as the triple burden of malnutrition[79].

Among children aged under 5, in 2019, about one in five were stunted, one in 10 underweight and one in 10 wasted (Figure 3.4). At the opposite end of the spectrum, about one in 10 of children aged 5 – 17 were obese. Additionally, 15% of children aged 5 – 17 were overweight, meaning one-third of our kids were either overweight or obese, ranking Malaysia the second highest child obesity rate among the Association of Southeast Asian Nations (ASEAN) countries, behind Brunei[80]. Except for wasting, all indicators worsened from 2011.

Figure 3.4: Share of children with stunting, underweight, wasting and obesity, 2011 and 2019



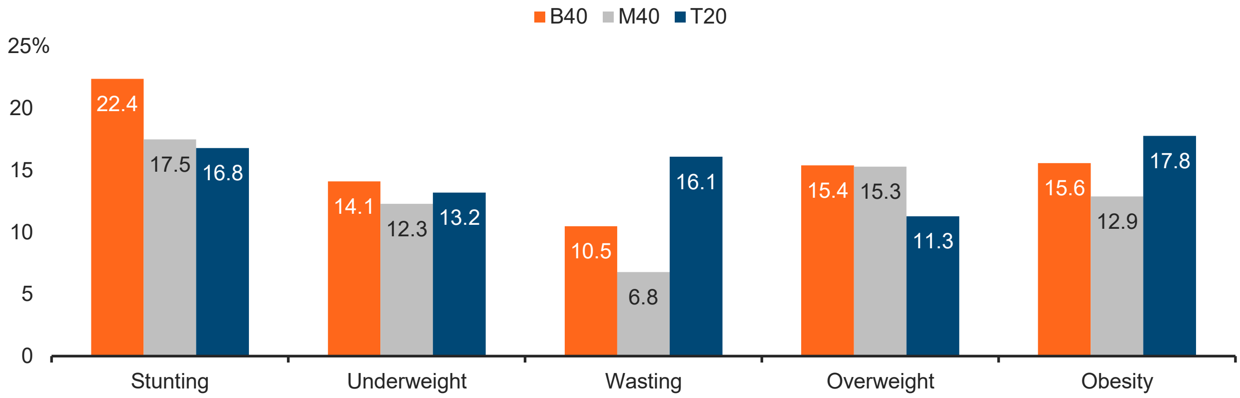
Note:
1. Stunting, underweight and wasting rates are for children aged under 5 and obesity rates are for children aged 5 – 17
2. The nutritional status of children aged under 5 is defined using the WHO Growth Standard 2006. A child is considered stunted, underweight and wasted if their height-for-age, weight-for-age and weight-for-height z-scores are more than two standard deviations below the median of the reference population, respectively
3. The nutritional status of children aged 5 – 17 is defined using the WHO Growth Reference 2007. A child is considered obese if their BMI-for-age z-score is more than three standard deviations above the median of the reference population

Source: IPH (2020)

Child malnutrition is not unique to the poor but cuts across income groups. For example, about 22% and 17% of children in B40 and T20 households, respectively, were stunted (Figure 3.5). For obesity, the rate for the B40 and T20 do not differ much, at 16% for the former and 18% for the latter. While not comprehensive, these statistics support the arguments that there is much room for improving our children's well-being.

[78] A person's weight divided by the square of their height. It is used to assess a person's nutritional status, categorising a person as underweight, overweight or obese. Source: WHO (n.d.-a)
[79] UNICEF (2019b)
[80] WHO (n.d.-b)

Figure 3.5: Share of children with stunting, underweight, wasting, overweight and obesity, by income group, 2019



Note:

1. Stunting, underweight and wasting rates are for children aged under 5, and overweight and obesity rates are for children aged 5 – 17
2. The nutritional status of children aged under 5 is defined using the WHO Growth Standard 2006. A child is considered stunted, underweight and wasted if their height-for-age, weight-for-age and weight-for-height z-scores are more than two standard deviations below the median of the reference population, respectively
3. The nutritional status of children aged 5 – 17 is defined using the WHO Growth Reference 2007. A child is considered overweight if their BMI-for-age z-score is more than two but up to three standard deviations above the median of the reference population and obese if their BMI-for-age z-score is more than three standard deviations above the median of the reference population
4. Wasting rates for M40 and T20, and stunting rate for T20 have high relative standard error and should be interpreted with caution

Source: IPH (2020)

3.4 Brief Review of Child-related Assistance

As noted in Chapter 2, unlike employment-related risks and contingencies, Malaysia has no specific legislation in the provision of social security for risks affecting children and their families. However, this does not mean there are no programmes targeted at children. According to Choong and Adam Firouz (2020), the number of social protection programmes were highest for children compared to other age groups. Likewise, expenditure was highest for children too. The bulk of this expenditure was allocated for grants and subsidies to public education, while the remaining was for numerous small-scale programmes for subgroups of children (often children from low-income households) addressing specific risks. This lack of legislative backing and "microised" or "projectised" approach often result in programmes that have weak institutionalisation, achieve narrow coverage and provide low benefit levels[81].

Figure 2.10 in Chapter 2 shows this fragmentation; many programmes aimed at children are implemented by multiple ministries and agencies with overlapping objectives and targeting several, albeit sometimes similar, children subgroups. For example, most child-related programmes are promotive measures administered by the MOE aimed at school-age children, although provisions are also made by the KPLB and by other ministries and agencies, to an extent.

[81] "Microised" or "projectised" approaches refer to the organisation and implementation of programmes as micro, short-term projects rather than broad reforms. Programmes following the micro or project approach rely on donors and grants and are decentralised with heavy involvement of the community and non-governmental organisations. Historically, these programmes have had mixed impacts on poverty reduction. Source: Choong and Adam Firouz (2020), Tendler (2004)

Protective measures that provide reliefs through cash and in-kind transfers are largely means-tested by design, targeting the poorest children and are mostly under the purview of KPWKM. An example of protective social protection programmes for children under KPWKM include BKK[82]. In this poverty-targeted programme, families receive RM200 per child aged under 7 and RM150 per child aged 7 – 18, with a maximum transfer of RM1,000 per month[83].

BPR, the current cash transfer programme for low-income or B40 households (previously known as BR1M/BSH), also has a child assistance element, although it should be noted that the objective of this programme is not explicitly for ensuring children's well-being[84]. In 2021, under the BPR programme, households earning less than RM2,500 per month without children or with one child received RM1,200 per year (or RM100 if translated into monthly basis). An additional amount of RM600 is given if there are two or more children in the household (or an additional RM50 monthly)[85].

3.4.1. Under-coverage

The BPR programme captures more households through its targeting of B40 households, while KPWKM means-tested programmes are narrower, focusing on a limited group of beneficiaries, often poor children and/or families.

As data for BPR coverage are not available at the time of writing, we refer to coverage rates for its predecessor BR1M as a close but imperfect proxy (Figure 3.6). In spite of BR1M's generally high level of coverage among its target group, there is exclusion error. 88.5% of B40 households were covered by BR1M, meaning more than 10% of B40 households did not receive the aid despite being eligible.

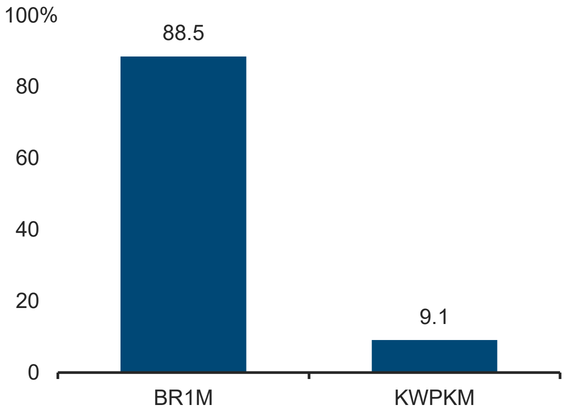
Figure 3.6 shows 9.1% of B40 households were under at least one of the selected 10 programmes under KPWKM. Even amongst households in the lowest income quintile, the B20, only a little above 10% of households were covered[86]

For BKK, its coverage and spending has been declining since 2013 (Figure 3.8). This may be due to the decline in the poverty rate but the numbers still do not reflect the situation on the ground given that the number of children enrolled into the programme, at 70,000 children in 2019, was far below than the estimated 160,000 children living in poor households[87]. Furthermore, it must be noted that both BPR and KPWKM programmes typically do not take into account household size and composition, important factors in determining poverty status and vulnerability. For example, if two households earn a little over RM5,000 per month, they are not eligible for BPR. However, if one household is a ten-person household, while the other is a two-person household, it is reasonable to assume that the circumstances differ between the two households, despite having the same household income. Adjusting for household size and composition, Hawati Abdul Hamid, Ho, and Suraya Ismail (2019) regrouped households into the B40, M40 and T20 and found that about 20% of household in the M40 (based on the rudimentary way of grouping households) show similar vulnerabilities as the B40. This suggests that the exclusion error of these programmes is likely higher than reported due to the outright exclusion of the non-B40 households.

[82] While this programme targets families earning below their PLIs, it is unclear how this is practically implemented as a household's PLI is based on household composition and location. If one income threshold—such as the average PLI of RM2,208—is used to determine eligibility, then it is likely that households which earn relatively high income but are below their respective PLIs are excluded.
[83] JKM (n.d.-)
[84] World Bank (2020b)
[85] LHDN (2021a)
[86] World Bank (2020b)
[87] The number of children living in poor households is based on the 2004 methodology. Source: OHCHR (2019)

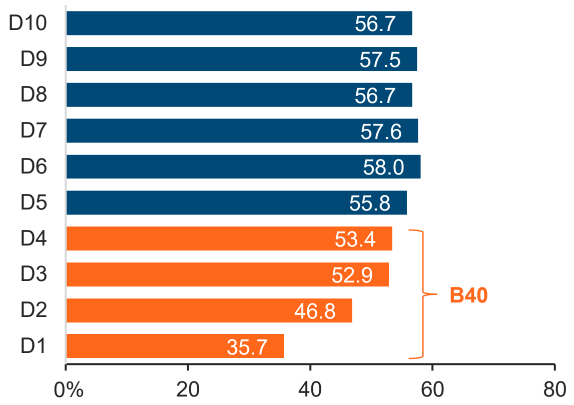
Additionally, the use of low-income targeting necessarily means the exclusion of most households with children in Malaysia. Figure 3.7 shows that children are more likely to live in households from higher income deciles. For example, around 36% of households in the bottom decile (D1) have children versus more than 55% in the fifth to tenth deciles (D5 – D10). This conforms to statistics showing that more than 60% of children in Malaysia live in non-B40 households[88].

Figure 3.6: Share of B40 households receiving BR1M and KPWKM assistance, 2016



Note: 10 core social assistance programmes under KPWKM were considered, including BKK
Source: World Bank (2020b)

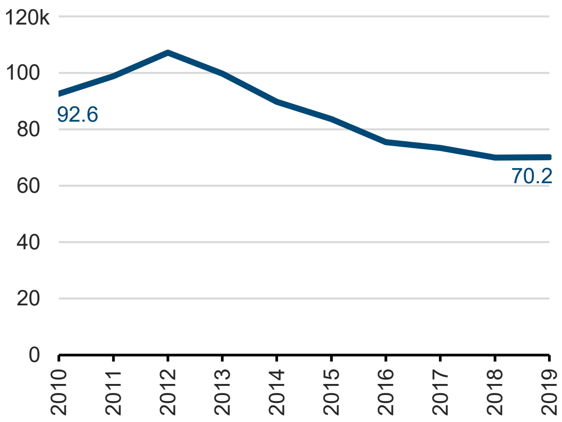
Figure 3.7: Share of households with children, by income decile, 2019



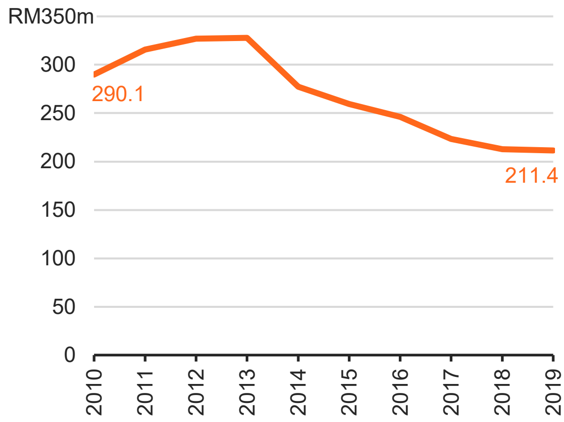
Note: Income decile is based on gross household income
Source: DOS (2021b), KRI calculations

Figure 3.8: Number of recipients (left) and fiscal spending (right) on Bantuan Kanak-kanak, 2010 – 2019

A. Number of recipients



B. Total amount spent on programme



Source: JKM (various years)

Malaysia's social protection system does not have a core social security scheme which covers all persons during childhood—an inherently vulnerable stage in life—but only social assistance programmes for children who meet criteria to be considered poor and vulnerable. Unless their breadwinners and caregivers are covered by social insurance schemes—which only around 40% of working age persons are covered in any social insurance scheme as explained in Chapter 4—children in households who fall into poverty have no social security to help cope with shocks.

[88] DOS (2021b), KRI calculations

Aside from coverage, the transfer amounts from these programmes have been argued for being irregular and too little to make a difference[89]. These programmes fail to establish a social protection floor as they do not provide regular income streams. Establishing a scheme that provides benefits at regular and predictable intervals while at the same time at a reasonably adequate level would provide the security to ride out the life cycle risk during childhood.

3.4.2. The "missing middle"

Hitherto, the discussion has focused on social assistance for underprivileged children. However, benefits also accrue to children in higher income households through tax reliefs for child-related expenses. For 2019 and 2020 assessments for instance, parents and caregivers can claim tax refunds for child dependents, expenses on breastfeeding equipment, childcare fees to registered childcare centres or kindergartens and net deposit in Skim Simpanan Pendidikan Nasional (SSPN)[90].

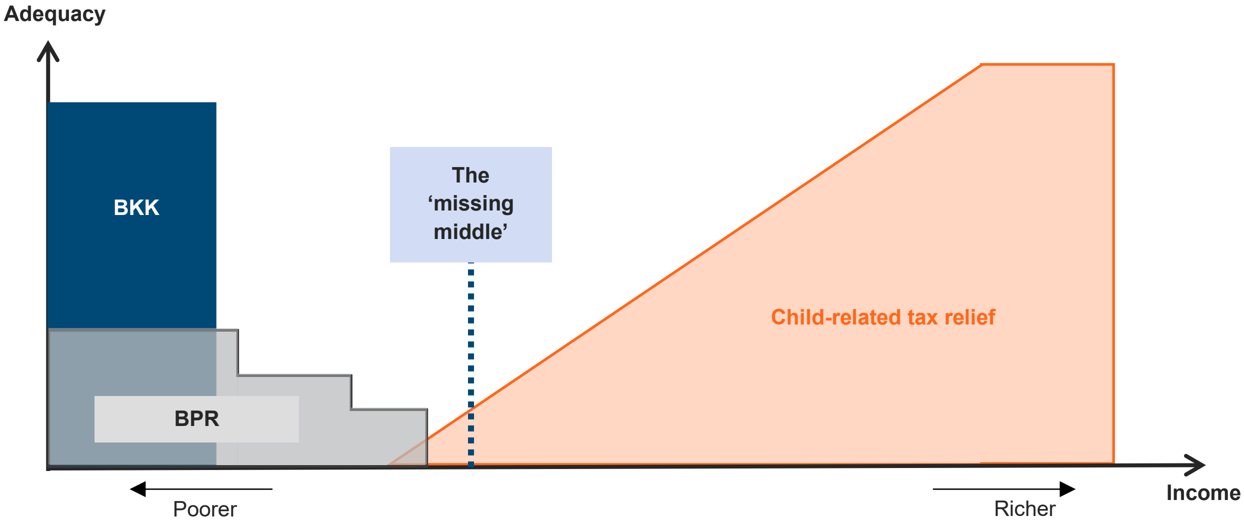
Summarising these programmes and benefits in Figure 3.9, child-related assistance in the form of resources transfers tends to concentrate in the lower income groups, while children in higher income groups benefit from child-related tax relief. Within this system, it is likely that children in middle-income groups benefit the least or are left out entirely[91].

The PLI and B40 eligibility thresholds for social assistance programmes result in children in the middle (right above the thresholds) being left out from receiving these benefits despite possibly being vulnerable. This is a reflection of the downside in using household income-based thresholds for targeting assistance programmes, especially for children. For example, the use of PLI to determine the deserving poor can be sensitive to subjective judgements of what constitutes the basket of goods representing the minimum standard of living. Additionally, the B40 demarcation is arbitrary and does not consider household composition, economies of scale and economic disparities in different geographical locations. According to Hawati Abdul Hamid, Ho, and Suraya Ismail (2019), when these factors are considered, it was found that the living standard of households in non-B40 groups (particularly the M50) was not significantly different from those in the upper segment of the B40[92] .

Furthermore, parents or carers in middle-income groups may not earn high enough to claim child-related tax reliefs embedded in the income tax system, as demonstrated in the scenarios described in Figure 3.9.

[89] In 2016, the average monthly social transfers in Malaysia amounts to RM34 per person or 7.5% of per capita income for the B20. Source: World Bank (2020b), OHCHR (2019)
[90] LHDN (n.d.-c)
[91] The minimum taxable annual income is above RM34,000 (after EPF deduction) or close to RM3,000 per month and intersects with BPR income eligibility which is earning less than RM5,000 per month. However, a measly 16.5% of Malaysia's workforce file income taxes suggesting that a large majority of the workforce do not benefit from child-related tax reliefs. Source: LHDN (n.d.-b), MOF (2019)
[92] Hawati Abdul Hamid, Ho, and Suraya Ismail (2019)

Figure 3.9: Population coverage and adequacy of children social assistance and tax-relief in Malaysia



Note:
1. This figure shows a rough presentation of child-related assistance available to families with two young children by income status. The height of each bar is illustrative and may not reflect actual amount
2. Child-related tax relief includes relief for unmarried children aged under 18, unmarried children aged 18 and above who are studying disabled children, purchase of breastfeeding equipment for own use on children aged 2 years and below, childcare fees for children aged under 7 and net savings in SSPN

Source: KRI illustration

Figure 3.10 simulates the various types and levels of assistance that households with two small children can benefit in a year, under the existing child-related social protection schemes.

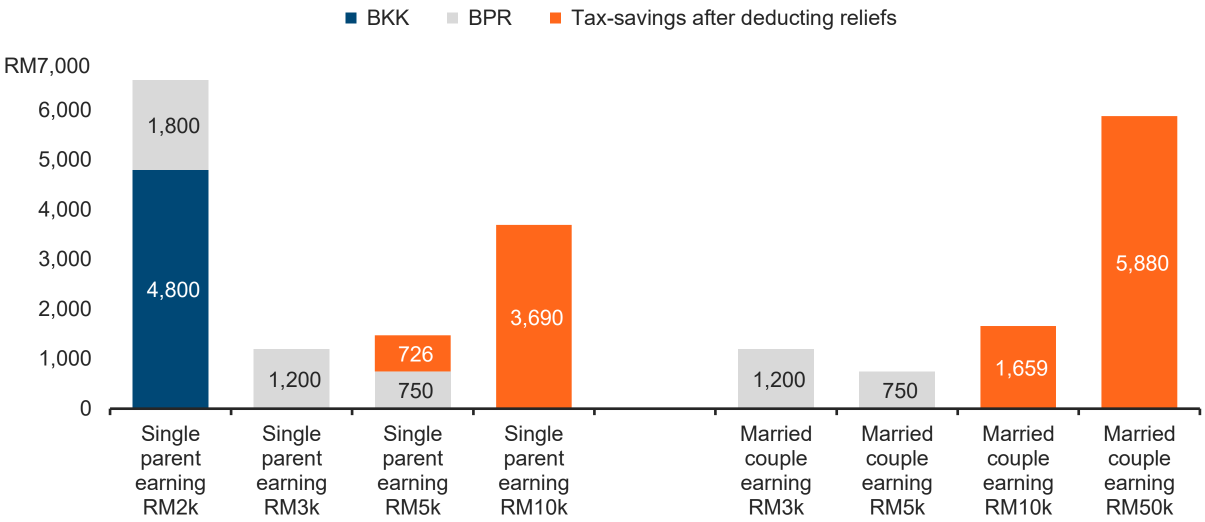
Single-parent households earning RM2,000 per month can receive a monthly assistance of RM200 per child through BKK, gaining RM4,800 annually. Household income is further supplemented with RM1,800 annually from BPR.

Households earning RM3,000 per month are eligible for BPR, receiving RM1,200, but not BKK as they earn above the average PLI of RM2,208. They also do not benefit from child-related tax reliefs as their income is not high enough to pay income tax.

Households earning RM5,000 per month are only eligible for BPR receiving RM750. For single parent households (single earner), they earn enough to participate in the tax system and receive tax refunds of RM726 through child-related tax reliefs. For households where both parents work with a joint income of RM5,000 (assuming each earns RM2,500 monthly), each parent does not earn enough to participate in the tax system.

Households earning RM10,000 and RM50,000 per month are not eligible for either BKK or BPR but they can claim child-related tax reliefs. Figure 3.10 shows that the higher purchasing power of richer households allows them to spend more on child-related expenses and reap more benefits from child-related tax reliefs. For example, a household where both parents earn a joint monthly income of RM50,000 (assuming each earns RM25,000 monthly) can file their taxes separately with each parent depositing the maximum limit of RM8,000 for SSPN savings and claiming it as tax relief. As a result, this household can receive tax refunds of RM5,880 compared to just RM1,659 for a married couple earning a joint income of RM10,000.

Figure 3.10: Simulation of child-related assistance for families with two children, by type of assistance and parental status



Note:
1. The simulation assumes the following: for married couples, each parent earns an equal amount; both children are 0 – 6 years old and are not disabled; no deductions from zakat; for tax reliefs, when possible, each spouse claims part of child-related tax reliefs; and households spend no more than 20% of their income on childcare, SSPN savings and breastfeeding equipment
2. The tax-savings are calculated as follows: annual tax deductions from only claiming individual reliefs minus the amount of annual tax deductions after claiming for children as dependents and other additional child-related tax reliefs (e.g. breastfeeding equipment, net savings in SSPN, and spending on childcare centres) given the parents' income

Source: JKM (n.d.-a), LHDN (2021a), LHDN (n.d.-c), KRI calculations

In practice, the structure of child-related assistance in Malaysia has not only resulted in exclusion error, but also provides relatively small, if any, benefits to households in the middle-income groups. The simulations in Figure 3.10 assume that the population make full use of the schemes in place. In reality, based on the under-coverage of social assistance programmes and the fact that only 15% of Malaysia's workforce file income taxes, these benefits often go beyond the reach of many[93].

This suggests that shifting from targeted to universal approach provides opportunities for improvements in the policy space by widening coverage and providing a more equitable assistance to better protect all children in Malaysia.

3.5 Policy Recommendation: Universal Child Benefit as a Basic Income Protection for Children

Providing child benefits in the form of cash can break the cycle of poverty. Based on a systematic review of cash transfer programmes' impact evaluations by Bastagli et al. (2016), child benefit schemes led to an increase in household spending on food, education, healthcare and other necessities. These impacts extend to immediate and long-term outcomes for children and households, and the local economy, as every USD1 transferred to households generated up to USD1.81 for the local economy[94].

[93] The Edge (2019a), MOF (2019)
[94] Thome et al. (2016)

Acknowledging the shortcomings of current child-related assistance in Malaysia, we propose a universal child benefit (UCB) scheme because of their comparatively higher coverage rates and lower exclusion errors[95]. *Universalism* has become an important consideration in the design of child benefits, in line with the central promise of the 2030 Agenda for Sustainable Development to "leave no one behind."[96] Under the universal paradigm, a UCB would include all children, independent of their socioeconomic status.

UCB's administrative simplicity, whereby beneficiaries do not need to prove their eligibility, is also an advantage as it eliminates multiple barriers to assistance, including reducing the potential for bribery and abuse of power by authorities. The simpler application processes and less invasive compliance mechanisms associated with UCB may mean it is better able to respect the dignity of those entitled to transfers and minimise stigmatisation.

Ideally a UCB scheme offers families *regular*, *unconditional* cash payments until the child's 18th birthday with the aim to ensure children's basic needs are taken care of throughout childhood and adolescence[97].

As of 2020, only 23 countries offer UCB[98]. This small number may be unsurprising as Mkandawire (2005) stated that in both developed and developing countries, there has been a general shift from universalism to targeting in the design of social policies, citing several drivers of this shift including (1) prescribing to the neoliberal ideology, premised on self-interest and belief that the free market will fix issues including social security and (2) fiscal constraint that led to the perception that there is a need for budgetary restraint in the quest for efficiency. In an ideal scenario, with perfect targeting, poverty can indeed be eradicated more cost-efficiently[99]. However, in reality, higher administrative costs from identifying and verifying beneficiaries, and exclusion errors often reduce targeting's effectiveness[100]. The decision on targeting in child benefits is critical as it affects children's access to material assistance and chances of social mobility, especially for the poor.

Recognising the right to social protection and costs of leaving the poor and vulnerable behind, Mkandawire (2005) argues that social protection itself has to be universalistic, and targeting only utilised as an instrument for making the system more effective e.g. enhancing benefits for those identified as more needy in a universalistic system. In line with this principle, this report proposes a universal approach in establishing a social protection floor for all children in the form of a regular basic income.

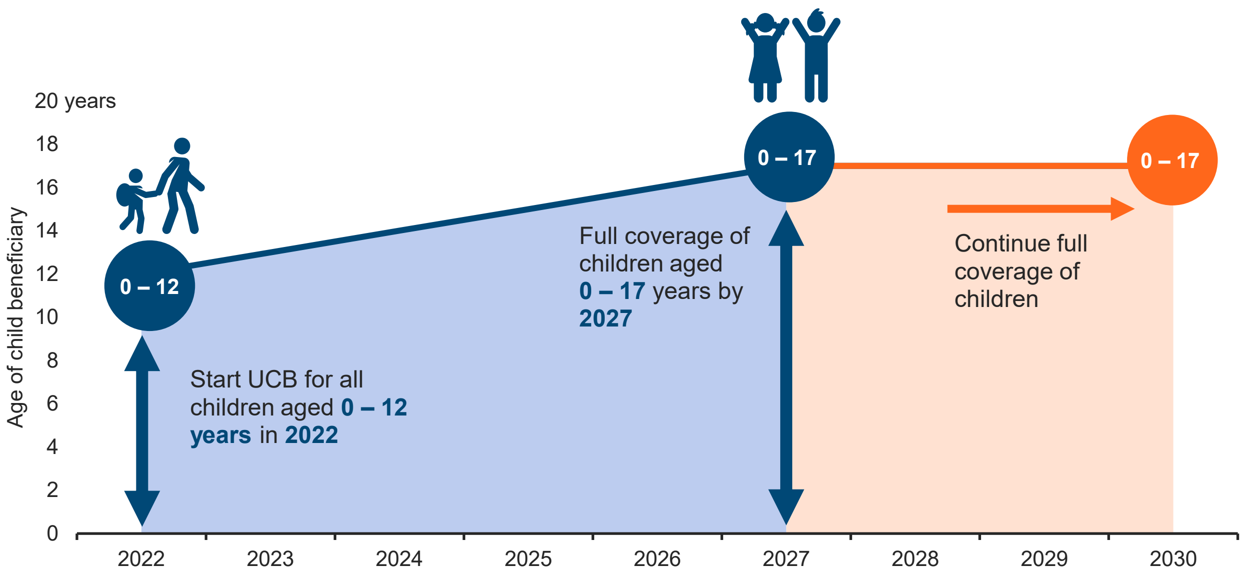
[95] Exclusion error refers to the extent to which persons in the targeted group do not receive assistance/benefits even though they are entitled to them. Source: World Bank (2020b)
[96] UNSDG (n.d.)
[97] ODI and UNICEF (2020).
[98] Kidd et al. (2020), Ortiz et al. (2015)
[99] ODI and UNICEF (2020)
[100] ODI and UNICEF (2020)

3.5.1. Implementing UCB in Malaysia

While ideally UCB should cover all children at the programme's commencement, a gradual expansion can be more viable considering the government's fiscal capacity and giving room for the government to adjust their fiscal position (discussed in Chapter 6)[101]. From this standpoint, we propose for the programme to begin by initially covering children aged 0 – 12 years before gradually covering all children under the age of 18.

Figure 3.11 illustrates universal coverage can be achieved through gradual expansion. As the year progresses, children already in the programme will continue to receive the benefits while newborns are automatically registered into the programme. Once the programme reaches full coverage (all children aged 0 – 17 years), the recipients will only exit the programme once they reach their 18th birthday. Following this programme design, if Malaysia launches UCB in 2022, the country will reach full coverage within five years, in 2027.

Figure 3.11: Gradual expansion of UCB in Malaysia, 2022 – 2030



Note: Illustration adapted from Kidd et al. (2020)

By starting with an initial age eligibility at 0 – 12 years, the UCB is expected to benefit around 6.7 million children, or 72.4% of all children (Table 3.1). This entails a total of 3.5 million households (41.4% of total households) that will be covered during the first year of the programme. When full children coverage is achieved in 2027, UCB is estimated to benefit 53.1% of total households.

[101] In 2022, the population of all children (aged 0 – 17 years) in Malaysia is estimated to be about 9.2 million, with children aged 0 – 12 years making up 6.7 million (72.4% of all children). Holding the benefit value constant in real term, initiating UCB for all children would require 1.4 times the initial investment, compared to starting with a threshold for only children aged 0 – 12 years. Source: UN (2019b), KRI calculations

Table 3.1: Target population and coverage of proposed UCB

	Details
Initial age of eligibility	0 – 12 years
Number of children covered in first year of programme, 2022[1]	6.7m
Proportion of all children aged 0 – 17 years covered in 2022[1]	72.4%
Number of households covered in 2022[2]	3.5m
Proportion of households covered in 2022[2]	41.4%

Note:
1. This assumes that the programme starts in 2022. The number of children is calculated using UN World Population Prospects 2019
2. Total households calculated based on the assumption that household growth follows 2019 and 2020 trend which was annual decrease of 0.06 percentage point. It is assumed that the proportion of households with children aged 0 – 12 years in 2022 is the same as in 2019, which was 41.4% (latest available data)

Source: UN (2019b), DOS (2021b), DOS (2021d), KRI calculations

3.5.2. Level of investment required for a UCB

In setting the benefit level, there is no hard and fast rule in determining the right amount. The level of transfers is markedly different across countries, due to the different objectives, needs and priorities[102]. In setting the amount, a country will also need to consider its fiscal capacity, demographic distribution and administrative capabilities. For instance, a higher-income country would generally have more fiscal space in setting a higher transfer level, whereas a country with a larger number of children would need to spend more to obtain a high coverage rate[103].

Table 3.2 summarises the two benefit levels proposed which are RM100 (Option 1) and RM150 (Option 2) per month for every eligible child[104]. These transfer values are set with the explicit aim to capture a majority of children by the first year of the programme while meeting the boundaries of the fiscal space (explained in further detail at the end of this chapter). In doing so, the UCB will serve as a point of contact for a large population of children and families to the country's social protection system, who would then be able to access additional social assistance based on needs.

The estimated cost of the programme is then simulated following these two transfer values, covering children aged 0 – 12 years. For this simulation, each family can expect to receive the benefit for each child they have. The benefit levels also do not vary with children's age group.

For instance, if RM100 is decided as the transfer level, a family with two children aged between 0 and 12 years would receive RM200 per month or RM2,400 annually. The transfer values and other special benefits can be further expanded depending on the government's objectives, such as to have more impact on health and educational outcomes.

[102] Among the common motivations for child benefits are addressing child poverty, socialising the costs of childbearing, influencing fertility, redistributing national wealth, nation-building and the social contract. Source: ODI and UNICEF (2020)

[103] Although country's income levels are positively correlated with expenditure on child benefits, actual investment can vary considerably across countries. For example, Estonia dedicates a higher share of its GDP per capita on child benefits compared to its higher-income peers such as Norway and Denmark. Source: ODI and UNICEF (2020), Bradshaw and Finch (2002)

[104] RM100 and RM150 is close to the transfer amounts in KWPKM's Bantuan Kanak-kanak at RM150 for children aged 7 to 17 and RM200 for children aged under 7. Source: JKM (n.d.-)

Although the proposed benefit level is standardised regardless of age, birth order or number of children in the family, the scheme can be adapted to better meet the characteristics of the children such as by giving additional benefit to orphans, indigenous children, hardcore poor children and children with disabilities. For example, Germany, Hungary and Austria give higher benefits to disabled children, while Finland and Norway further supplement the child benefits for single parents[105].

Table 3.2: Estimated investment of proposed UCB, by option

Programme cost	Option 1	Option 2
Monthly transfer value per child	RM100	RM150
Transfer value as a % of GDP per capita, 2022	2.5%	3.7%
Total investment in first year of programme, 2022	RM8.0b	RM12.0b
Total value of UCB as a percentage of GDP, 2022	0.50%	0.74%

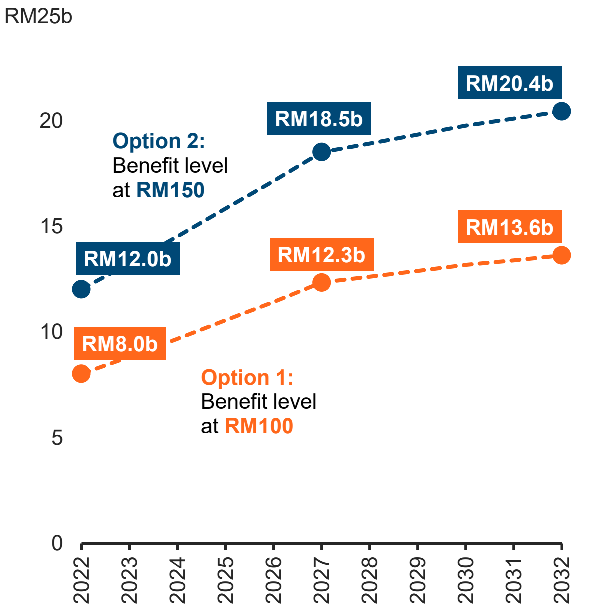
Note: GDP estimates in nominal terms, as reported by the World Bank and based on KRI calculations. The number of children and GDP per capita are calculated using population estimates from UN's World Population Prospects 2019
Source: World Bank (2021c), UN (2019b), KRI calculations

Figure 3.12 shows the estimated annual investment required to implement a UCB scheme in Malaysia. The simulation is done by calculating the number of recipients over the years[106], multiplied by the value of the benefit that is indexed to inflation to ensure it retains the transfer values in real terms[107]. From the two options, setting the benefit level at RM100 would require an initial investment of RM8.0 billion, while setting it at RM150 would require RM12.0 billion[108].

In 2022, the investment required at a benefit level of RM100 and RM150 would be about 0.5% and 0.74% of the country's GDP, respectively (see Figure 3.13). The highest value of investment required would be in 2027, when the programme reaches full coverage. In 2027, Option 1 would require an investment of around 0.57% of the country's GDP, while Option 2 would require around 0.85% of the country's GDP. In the long term, the annual investment required as a percentage of GDP would fall over the years, partly due to the projected fall in the number of children as a share of the total population and the projected increase in GDP.

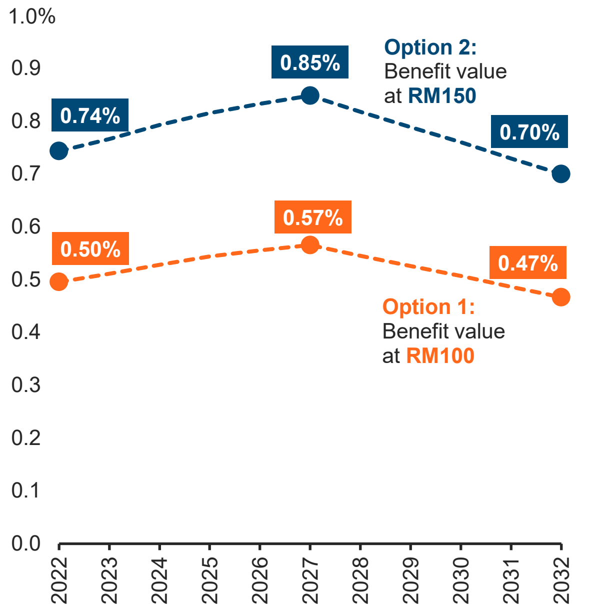
[105] MISSOC (2021)
[106] The number of children covered is estimated to gradually increase from 2022 to 2027 (from around 6.7 million children to 9.3 million children) as the age eligibility increases. The number is then expected to stabilise once the programme reaches full coverage. Source: UN (2019b), KRI calculations
[107] This means that transfer values increase year on year in line with inflation. The inflation rate estimates follow forecast by the International Monetary Fund (IMF) which is an annual inflation rate of 2%. Therefore, a monthly benefit of RM100 per child would increase to RM102 the following year.
[108] These estimations do not assume any administrative costs. Administration costs can vary widely and depends on the complexity of the schemes, coverage and maturity of the programme.

Figure 3.12: Estimated investment on UCB, by benefit level, 2022 – 2032



Note: The benefit level is indexed to inflation rate of 2% annually. The calculation assumes the UCB scheme expands gradually, covering children aged 0 – 12 years in 2022 and reaching full coverage (children aged 0 – 17 years) in 2027
Source: World Bank (2021c), UN (2019b), KRI calculations

Figure 3.13: Share of estimated investment on UCB from total GDP, by benefit level, 2022 – 2032



Note: GDP estimates in nominal terms, as reported by the World Bank and based on KRI calculations. Calculation of nominal GDP from 2024 onwards assumes a conservative average annual growth of 6.0%
Source: World Bank (2021c), UN (2019b), KRI calculations

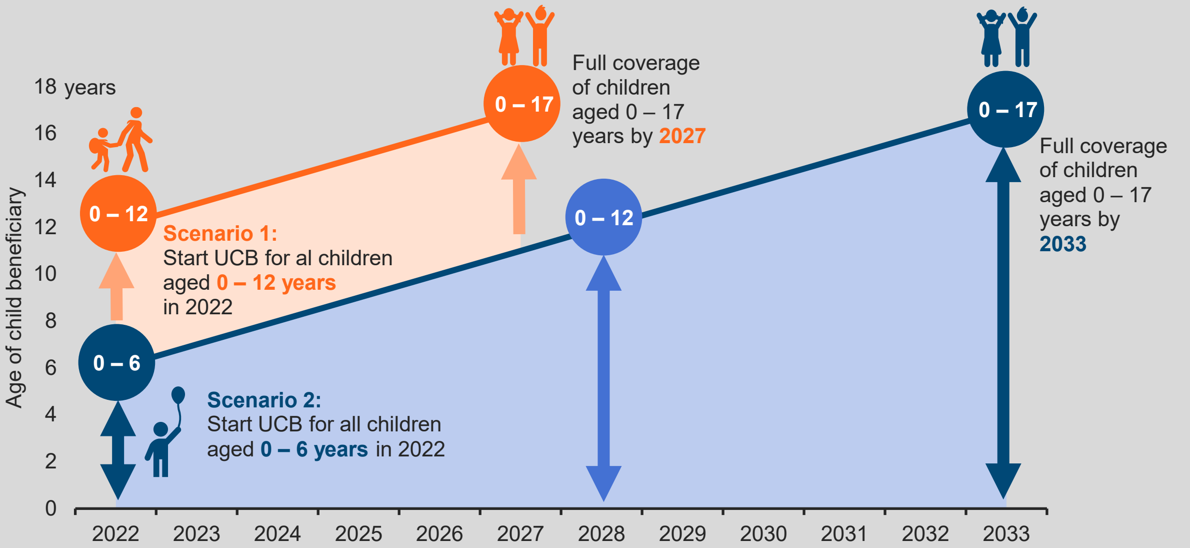
The previous figures illustrate the estimated coverage and level of investment required for the two proposed UCB options. However, the amounts proposed here are not definite. The level of benefit and coverage can still be adjusted, such as by increasing the benefit level and lowering coverage by applying affluent testing. However, these decisions are not without trade-offs, as detailed in Box 3.1.

Box 3.1: Managing fiscal space – balancing coverage and depth of child benefit

Lowering coverage to reduce initial investment required

Aside from reducing the benefit value, another option to reduce the initial investment required is by lowering the initial age of eligibility. The simulation above has utilised this as it covers only children aged 0 – 12 years in the first year of implementation instead of all children aged 0 – 17 years. At a monthly benefit value of RM100 per child, lowering the age eligibility threshold reduces the investment needed from RM11.0 billion to RM8.0 billion. To save costs further, the programme can start by covering only children aged 0 – 6 years, reducing the investment required to RM4.4 billion. However, lowering the age threshold entails prolonging the years required for UCB to reach full coverage—from only five years (when age eligibility starts at 0 – 12 years) to 11 years (age eligibility starts at 0 – 6 years), an additional six years (see Figure 3.14).

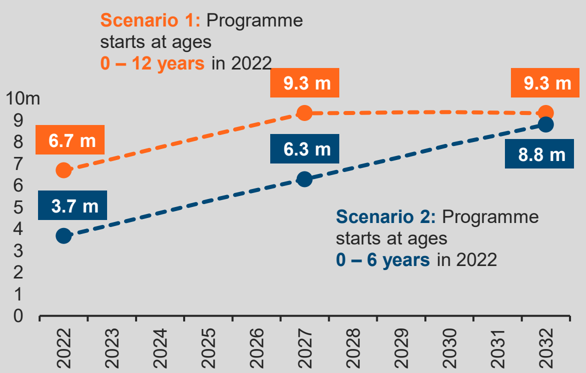
Figure 3.14: Alternative age eligibility threshold for UCB



Note: Illustration adapted from Kidd et al. (2020)

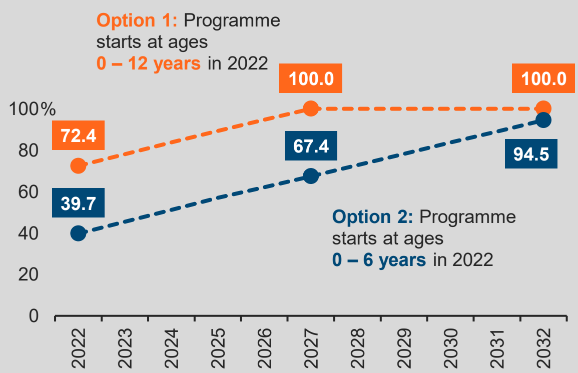
Lowering the age threshold for UCB also means fewer children will be covered by the programme. Figure 3.15 and Figure 3.16 illustrate the difference of the two age thresholds in terms of number and percentage of children covered. At the start of the programme, a threshold of 0 – 6 years would only cover around 3.7 million children (39.7% of all children), compared to a threshold of 0 – 12 years that would cover 6.7 million children (72.4% of all children). While initialising UCB for children aged 0 – 12 years is expected to reach full coverage by 2027 and cover 9.3 million children, only 6.3 million children (67.4% of all children) will be covered in 2027 if UCB is initialised for children aged 0 – 6 years.

Figure 3.15: Number of children covered by UCB, by age eligibility threshold, 2022 – 2032



Source: UN (2019b), KRI calculations

Figure 3.16: Share of children covered by UCB, by age eligibility threshold, 2022 – 2032

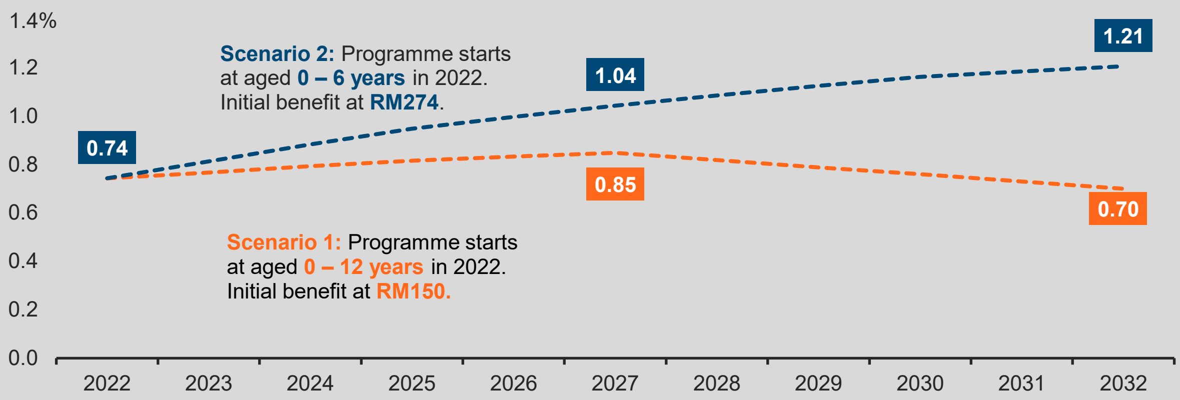


Source: UN (2019b), KRI calculations

Lowering coverage to increase benefit level

Another point of consideration in designing UCB is balancing the trade-offs between the vertical scope (depth of benefit) and the horizontal scope (breadth of coverage). For example, a government might choose to lower the age of eligibility and reduce the number of recipients, which then leaves more fiscal space to increase the benefit amount received per child. Figure 3.17 shows two scenarios of depth and coverage of UCB that can be carried out at an initial investment of 0.74% of GDP. Scenario 1 allows for a benefit of RM150 per child and covers children aged 0 – 12 years, while Scenario 2 shows that the benefit can be increased to RM274 per child, but only covers children aged 0 – 6 years at the start of the scheme. It should be noted that although both options require the same initial investment and gradually cover all children under the age of 18, the cost in Scenario 2 will be higher in the long run as the baseline benefit amount is higher.

Figure 3.17: Share of estimated investment on UCB from total GDP, by age eligibility threshold, 2022 – 2032



Source: World Bank (2021c), UN (2019b), KRI calculations

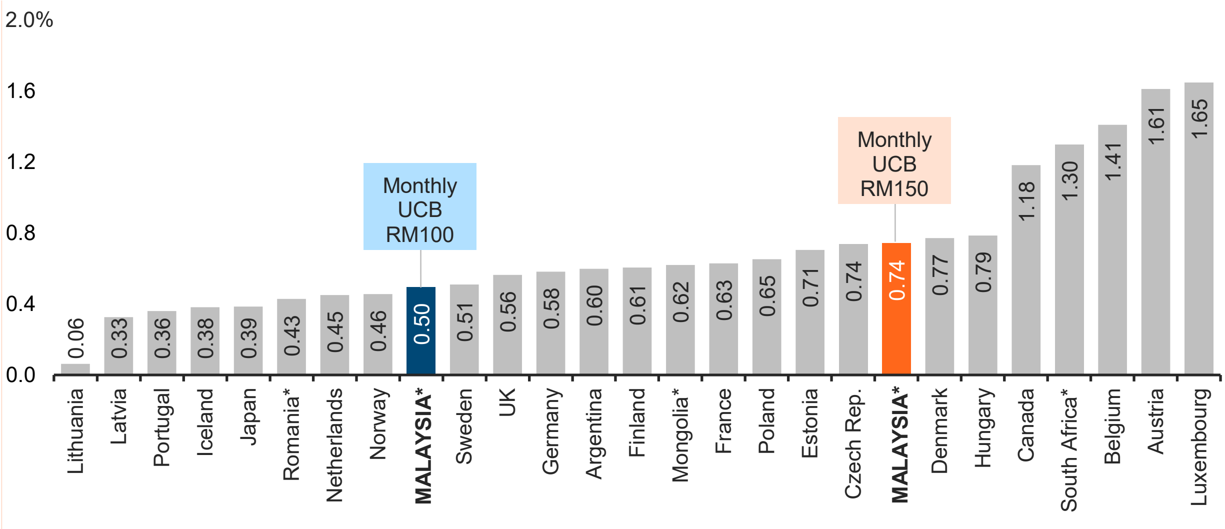
Child benefits worldwide

Figure 3.18 shows the different level of investments in child benefits globally for universal or high coverage programmes. When compared with other countries, the proposed investment amount for Malaysia at 0.74% GDP (at RM150 benefit level covering children aged 0 – 12 years or 72% of all children) is higher than the global median at 0.6% of GDP. In fact, Mongolia, a country of lower-middle-income status[109] invested at 0.6% of GDP, covering 976,000 children, or 85% of all children[110]. In addition to the amount of the benefit, the total value of investment also varies according to the programme's coverage and the country's demographic structure. For example, South Africa, which has a larger share of children in its population, required an investment at 1.3% of GDP to cover 12.4 million children, or 64% of all children, in 2018[111].

---

[109] Following World Bank's country groupings
[110] UNICEF (2019d)
[111] UNICEF (2019e)

Figure 3.18: Share of child benefit investment from total GDP, by selected country



Note:

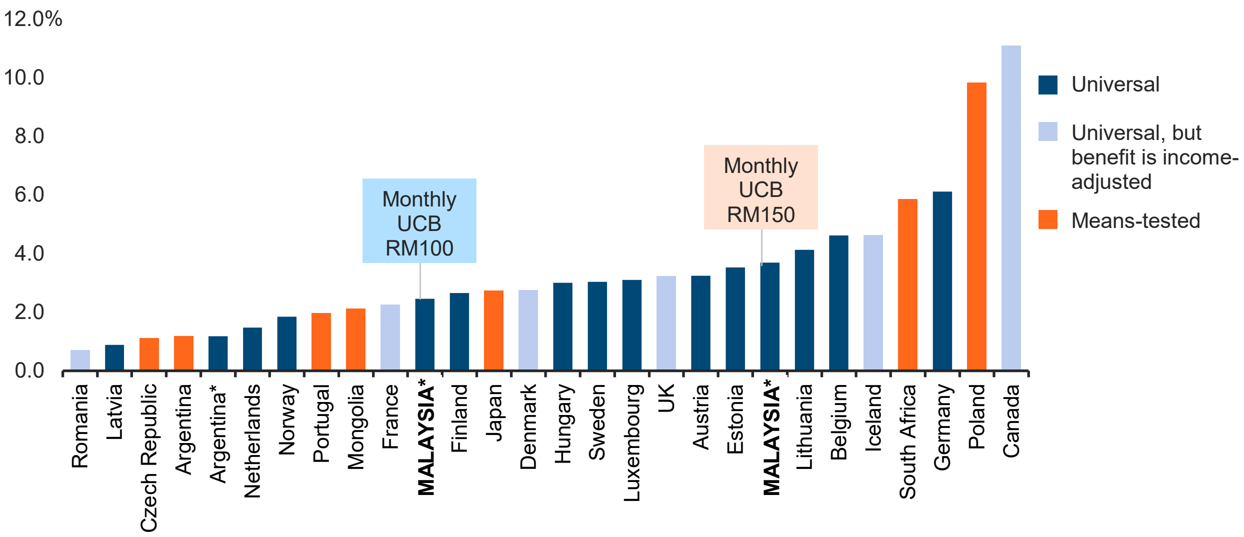
1. The programme cost of most countries listed are as of 2017, except the following: Mongolia – 2019; South Africa – 2018; Romania – 2013; Malaysia – 2022
2. The figure only includes child-related cash transfers (cash benefits) to families with children. It excludes other family benefits such as public income support payments during parental leave and income support for sole parents families, as well as public spending on services for families with children (benefits in-kind) e.g. subsidising childcare. See Appendix A for a more detailed breakdown

Source: IMF (2021c), OECD (2019a), UNICEF (2019c), UNICEF (2019d), UNICEF (2019e), European Commission (2015), KRI calculations

Figure 3.19 also shows how the proposed transfer value compares to other countries. The level of child benefit provided does not entirely depend on the level of national wealth (GDP per capita). For instance, while Luxembourg and Norway are both high-income countries, the former offers a relatively generous child benefit package at 1.65% of GDP per capita, while the latter offers a package at 0.46%. At monthly benefit of RM100 and RM150 UCB transfer value translates to 2.5% and 3.7% of GDP per capita, respectively. Notwithstanding this, it should be highlighted that since this is a "per child scheme", households with four children for example will receive RM600 per month at per-child RM150 benefit level, compared to between RM62.50 and RM150 per month (depending on household income) for a similar household from the BPR scheme.

This report makes a conscious recommendation to prioritise coverage over adequacy considering the available fiscal space. By proposing two options of benefit level of RM100 or RM150 per month and covering children aged 0 – 12 years during programme initialisation, the proportion of children that will be covered and captured in the system will be significant. In other words, the strength of the proposal should be considered from the viewpoint that the UCB provides a pathway for children to be part of Malaysia's social protection system from birth.

Figure 3.19: Share of child benefit from total GDP per capita, by selected country and targeting mechanism



Note:
1. The benefit amount for most countries listed are as of 2020, except the following: Argentina, Canada, Mongolia – 2019; Japan, South Africa; Malaysia – 2022
2. This chart calculates the benefit for a 5 year old child. In reality, the range of transfer values across countries reflect the conditions set in terms of setting the benefit amount. The benefit level generally varies depending on the number of children in the household, the child's age, the order of birth and household income. For example, Germany's child benefit varies by the order of the child, while Poland's child benefit is only universal from the second child onwards. See Appendix A for more details on child benefits in other countries
3. Some of the countries supplement the benefits for children with disabilities or single parent households. These supplementary benefits are not included in the above calculation

Source: ECB (2021), IMF (2021c), MISSOC (2021), SSA (n.d.-c), KRI calculations

3.5.3. Financing UCB

Table 3.3 shows that a UCB providing children aged 0 – 12 years RM150 monthly would cost RM12.0 billion. While seemingly large, this figure pales in comparison to the cumulative amount from possible sources of financing. By redirecting various revenue streams, up to RM14.0 billion are at the government's disposal. Importantly, this means that it is possible for these programmes to be non-contributory schemes i.e. fully funded by tax and other federal government revenues.

Table 3.3: Estimated investment on UCB and potential sources of financing

Social assistance programme	Estimated investment	Source of financing	Estimated amount
UCB at RM100 – 150 monthly per child aged 0 – 12 years	RM8.0b – 12.0b	Repurposing BPR	RM6.5b
		Savings from tax-revenue forgone from child-related tax relief	7.5b
Total investment	**RM8.0b – 12.0b**	**Total available funds**	**RM14.0b**

Source: PMO (2020), LHDN (2021b), KRI calculations

There are two feasible measures that can be put in place to implement the proposed UCB in a fiscally-neutral manner during the first year, namely repurposing the BPR and redirecting savings from the tax revenue forgone from child-related tax relief, as discussed further below.

1. Repurposing BPR

The UCB can be partly funded by redesigning the BPR programme to target children instead of the B40 households and single individuals. Currently, the general objective of BPR is to alleviate cost of living issues for B40 households but this target is not as tangible and harder to measure due to the changing challenges faced by households[112]. By repurposing BPR into a UCB, the programme explicitly contributes to income security of families for the well-being of children. In Budget 2021, RM6.5 billion was allocated to BPR[113].

There are bound to be "losers" from shifting the target group of BPR from B40 households to children. To a large extent, the exclusion of single individuals and working-age households without children in the B40 group and their social protection needs will be addressed in Chapter 4. The protection of elder households in the B40 is of particular concern. 2019 statistics indicate that among households without children and headed by those aged 65 years and above, 72.7% were in B40[114]. This group of older adults would stand to lose out with the repurposing of BPR to target children. Since the old-age income security benefit proposed in Chapter 5 will only come to fruition long in the future, we recommend expanding the coverage of Bantuan Warga Emas—a KPWKM programme which provides RM500 monthly to persons aged 60 and above living below the PLI—as an interim solution.

2. Savings from tax-revenue forgone under child-related tax relief

In 2019, RM7.5 billion tax revenue was forgone from child-related tax reliefs, namely reliefs for child dependents, expenses on breastfeeding equipment, childcare fees to registered childcare centres or kindergartens and net deposit in SSPN. Instead of providing tax savings, this amount could contribute to the proposed UCB[115].

Based on data on tax revenue forgone from child-related tax relief in 2019, a few key takeaways can be made on child-related tax reliefs. Firstly, Malaysia already has child benefits embedded in the taxation system in some form, whereby individual taxpayers with children could claim child-related tax reliefs yearly as a refund. From the government's perspective, this amount becomes a "cost" in the form of tax revenue forgone.

Secondly, the amount of tax relief increases as we move up income groups. For 2019 assessments of those with chargeable income between RM5,000 and RM20,000, about RM4,640 or a little below RM400 in monthly term was refunded. For assessments of those earning at least RM2.0 million, about RM7,534 or more than RM600 in monthly term on average was refunded[116]. The higher reliefs among higher income groups may reflect the positive correlation between number of children and family income and/or the groups' higher purchasing power to gain from the reliefs.

[112] BR1M was introduced in 2012 to soften the effects of fuel subsidy rationalisation and later, the introduction of the goods and services tax (GST) in 2015. Since then, cost of living challenges have changed e.g. fuel prices have plummeted, GST has been replaced by the sales and services tax (SST) and the Covid-19 pandemic introduced new problems. Source: World Bank (2020b)
[113] PMO (2020)
[114] DOS (2021b)
[115] LHDN (2021b)
[116] LHDN (2021b)

This again underscores the exclusion of families in the middle-income groups who may not earn enough to be in the tax system or have enough purchasing power to fully utilise the reliefs.

3.6 Concluding Remarks

This proposal comes at a dire, yet opportune time when the Covid-19 pandemic is creating significant and unprecedented challenges for Malaysia. Hitherto, Malaysia has taken reactionary measures to mitigate the impact of the Covid-19 crisis on families. While commendable and most likely beneficial to those who are included, these measures fail to resolve long-standing issues, including exclusion of those in need. As the pandemic rages on and more people have been falling into poverty, this problem has worsened. Thus, there is a need for longer term and wide-reaching support to avoid deterioration of children's well-being.

These issues need to be proactively addressed and a UCB presents a tried and tested policy which has been adopted in a number of countries. Through the UCB, Malaysia can begin to fill the stark gaps highlighted during the Covid-19 outbreak, mitigate the impacts of the crisis on children and establish child-focused social protection mechanisms, in line with Malaysia's commitment to creating a comprehensive, life cycle-based social protection system.

The UCB scheme is vital to the proposals in this report as it serves as an entry point into the social protection system since birth, registering all children in a National Social Protection Registry proposed in Chapter 6. In doing so, providing protection at each stage of everyone's life can be made possible. Not only that, it also facilitates assistance to adults as it can be tied to other proposed schemes such as the maternity grant proposed in Chapter 4 as an income protection for women following childbirth.

Implementing a UCB will be a step in the right direction to establish a social protection floor for children but it is by no means a panacea for all risks present during childhood. While there are benefits of providing cash to families, some childhood risks can only be addressed through different forms of intervention namely in-kind benefits, social services and public campaigns. For example, household food insecurity because of financial constraints may be solved through cash benefit but without complementary interventions to educate households on eating healthily, it may result in households purchasing low-quality food that costs less. The implementation of a UCB should be followed by complementary policies on important areas such as school feeding programme and early childhood care and education to holistically ensure children's well-being.

Moreover, better indicators including routine reporting on child poverty and multidimensional poverty measures must be tracked to better understand children's well-being and its developments. We believe that only after creating a social protection floor and having more information can refined, targeted measures be taken to supplement the UCB.

This chapter has shown that implementing UCB in Malaysia is within the current policy and fiscal space. What remains is the political will and courage of the powers that be to ensure no children is left behind.

CHAPTER

04

EXPANDING SOCIAL SECURITY TO ALL WORKING-AGE INDIVIDUALS 52

CHAPTER 4

EXPANDING SOCIAL SECURITY TO ALL WORKING-AGE INDIVIDUALS

We need a new model of social protection. Let us accept that jobs are not the magic solution—and that in a globalised market, job guarantees are a false promise. Let us accept flexible labour, too. But in return, let us have a society in which everybody has a right to basic security and a more equal access to other insurance-based schemes.

Guy Standing (2013)[117]

4.1 Introduction

The working age constitutes more than half of one's life. Work is a significant part of it, not only as a way to earn a living, but also to give one a sense of purpose and identity. Good and fulfilling work is essential for individual and societal well-being. In their working life, people aspire to have the opportunity for productive work that is compensated fairly, security at their workplace, social protection for them and their families, prospects for personal development as well as social integration, freedom to express their concerns, organise and participate in decisions that affect their lives, and enjoy equal opportunity and treatment regardless of their gender[118] This encapsulates the concept of decent work advanced by the ILO, with social protection being an important element in ensuring acceptable living standard and driving inclusive and sustainable growth. While earnings through labour market activities are an important source of income security during the working age, social protection plays a complementary role to smooth income and hence consumption, and provide income protection that prevents people from falling below poverty and promotes individual's capabilities.

In the context of the provision of social protection, this chapter illustrates differences in access to social security among the working-age population by employment status. Some people also face higher risks and limited social protection because of the changing nature of work relationships, in response to changes in labour demand and technology.

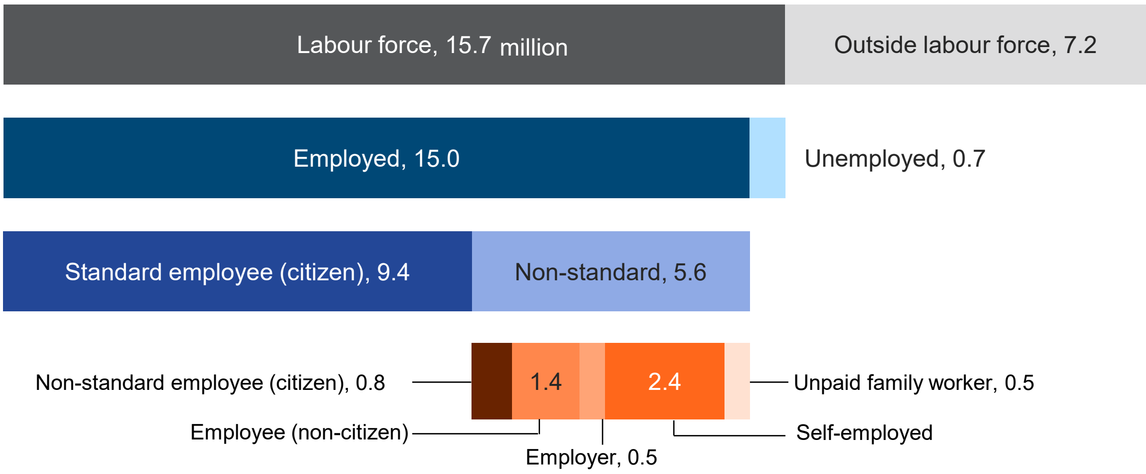
This chapter starts with an overview of the working-age population and major risks they face during their working life which subsequently contribute to income insecurity. It then looks at existing social security schemes in Malaysia, as well as the gaps in these schemes. Given the issues identified, this chapter will propose several policy recommendations to expand social security schemes to all working-age individuals in the country.

[117] Cited in The Guardian (2013)
[118] ILO (n.d.-a)

4.2 Overview of the Working-age Population

The working-age population is defined as individuals between the ages 15 and 64 years old[119]. They make up about 70% of the population in Malaysia. Among the working-age population, people have different status in the workforce, which may change throughout their working age (see Box 4.1). In 2020, the working-age population is estimated to be 22.9 million, of which 15.7 million are in the official labour force i.e. 68% of the population is considered economically active. They are either employed (15.0 million) or unemployed and actively seeking jobs (0.7 million). The remaining 7.2 million are outside the labour force (Figure 4.1).

Figure 4.1: Number of persons in working-age population, by status in the workforce, 2020



Note: Standard employee estimate only available for citizens. See Box 4.2 for the definition and estimate of standard and non-standard employment
Source: DOS (2021c)

Box 4.1: Statuses in the workforce

National statistics defines the working-age population as individuals between 15 and 64 years old. The Children and Young Persons (Employment) Act 1966 defined children to be under 15 years old, and they are prohibited from working except in some circumstances such as light work done for their family[120]. Meanwhile, the Minimum Retirement Age 2012 defined the minimum retirement age to be 60 years old, although an employee may retire at the age of optional retirement, as specified in their employment contract or collective agreement[121]. Given the pressing challenges of an ageing population, some have recommended the minimum retirement age to be gradually increased to 65 years old[122].

[119] The national age threshold follows the age threshold used by the ILO and other international bodies.
[120] GOM (1966)
[121] GOM (2013)
[122] KRI (2016), World Bank (2020a)

In this chapter, we rely heavily on the employment statistics published by the Department of Statistics Malaysia (DOS), especially their Labour Force Survey reports. This annual household-based publication identifies the employment status of the working-age population. In the survey, respondents were inquired about their economic activity in the seven days preceding their interview. They are considered to be in the labour force if they are either employed or unemployed. Employed persons worked for at least an hour for pay, profit or family gain, at any time in the reference week. A person working more than 30 hours per week are considered to be in full employment, while less than 30 hours are considered to be in underemployment. Unemployed persons did not work during the reference week and are considered actively unemployed if they are available for work and actively looking for jobs.

People who are not classified as either employed or unemployed are considered to be outside the labour force (2020: 7.2 million). However, they are not necessarily "idle" despite being economically inactive. In 2020:

- 2.9 million persons were outside the labour force because they are still in school, as the formal secondary education in Malaysia finishes at 18 years old.
- 3.3 million are not in the workforce due to housework or family responsibilities.
- About 529,200 persons are retired, 264,000 are disabled, 128,400 further their studies, and around 71,500 persons are not interested to be in the workforce.

Source: Adapted from DOS (2020b), DOS (2021c)

Among employed individuals, they have different employment status, defined based on the nature of their working relationships. A **standard employee** refers to a worker whose employment relationship with an employer is clearly defined. The employment relationship usually does not have a term limit (open-ended employment duration) and their working hours are regular. They receive a salary on a predictable interval (e.g. monthly) and have a stable inflow of income. Additionally, they are required to contribute to, and receive employers' contribution in the statutory social insurance schemes managed by SOCSO and in the retirement savings schemes managed by EPF. The schemes under SOCSO will be discussed in this chapter, while the schemes under the EPF will be discussed in Chapter 5.

However, employment relationships could also be non-standard, defined as anything that deviates from the standard employment relationship. **Non-standard workers** might have an employer, but unlike standard employees, they are hired on temporary or part-time basis, have non-regular working hours (on-call), have multiple layers of employer (employment via agency or multi-party). In some cases, they are dependent self-employed. Non-standard employment features prominently in digital labour platforms[123] . For the purposes of this report, we also include employers, self-employed and unpaid family workers as non-standard, because they deviate from the definition of standard employees. The self-employed do not have an employer or hire anyone, while unpaid family workers typically help with household-based market production. In 2020, there were about 2.4 million individuals who were self-employed and more than half a million unpaid family workers in the country. Due to data limitation, we could not differentiate standard and non-standard employees among non-citizens, so all non-citizen employees (estimated to be 1.4 million in 2020) are conveniently assumed to be non-standard.

[123] ILO (n.d.-d)

Between 2010 and 2020, about three in 10 employed Malaysians were estimated to be non-standard workers . In the last decade, it has expanded faster than standard employment among urban-based, younger and tertiary-educated workers (See Box 4.2).

Box 4.2: Non-standard employment in Malaysia

Based on Hawati Abdul Hamid and Nur Thuraya Sazali (2020), non-standard employment is estimated as the residual total employment after factoring out full-time wage recipients. Authors rely on this methodology because Malaysia does not have a comprehensive database on the diverse types of non-standard employment. For instance, data on part-time employees are only available in establishment surveys that are not published annually. While the total size of the self-employed is published annually in the Labour Force Survey, we do not know whether they are dependent or independent self-employed (e.g. owner operator with full control of business and operations).

Hawati Abdul Hamid and Nur Thuraya Sazali (2020) used the total number of Malaysian full-time employee wage recipients reported in the annually published Salaries and Wages Surveys as a proxy for standard employee. This value is subtracted from the total number of employed Malaysians, obtained from the Labour Force Surveys. Due to data limitation, estimation for non-citizens is unavailable.

Between 2010 and 2020, about three in 10 employed Malaysians were estimated to be non-standard workers (Figure 4.2). They were more commonly found in agricultural activities, wholesale and retail, and accommodation and food and beverages sectors (Figure 4.3). 23.5% of non-standard employment were in the agriculture sector, a stark contrast from standard employment wherein agriculture share was only 2.6%.

Figure 4.4 illustrates the annual growth rate of standard and non-standard employment across different demographic characteristics in the last decade. In general, standard jobs grew faster than non-standard jobs, at 2.8 % per year versus 1.3% per year. However, the growth rate of non-standard employment was much faster among urban workers, younger workers and tertiary-educated workers.

The difference was most stark between workers with and without tertiary education. While standard employment expanded by 5.9% per year in the last decade for tertiary-educated workers, non-standard employment grew by 1.2 percentage points faster, at 7.1% per year. In contrast, non-standard employment only grew at 0.3% per year compared to standard employment growth of 1.5% per year, among non-tertiary-educated workers. While this could be indicative of a more flexible labour market for educated workers, the likelihood of precarious working conditions and decent work deficits should not be ignored.

Figure 4.2: Number of non-standard employment (left axis) and share from total employment (right axis), 2010 – 2019

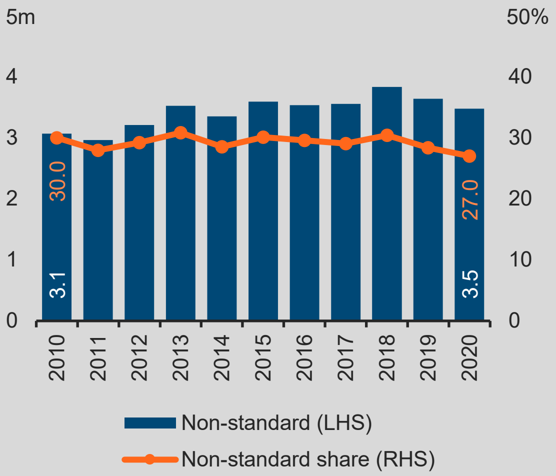
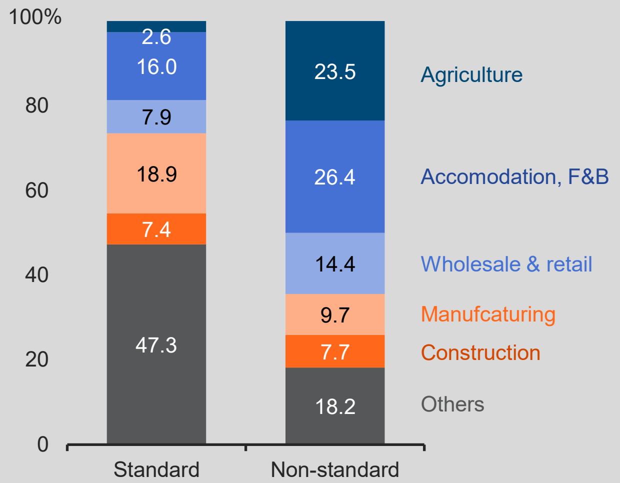
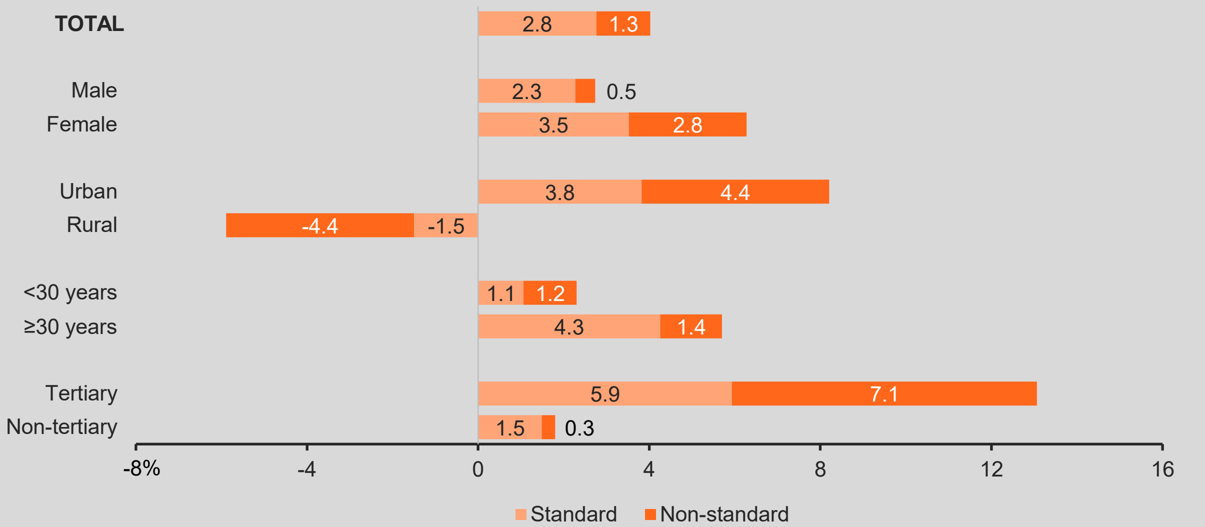


Figure 4.3: Share of standard and non-standard employment from their respective total, by economic activity, 2019



Note: Data refers to citizens only
Source: DOS (various years-a), DOS (various years-b), KRI calculations

Figure 4.4: Compounded annual growth of standard and non-standard employment, by demographic, 2010 – 2020

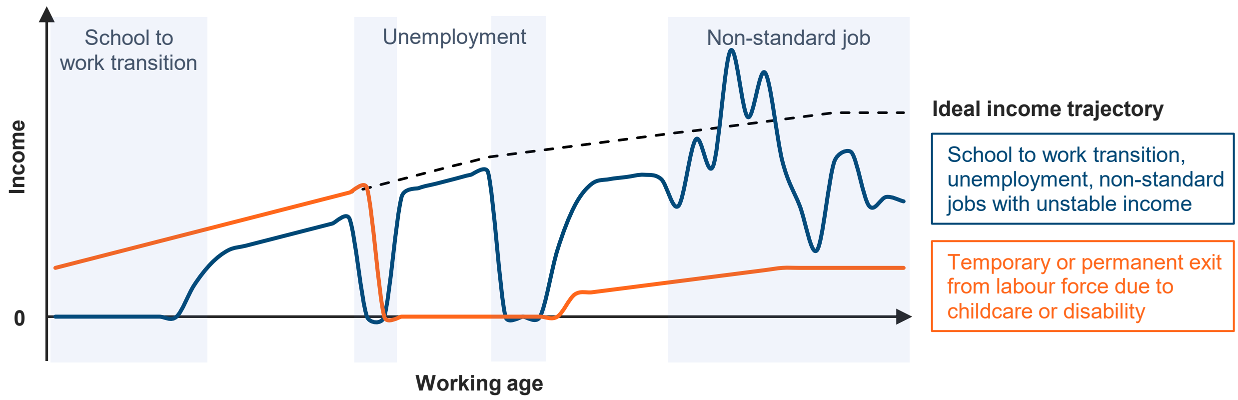


Note: Data refers to citizens only
Source: DOS (various years-a), DOS (various years-b), KRI calculations

4.3 Risks Faced by the Working-age Population

The movements between different life events, jobs and employment status throughout one's working life can affect income security. In an ideal situation, a standard employee who worked for the same employer until he retires is expected to have a steady inflow of income, shown as the dotted black line in Figure 4.5. However, such lifetime employment is unlikely the case for most workers today. This has implications not only on the well-being of the individual worker, but household members who depend on them.

Figure 4.5: Income trajectory throughout the working age



Source: KRI illustration

Temporary or permanent exit from workforce

A person could face income loss if they temporarily or permanently leave the workforce due to accidents, disability or invalidity due to an injury that they get while they are working. This is the case especially for workers in agriculture, mining and quarrying, as well as construction, as they face higher rates of fatal and non-fatal occupational injuries[124]. These subsectors tend to hire more men and foreign workers too, leading to higher employment-related risks or incidences among men and foreign workers. However, the occupational health risks of female workers must not be understated too, especially since Covid-19. More female workers are exposed to the virus and its longer term consequences, due to the front-facing nature of their jobs[125].

Disability could also be caused by non-employment circumstances, and people with disabilities either cannot work, or face great barriers in the labour market if they want to work. Unemployment among disabled persons is associated with lack of suitable jobs, accessibility and mobility issues, negative perception from employers and their peers, as well as lack of training to help them perform[126]. Moreover, some people have invisible disabilities that are harder to detect and cannot be recognised or understood by others more easily[127]. These challenges can contribute significantly to income insecurity among people with disabilities.

For women, there is also the additional risk of income loss due to their inability to work while they give birth and recover from it. Some even leave the workforce permanently to continue performing essential care work. In the absence of their own salary, women then rely heavily on household income and savings (from partner or other family members). This reliance might also risk their autonomy in some decision-making process within the household. Domestic care work, mostly unpaid, is also exposed to various types of injury risks[128]. For instance, exposure to chemicals used in housecleaning products have long-term health consequences especially when they are not used with the appropriate protective equipment. Some tasks are also physically demanding and can lead to musculoskeletal disorders, for instance having to carry heavy household items, or assisting the mobility of a disabled or older person.

[124] Nur Thuraya Sazali and Siti Aiysyah Tumin (2020)
[125] KRI (2020b)
[126] Tiun and Khoo (2013), Abdul Razak et al. (2019)
[127] MIND (n.d.), Disabled World (2020)
[128] Menegatti (2016), Theodore, Gutelius, and Burnham (2019)

School to work transition and unemployment

Among working individuals, their work situation is not static, and their income trajectory could be cyclical. At the start of one's working life, young jobseekers face challenges to transition from school to work, as evident by higher unemployment rates among youth in the country. In 2020, the unemployment rate of 15—19-year-olds was 15.2% and the rate for 20—24-year-olds was 11.1%, both much higher than the national average of 4.5%[129]. To sustain their lives while looking for work, young jobseekers rely solely on their family to support their livelihood and job search efforts. However, most unemployed young workers are likely from low-income households who do not have high amounts of savings or might not have savings at all. In 2019, close to 60% of unemployed graduates were found to be from households with income less than RM4,000 per month[130].

Unemployment is also not just a youth-centric issue. Some adults face voluntary or involuntary unemployment, due to factors both within and beyond their control. In the case of voluntary unemployment, they might be seeking jobs with better income prospects or working conditions. For involuntary unemployment, people could lose their jobs due to retrenchment, closure of businesses or structural changes in the economy. Regardless of the circumstance, unemployment leads to loss of income and people have to rely on their individual or household savings. Unfortunately, savings among working adults is also not encouraging. In a survey by Bank Negara of Malaysia, almost two out of 10 Malaysian working adults were unable to save, and most cited cost of living and no surplus income as their main reasons for not saving enough[131].

Non-standard jobs

Some people are also more likely to experience non-standard working relationships, potentially due to factors such as sudden but temporary increase in demand for certain type of work. Increased hiring of non-standard workers allow flexibility among employers to manage the short-term nature of the rise in demand. For example, the Covid-19 pandemic increased the demand for app-based delivery riders by about 100,000[132], and more than 14,500 contract healthcare staff was hired to help manage this crisis[133].

Furthermore, technological advances have led to the development of various digital platforms that allow workers to work more flexibly in the platform or gig economy, a development that will likely be a permanent feature of the labour market. Digital workforce could either be online web-based (tasks performed online by workers, such as freelancers or workers performing microtasks) or location-based (tasks carried out in-person, enabled by digital platforms, such as taxi drivers or delivery workers)[134]. Both lead to income that is more irregular or unstable, and workers can earn higher or lower than the standard employee, depending on the type of work. A survey of more than 300 e-hailing drivers in Malaysia estimates that the average net income of a full-time driver is RM2,300 per month[135], lower than the Malaysian average employee salary of RM3,224 in the same year[136]. However, their earnings can be more volatile compared to standard employees and they are less likely to earn the same amount of income every month.

---

[129] The unemployment rate in 2020 is higher due to the Covid-19 pandemic. In 2019, national unemployment rate was 3.3%, and remained to be around 3% on the last decade. However, youth unemployment rate is consistently higher. Source: DOS (2020b), DOS (2021c)
[130] MOHE (2020)
[131] AKPK (2018)
[132] Grab (2020)
[133] Based on figure shared PMO (2021)
[134] ILO (2021)
[135] Goh and Nelleita Omar (2020)
[136] DOS (2021f)

The trend of non-standard employment is highlighted as it presents several challenges to achieve the decent work agenda, most pressingly in the provision of social protection. Employment laws and regulations, as well as enforcement of social security schemes, are only applicable for standard employees with clear employer-employee relationships. Introduction or amendments of laws or regulations and new social security schemes have been introduced to consider new forms of work relationships in many countries including Malaysia. However, they might ignore the heterogenous nature of non-standard employment relationships (see Box 4.3).

Different life events, jobs and employment status could result in different state of well-being among people in the working-age population. This chapter will focus on the core life cycle risks of the working-age population which lead to income loss and risk the individual to fall below the poverty line: (1) employment-related injuries or invalidity; (2) unemployment; and (3) childbirth. To guide our discussions, we rely on the minimum and higher standards specified by the relevant conventions and recommendations of the ILO, summarised in Appendix B.

In this report, we focus on increasing the coverage of social security in the working-age population, such that they are provided basic income security when they experience a drastic economic shock i.e. total income loss. However, we recognise other challenges in the working-age population that might limit the effectiveness of social security. For example, low wage levels, which determines contribution and benefit levels, might not provide adequate protection for the affected insured persons. Lack of adequate care policies also exacerbate the vulnerability of unpaid carers in the country. While important, these issues are beyond the scope of this report. Formulation and reforms of other complementary policies, such as active labour market policies, health policies and care policies are essential to provide an effective social protection floor[137].

Box 4.3: Heterogeneity of work relationships

Many social protection initiatives for non-standard employment, especially the self-employed workers, assume that they are fully responsible for contributing to their own social insurance schemes, in the absence of an employer. However, this ignores the heterogenous nature of work relationship and whether the self-employed are truly independent and therefore should solely be responsible for their own social security.

Identifying the nature of work relationships has been the core of identifying whether self-employed individuals on digital platforms are truly independent. France, Spain and the Netherlands[138] argue self-employed individuals on gig platforms are in fact employees, and platform companies were required to fund the social security contributions for these workers. The United Kingdom (UK) argued that e-hailing drivers are not independent contractors, but workers who are entitled to several employment rights[139].

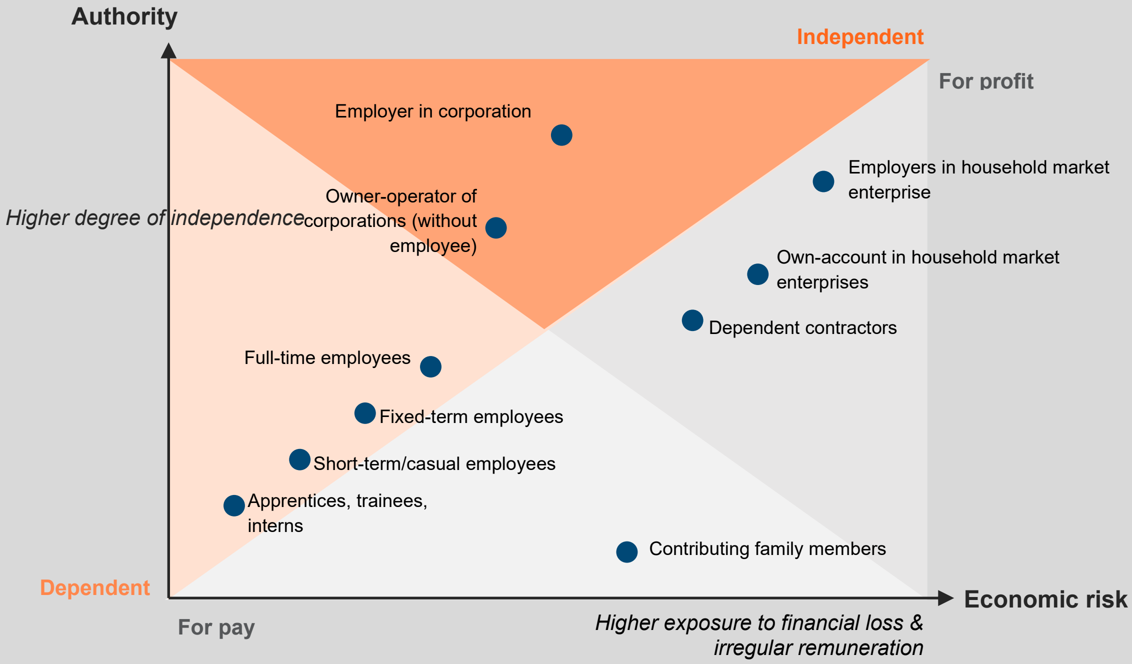
[137] For discussion on active labour market policies, see Siti Aiysyah Tumin (forthcoming); health policies see KRI (2020a) and Nazihah Muhamad Noor (forthcoming); care policies, see KRI (2019)
[138] As cited by Goh and Nelleita Omar (2021)
[139] CNBC (2021)

On the other hand, in the United States, the California assembly Bill 5 initially granted gig workers the rights of employees, but this has since been reversed by the Proposition 22, meaning that platforms do not have to provide entitlements such as minimum wages, paid sick days and unemployment insurance for gig workers on their platform[140]. Similarly, in Australia, the Fair Work Ombudsman also found that Uber drivers are independent contractors and not employees[141].

Goh and Nelleita (2021) based on Roll (2020), used a "dependence" and "control" framework to determine the extent of dependence (or lack thereof) among gig workers—e-hailing drivers and delivery riders, could be classified as "dependent contractor" or "employee", while freelance writers, graphic artists and programmers could be classified as "independent contractor" or "dependent contractor"[142].

In the 20th International Conference of Labour Statistician 2018, the ILO used both the type of "authority" and type of "economic risk" to define work relationships. Authority identifies whether workers are independent workers or dependent workers. In the case of the former, they have control on how they work, while the latter is generally supervised by an authoritative figure. Economic risk identifies whether workers are exposed to financial gain or loss, and whether their remuneration is for profit or for pay. The former implies that they would be more exposed to economic shocks and irregular income, while the latter implies that they would be more insulated from economic shock and receive stable income (Figure 4.6). This framework includes the classification of all employed individuals and not just the "gig workers".

Figure 4.6: Classification of workers based on authority and economic risk



Source: KRI illustration adapted from ILO (2018b)

140 The Guardian (2021), The Guardian (2020)
141 ABC News (2021)
142 Goh and Nelleita Omar (2021), Roll (2020)

Currently, international and national employment statistics only defines four types of employment status to capture different work relationships: employer, employee, own account worker (self-employed) and unpaid family worker. Given more complex employment relationships, international classification is currently developing new employment status, as defined by their authority and economic risks. For example, the self-employed could be further categorised into three types: owner-operator of corporation (e.g. sole proprietors or partners in a private limited companies), own-account in household market enterprisers (e.g. smallholder farmers) and dependent contractor (e.g. drivers of e-hailing platform).

However, clear categorisation of workers for statistical purposes is necessary but not a sufficient condition to guarantee effective protection for the self-employed, both legally and in practice. Much of employment relationship is still defined based on the employer-employee framework in Malaysia. The proposed amendment of the Employment Act 1955 (which started in 2018) included some provisions to allow for a more nuanced take on how work relationships are defined. However, in August 2020, the government noted that it will not amend the act to adapt to jobs in the gig economy, but instead establish specific legislations for the gig economy[143].

4.4 Social Protection Policies and Coverage Gaps in Malaysia

Unlike children or older adults, the working-age population has the advantage of being economically active and has the ability to contribute to their own social security. This is the case for close to two-thirds of the population who are working.

Malaysia relies on employees and their employers to manage the life cycle risks faced by working individuals, through various social insurance schemes that provides income protection in the event of employment-related injury, invalidity and employment loss. The issues of effective and legal coverage gaps of these social insurance schemes are discussed in this section.

There is also social assistance for selected groups in the population. For example, there is universal disability benefits provided by JKM for disabled persons, regardless of their economic activity status. This is an essential social protection floor for disabled persons in the country, although it is not without limitations. Certain occupations, such as farmers and fishermen also receive income assistance, although the amount is small. Some assistance is also available for some women, but specific to their status as a parent (e.g. single mother). In view of the limited reach of some social assistance programmes, the expansion of social insurance schemes is key towards providing an inclusive social protection floor for the population.

[143] Malay Mail (2020)

4.4.1. The state of social protection for working-age population in Malaysia

Social insurance with income replacement benefits

In Malaysia, SOCSO was established as an agency under the MOHR when the Social Security Act 1969 (Act 4) was introduced. In 1971, the first employment injury scheme was implemented. It was followed by the invalidity pension (introduced in 1974) and survivors' pension (introduced in 1985), which guarantee lifetime income support for insured workers in the event they become permanently disabled and their survivors if they passed away. In 1985, SOCSO became a statutory body, enhancing its capacity to implement and enforce social security in Malaysia.

In 2017, coverage of the employment injury scheme was extended to self-employed workers, under the Self-Employment Social Security Act 2017 (Act 789). Initially, Act 789 only covers selected sectors, but it has since been expanded to all sectors in 2019. The employment injury scheme was also extended to all documented foreign worker employees in 2019[144], and included foreign domestic workers in 2021[145]. The government also announced that coverage for housewives will be introduced in 2022. Malaysia also started to provide social security against unemployment, through the introduction of the Employment Insurance System Act 2017 (Act 800). The details of these schemes are summarised in Table 4.1.

Table 4.1: Key features of social insurance schemes in Malaysia

Risk	Employment injury & invalidity		Unemployment
Legislation	Act 4 & Act 789	Act 4	Act 800
Scheme	Injury	Invalidity & survivors' pension	Employment insurance
Type of worker covered	Employee & self-employed	Employee	Employee
Benefits	• Medical benefit • Temporary disablement benefit • Permanent disablement benefit • Constant attendance allowance • Rehabilitation facilities • Dependent benefits • Funeral benefits • Education loan for dependent child of an insured person who passed away	• Invalidity pension or grant. If recipient pass away, their survivors receive the pension • Constant attendance allowance • Rehabilitation facilities and dialysis facilities • Funeral benefits • Education loan	• Job search allowance • Reduced income allowance • Early re-employment allowance • Training fees coverage and training allowance • Various employment support services

Note: Refer to Appendix C for full description of benefits for each scheme and their qualifying conditions. Employee includes part-time employees and apprentices
Source: SOCSO (n.d.-b), SOCSO (n.d.-c), SOCSO (n.d.-e)

[144] Previously, protection for injured foreign workers are covered by the Workmen Compensation Act 1952.
[145] The Star (2021), SOCSO (n.d.-a)

The public sector is not a contributor to the social security schemes under SOCSO, except government contract workers. Act 4 explicitly excluded the armed force as they are covered by the LTAT and other public sector employees were excluded by subsidiary legislations[146]. In the event if employment-related injuries, civil servants are entitled to benefits provided by the LTAT or payment of an ex-gratia by the government[147].

In these different schemes, the social insurance funds rely on the contribution of employers and employees in the private sector (Table 4.2). The injury scheme is fully paid by employers, but the contribution for the invalidity and survivors' pension scheme as well as employment insurance scheme are distributed between employers and employees. The injury scheme is also mandatory for all types of employees (full-time, part-time), but they are voluntary for the self-employed. The invalidity pension scheme and the employment insurance scheme has not been extended to self-employed workers and foreign workers.

In total, employees contribute 0.7% of their wages to social security schemes that help them manage income loss risks in the event of injury or occupational diseases, invalidity and unemployment, while their employer contributes 1.95%. Self-employed persons contribute 1.25% of their insured earnings, but only to manage income loss risks due to injury caused by employment-related accidents.

Table 4.2: Contribution rates of social insurance schemes in Malaysia

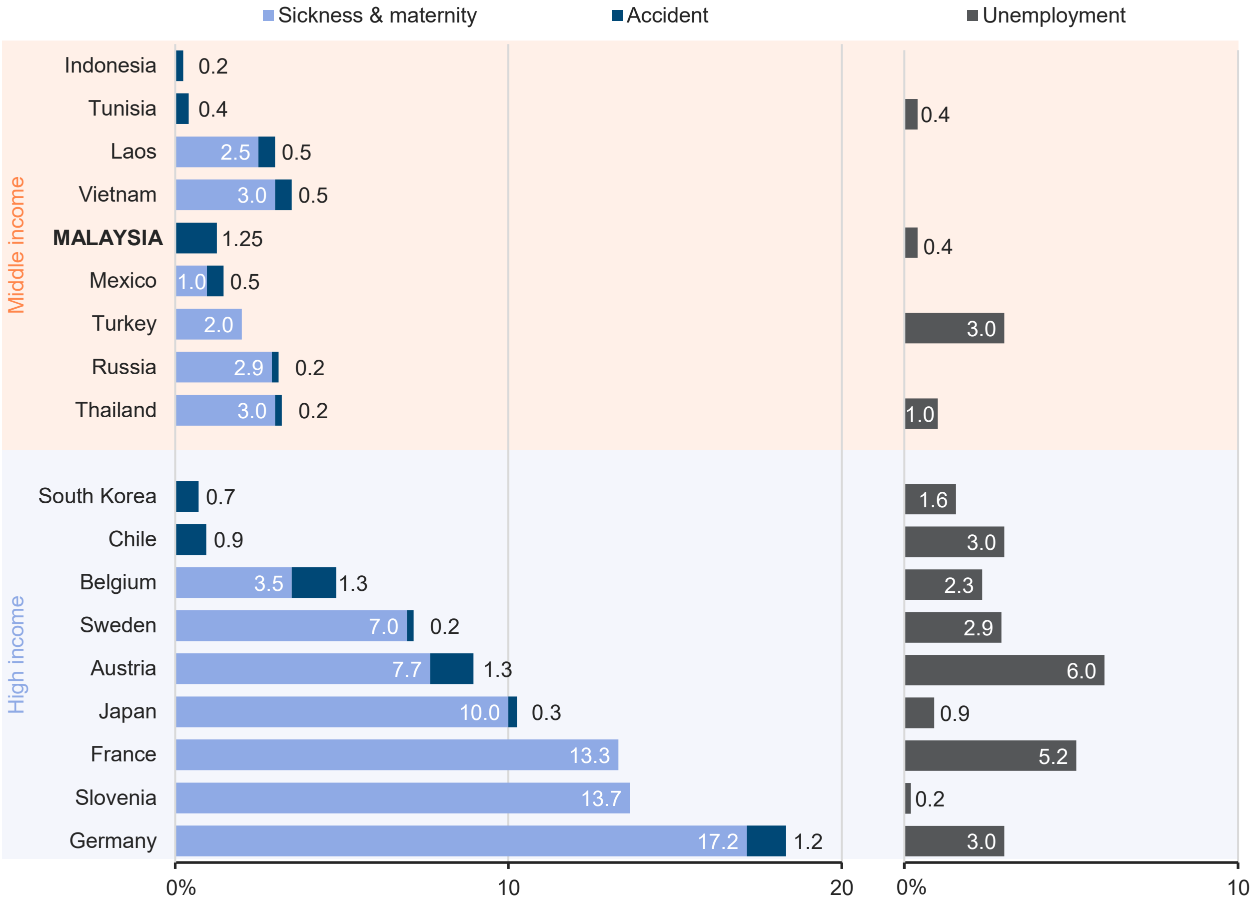
Type of worker covered	Risk	Scheme	Contribution, as % of wages, capped at RM4,000	
			Employer	Worker
Employee in private sector	Injury & invalidity	Injury	1.25%	0.00
		Invalidity & survivors' pension	0.50	0.50
	Unemployment	Employment insurance	0.20	0.20
		Total	**1.95**	**0.70**
Self-employed	Injury & invalidity	Injury	Not applicable	1.25
		Invalidity & survivors' pension		Not available
	Unemployment	Employment insurance		
		Total		**1.25**

Source: SOCSO (n.d.-f)

However, the contribution rates for social security in Malaysia are arguably lower compared to selected peer and advanced countries, as illustrated in Figure 4.7. For social insurance covering accidents and injury, Malaysia's 1.25% contribution rate is still lower than the 1.3% of more advanced countries like Belgium and Austria. Individuals affected by accidents in other countries could also access benefits via other branches of their country's social security schemes (e.g. sickness), which has much higher contributory rates for most countries. In the case of unemployment, Malaysia's 0.4% rate for its employment insurance scheme is far lower than peer middle-income countries like Thailand (1%) and Turkey (3%), and high-income countries like Austria (6%) and the Netherlands (4.2%) (Figure 4.7).

[146] The relevant gazettes are P.U(B)643/1982, P.U(B)433/1984 and P.U(B)434/1984, as cited in SOCSO (2013).
[147] GOM (n.d.-a), GOM (n.d.-b)

Figure 4.7:Total contribution rates for social insurance, by type and selected country



Note: Contribution rate based on latest available year
Source: ISSA (n.d.-)

While contribution rates differ depending on demographic and economic structures, commitment to expand the ability of social security systems to collect and utilise funds to comprehensively cover core life cycle risks is essential. Given Malaysia's current low rates, there is likely some space to increase the contribution rates, especially if the government actively participates as a third contributor.

In the event of injury and unemployment, insured persons have access to the benefits of these schemes (Table 4.1) if they fulfil the qualifying conditions (Table 4.3). Income replacement is an essential part of the benefits, usually based on workers' last income (capped at RM4,000) before they are injured or experience employment loss.

There are also other complementary benefits. Considering the medical needs of an injured person, the injury scheme includes medical benefits, constant attendance allowances for caretakers, and rehabilitation assistance. Considering the needs of a person who just lost their job, the employment insurance scheme includes training allowance and fees coverage as well as various employment support services.

Table 4.3: Qualifying conditions of social insurance schemes in Malaysia

Cause of income loss	Employment injury & invalidity		Unemployment
Legislation	Act 4 & Act 789	Act 4	Act 800
Scheme	Injury	Invalidity & survivors' pension	Employment insurance
Qualifying conditions	Injury caused by accident while doing one's job, commuting accident, accident during emergency and occupational disease	Not attained 60 years, invalidity is certified by Medical Board or the Appellate Medical Board. **Full qualifying condition**: Monthly contribution paid at least 24 months within 40 consecutive months prior to the month of the Invalidity notice, OR monthly contribution paid for not less than 2/3 of complete months between date when contribution first become payable and Invalidity notice. **Reduced qualifying condition**: Monthly contribution paid for not less than 1/3 of complete months between date when contribution first become payable and Invalidity notice, total number of monthly contributions must be at least 24 months.	Contribute 12 to 15 out of the 24 consecutive months prior to loss of employment, to access at least 3 months of benefits. Must fulfil definition of **loss of employment (LOE)** and apply within 60 days Does not cover dismissal due to employee misconduct, voluntary resignation, retirement, expiry of a fixed-term contract or completion of a project.

Note: Refer to Appendix C for full description of benefits for each scheme and their qualifying conditions
Source: SOCSO (n.d.-b), SOCSO (n.d.-c), SOCSO (n.d.-e)

Reliance on employers' liability for maternal income protection

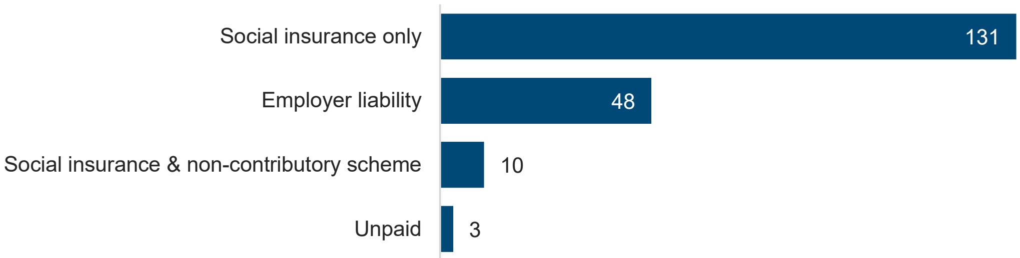
Malaysia relies on the employers' liability model to guarantee income protection for expecting women employees. In this model, national legislation specifies employers' responsibilities to guarantee income protection for women when they give birth and care for their newborn. Malaysia's Employment Act 1955 (Act 265) requires employers in the private sector to pay female employees who are on maternity leave their full salary for 60 consecutive days. The length of paid maternity leave has been proposed to be extended to 90 days[148], matching the 90 days of paid maternity leave for female employees in the public sector. In the Employment (Minimum Rate of Maternity Allowance) Regulations 1976, the minimum allowance rate was set to be RM6 per day, but it has not been updated since. Aside from paid maternity leave, Act 265 also protects mothers' future income by prohibiting the dismissal of female employees when they are on their maternity leave[149].

[148] Extension was proposed in the Budget 2020, said to be effective in 2021. However, the government changed in early 2020. At the end of 2020, the Ministry of Human Resources (under the new government) stated that the amendment of Act 265 to increase maternity leave is in its final stages. As of May 2021, the status of Act 265 amendment remains unknown. Source: Malaysiakini (2019), The Star (2020a)
[149] GOM (1955)

The employer's liability model has several limitations, mainly because it might create a source of discrimination against women. Employers might be reluctant to hire and promote pregnant women or those with family responsibilities[150], and deviates from the principles of solidarity in funding social security and the pooling of life cycle risks. As a result, most countries rely on or have shifted towards relying on a social insurance model and public funds for maternity income protection (Figure 4.8). As shown in Figure 4.7, this is usually combined with social insurance to cover sickness leave as well.

Like social insurance for injury or unemployment, workers and employers make monthly contributions from their wages to the social security fund, and allowance for maternity leave is funded by the fund rather than the employer, in the event of childbirth. In some countries, the social security fund also provides paternity leave for fathers of the newborn. Countries also combine their social insurance schemes for paid parental leave with other child benefits and family allowances[151]. In Malaysia, paternity leave is not statutorily provided, except for public sector employees who get seven days of paid paternity leave. This can potentially negatively affect women's participation in the workforce after childbirth, since the absence of paternity (or parental) leave policies continue to reinforce the idea that childcare is merely the responsibility of the birthing mother.

Figure 4.8: Total countries, by type of scheme for maternal income protection



Source: ILO (2017d)

While typically associated with high income countries, calculations by the ILO show that a minimum package of social security for maternal income protection is both affordable for the poorest countries (estimated to be between 2.2% and 5.7% of GDP in 2010) and conducive for economic and social development[152].

Moreover, the cost of financing maternity protection through the social security scheme is often lower than other branches of social security. Provision of maternity cash and medical benefits could entail contribution for less than 0.7% of covered wages, while maternity cash and sickness benefits could entail contribution of between 1% and 3% of wages, with sickness benefits taking a larger portion of the expenditure. Given that Malaysia already has social insurance schemes in place for other working age life cycle risks, integrating income protection following childbirth can be an essential reform to provide better protection for the working-age population.

[150] ILO (2014a)
[151] See KRI (2019) for detailed discussion on care policies in Malaysia and other countries.
[152] ILO (2014a)

4.4.2. Coverage gaps in social insurance for the working-age population

Over the years, SOCSO has managed to steadily increase its total contributors, leading to an increasing size of the fund. Back in 1982, only 25.2% of total employed persons in Malaysia were registered with SOCSO, but this rate almost doubled to 47.8% in 2018[153].

Coverage gap in the existing social insurance schemes is the biggest challenge in providing an inclusive social protection for the working-age population. While they are mandatory for all private sector employees in all economic activities, some are still non-contributors. They could be workers in the informal sector or those working for employers who do not comply with mandatory contribution requirements. While social security for injury is available for the self-employed, contribution is voluntary and take-up rate remains low.

Injury and invalidity risks protection are applicable to about 13.3 million workers, but only 8.5 million (63.6% of target population) are covered by some income protection in the event of injury through disablement benefits, invalidity pension or ex-gratia payment (Figure 4.9).

Unemployment risk protection is available for 8.9 million Malaysian workers[154], but only 6.8 million (76.3% of target population) private sector employees are contributors to SOCSO's employment insurance scheme and are entitled to job search allowance (JSA) to cushion the impact of retrenchment and assist new job search activities (Figure 4.9).

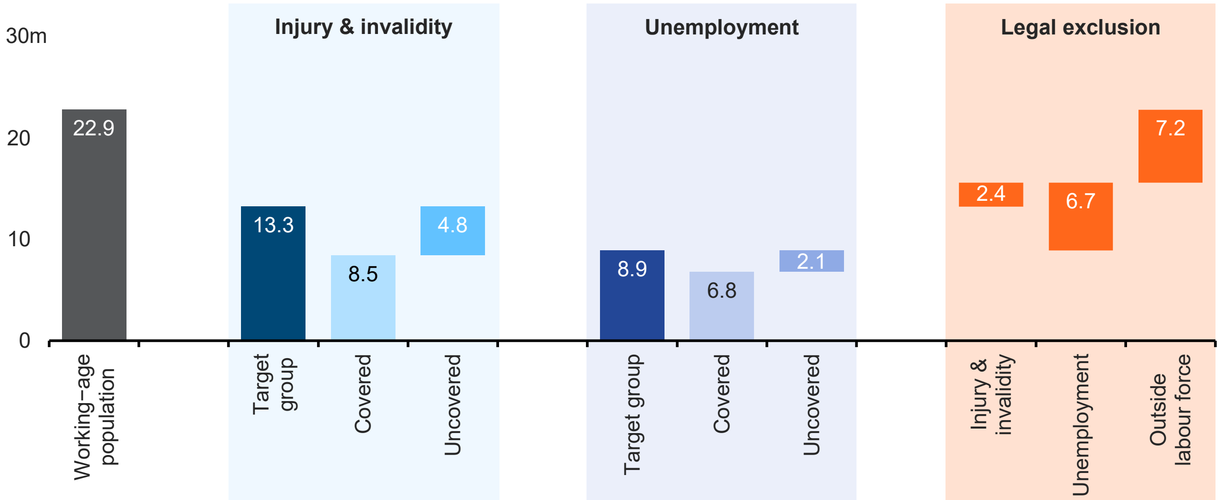
There are also some legal exclusions to the existing social security scheme. 2.4 million persons are legally excluded from injury and invalidity scheme. About 6.7 million persons are legally excluded from employment insurance scheme. These include individuals who identify as employers (sole proprietors or partners, who could make voluntary contribution by classifying themselves as employee in their incorporated business), unpaid family workers and unemployed individuals who do not earn any income to make contribution into the schemes. The employment insurance scheme also legally excluded non-citizen employees and the self-employed.

Moreover, these schemes are also unavailable for close to 7.2 million people outside of the workforce because they are not earning income through participation in the labour market. However, the government announced that housewives will be covered by a voluntary injury scheme, starting 2022[155].

In short, only 37% of the working-age population have protection against injury and invalidity risks, while 30% have protection against unemployment risk.

[153] Hawati Abdul Hamid and Nur Thuraya Sazali (2020)
[154] Total Malaysian employees reported in DOS (2021c), minus total public sector employees (2019 figure) in KPWKM (2019).
[155] Astro Awani (2021b)

Figure 4.9: Number of persons with coverage against injury, invalidity and unemployment risks among the working-age population, 2020



Note:
Target group defined based on who the associated schemes target, as follows:

- **Injury & invalidity**: Total employees (public and private sector, citizen and non-citizen) and total self-employed (citizen only). While public sector employees do not contribute to SOCSO employment injury & invalidity pension scheme, their injury and invalidity risks are covered under ex-gratia or pension payment
- **Unemployment**: Total citizens employees (minus public sector)

Covered group are defined as follows:

- **Injury & invalidity**: Total employee contributors in the injury & invalidity scheme (figure for 2020, citizens and non-citizens), total self-employed contributors in self-employed injury & invalidity scheme (figure for 2020, citizens), total civil servants (figure for 2019)
- **Unemployment**: Total employee contributors in the employment insurance scheme (figure for 2020, citizens)

Source: SOCSO (2021a), DOS (2021c), KPWKM (2019), KRI calculations

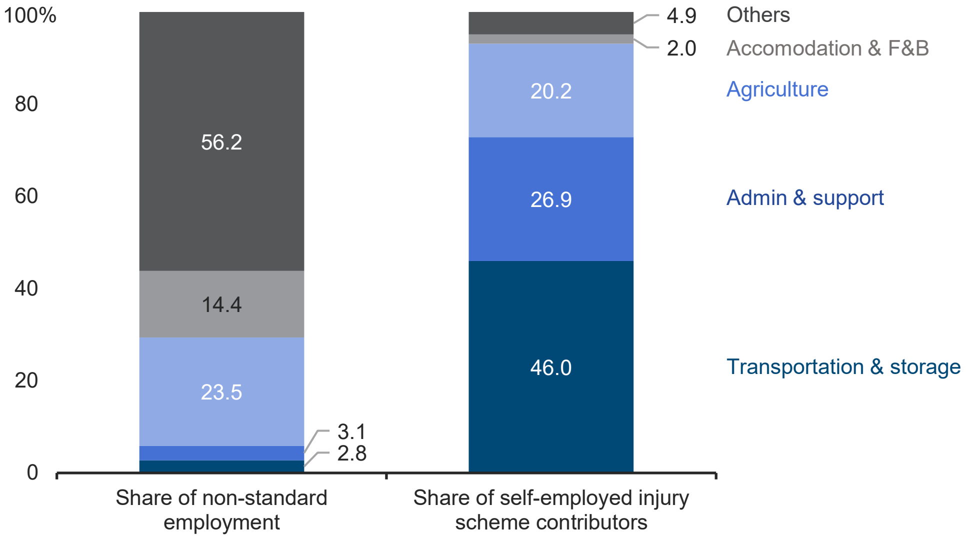
The extent of coverage for social insurance schemes differs by economic activity. Workers in sectors that pay well and have more large firms tend to have better coverage rates[156]. This suggests that it is easier to contribute to social insurance when income is high, and employers are more easily identified and regulated by the authorities.

The coverage gap for the voluntary self-employment injury scheme is more jarring, whereby only about 12% of the self-employed workers are registered with the social security insurance in 2021[157]. International experience also shows that most voluntary schemes for self-employed workers tend to have low uptake rates[158]. Coverage also concentrates in certain economic activities; although only 2.8% of non-standard workers are in the transportation sector, they constitute more than half of the contributors in the self-employed injury scheme (Figure 4.10).

This is likely the result of targeted policy attention and outreach initiatives on urban-based gig delivery workers, but not other economic activities. For example, the Budget 2021 allocated RM24 million in subsidies to cover the full contribution of the injury scheme for the self-employed, but only for delivery riders and selected public service contractors and volunteers. As of July 2021, over 145,000 food and parcel delivery partners of two major platforms, Grab Malaysia and Foodpanda, are registered under these schemes[159].

[156] Based on KRI internal analysis using SOCSO administrative data
[157] Based on SOCSO (2021a), DOS (2021e)
[158] ILO (2019a), Nguyen and Simoes da Cunha (2019)
[159] NST (2021)

Figure 4.10: Share of non-standard employment and self-employed injury scheme contributors from their respective total, by economic activity



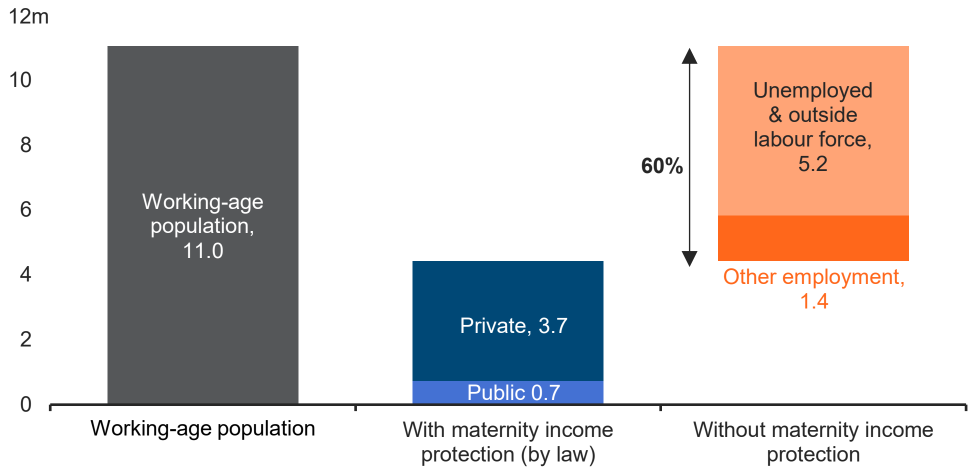
Note: Share for the self-employment injury scheme under Act 789 as of June 2021, share of non-standard employment (citizens only) as of 2020
Source: SOCSO (2021a), DOS (2021c), DOS (2021f), KRI calculations

Social protection for women who are unable to work due to childbirth depends on the effectiveness of legislative enforcement by MOHR. Between 2010 and 2020, 315 complaints related to payment of maternity pay/allowance was made to the Department of Labour (Jabatan Tenaga Kerja, JTK). Most of them were related to workers in wholesale and retail (20.3% of cases), manufacturing (16.2%) and administration and support services (15.9%)[160]. However, given the decline in total number of labour inspectors in the country[161], enforcement of paid maternity leave might be more challenging.

Women in the informal sector face systematic challenges of making their employers guarantee their maternal benefits because informal firms are often out of legal reach for effective implementation of labour laws. There is also a significant portion of the women workforce who do not have employers (i.e. self-employed) or unpaid family workers who could not rely on employer-provided income security during childbirth (Figure 4.11). Moreover, close to half of the female working-age population is out of the official workforce, and most are engaged in unpaid care work.

[160] JTK (2021)
[161] Nur Thuraya Sazali and Siti Aiysyah Tumin (2020)

Figure 4.11: Number of persons in female working-age population, by legal coverage of maternity income protection, 2020



Note: Total public sector employees based on 2019 figures. Private sector full-time employee is estimated based on the share of full-time employee share reported in establishment-based survey in 2017
Source: DOS (2019), KPWKM (2019), DOS (2021c), KRI calculations

4.4.3. Other challenges in social protection policies for the working-age population

Adequacy of benefits

To benchmark the adequacy of replacement rates in Malaysia's social security schemes, it is useful to compare it with minimum and higher standards described by relevant ILO conventions and recommendations (see Appendix B). In Malaysia, when an employed person is injured or becomes invalid, the social security scheme provides disablement benefits of between 80% and 90% of their previous daily wage, while the invalidity and survivors' pension provide between 50% and 65% of their previous average monthly wage. However, the monthly wage level is capped at RM4,000 for both schemes.

For comparison, the ILO's minimum income replacement rate stated in the Social Security (Minimum Standards) Convention 1952 (No. 102) is 40% and 50%[162], while the higher standards in Employment Injury Benefits Convention 1964 (No. 121) and Employment Injury Benefits Recommendation 1964 (No. 121) are 50% and 60% and 66.7%, respectively[163]. Essentially, Malaysia's benefits as provided by the injury scheme, as well as the invalidity and survivors' pension scheme go beyond the recommended international thresholds. However, this might not be the case for affected individuals earning more than RM4,000 per month, as the benefits level (tied to a RM4,000 cap) might constitute a smaller proportion of their previous income.

[162] ILO (1952)
[163] ILO (1964), ILO (1988b)

Meanwhile, when a person loses their employment, the social security scheme provides a JSA of between 30% and 80% of previous average wage (also capped at RM4,000), for up to six months (~24 weeks). The scheme is designed such that JSA benefits decline over time to incentivise job-search efforts among recipients. The minimum income replacement rate stated in ILO's Convention No. 102 is 45%[164], while the higher standard in the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168) and Employment Promotion and Protection against Unemployment Recommendation, 1988 (No. 176) is 50%[165].

Given staggered payment structure of JSA in the employment insurance scheme, the higher standard is fulfilled in the first two months of unemployment period of insured person (benefits rate of 80% in first month and 50% in second month) and the minimum standard is fulfilled in the third and fourth month of unemployment (benefits rate of 40%) but fails to meet minimum standards in the remaining two months (benefits rate of 30%). In terms of the duration of benefits, Malaysia meets the minimum standard of 13 weeks in Convention No. 102, but not the 26 weeks stated by higher standards in Convention No. 168 and Recommendation No. 168. The scheme also caps wages at RM4,000, and therefore affected individuals earning higher income might earn less than their previous income.

In the case of income protection during childbirth, ILO's Convention No. 102 and the Maternity Protection Convention 2000 (No. 183) state that mothers should be provided cash benefits at least 45% of reference wages and 66.7% of their previous earnings respectively[166]. As Act 265 requires employers to provide maternity cash allowance equivalent to their full wages (i.e. 100%), the legislations fulfil this minimum international standard. However, these conventions extend the coverage of cash benefits to all employed women and not just employees. Considering that paid maternity leave is an employers' liability in Malaysia, female self-employed or unpaid family workers do not have basic income security. In this respect, Malaysia has yet to meet the Convention No. 183.

In practice, are these benefits enough for individuals experiencing injury, invalidity, unemployment or childbirth? Another useful benchmark is the poverty income per capita. As the average household PLI is RM2,208 per month and the average household size is 4, we approximate and assume a PLI per capita of RM600 per month. Assuming that an individual is paid at least the minimum wage (RM1,200), the income replacement rates of the social security schemes should provide basic income security.

However, there are two key considerations that must be noted. Firstly, not all workers are paid the minimum wage, even when it is legislated. Between 2013 and 2020, JTK received close to 3,000 complaints associated with issues in minimum wages payment[167]. Secondly, Social Protection Floors Recommendation, 2012 (No. 202) also stated that benefits (cash and in-kind) provided must not only provide basic income security to secure access to necessary goods and services and prevent poverty, vulnerability and social exclusion, but also allows life in dignity[168]. Even if benefits level is above the poverty threshold, some might be unable to enjoy a decent living standard, especially when considering changing composition and cost of necessities.

[164] ILO (1952)
[165] ILO (1988b), ILO (1988a)
[166] ILO (1952), ILO (2012)
[167] JTK (2021)
[168] ILO (2012)

Moreover, we might be underestimating the poverty threshold for certain groups of individuals. This is likely the case for disabled persons, for example, whose necessary medical and care needs might lead to higher living costs and poverty income thresholds. These costs also vary according to the severity of disability, life cycle and the household composition of the disabled person[169].

Complementarity with other social assistance

As discussed in Chapter 2 and the previous sub-section, in addition to social insurance, social protection for the working-age population is also available in the form of social assistance and funded through the government's general revenue pool. One example of such social assistance programme is the benefit for disabled persons registered with JKM. In fact, assistance by JKM is an essential social protection floor for all disabled persons in the country, but benefit levels remain low. With PLI per capita of RM600, none of the benefits reach this threshold (Table 4.4). Moreover, this threshold itself might be an underestimation because it does not account for the higher cost of basic necessities and medical needs of disabled persons. As these benefits are the most basic income protection for disabled persons, a review on their adequacy is likely needed, but not discussed extensively in this report.

Table 4.4: Monthly benefits for disabled persons and their caregiver

Type of benefit	Value
Disabled workers' allowance	RM450
Disabled person who cannot work allowance	300
Caregivers of chronically sick or disabled person	500

Note: Benefits levels could be temporarily raised. For example, in 2020, the disabled workers' allowance was increased to RM500 (for three months) in 2021 due to Covid-19
Source: JKM (n.d.-b), JKM (n.d.-c), JKM (n.d.-d)

Income support from the invalidity and survivors' pension is actually an additional social protection for disabled persons and their family, provided that affected individuals are contributors. In fact, pension expenditure formed the largest component of SOCSO's benefit payments. In 2019, RM900 million was paid to more than 70,000 recipients of the invalidity pension scheme, and RM1.5 billion was paid to more than 300,000 survivors' pension recipients.

While significant, admittedly the invalidity and survivors' pension schemes exert a significant fiscal burden on SOCSO to provide income security for people outside the working-age population, even when its mandate is to protect the working-age population. For example, SOCSO covers the protection for invalid persons or their survivors' even after the retirement age, or if the survivors are non-contributors themselves. Lack of universal children and old-age social protection, as well as inadequate disability benefits, arguably increase the reliance on the invalidity and survivors' pension contributory schemes.

[169] Mitra et al. (2017)

By introducing income security for children (see Chapter 3) and social insurance pension (SIP) for old-age (see Chapter 5), the pressure on the invalidity and survivors' pension fund could be managed more strategically. For example, the spouse of an invalid person who passed away could receive survivors' pension up to retirement age, but then receive old-age social pension afterwards. When other life cycle-specific schemes exist, SOCSO could focus on strengthening income protection, as well as medical and rehabilitation support for affected individuals in the working-age population. Moreover, SOCSO could dedicate more fiscal resources on policies to prevent accidents at the workplace, so that the social security fund could be managed more sustainably in the long run.

Operational definition and effective coverage

Another key issue in the existing social security scheme is how operational definitions might limit the effectiveness coverage and protection for those who need it most. In the Act 800, not all unemployed insured persons could benefit from the insurance scheme against unemployment risk. Instead, benefits are only entitled to those who face unemployment due to loss of employment (LOE), defined as follows:

Table 4.5: Definition of LOE

LOE	Not LOE
• Normal retrenchment/redundancy • Voluntary or mutual separation scheme • Closure of company due to natural disasters • Bankruptcy or closure of the company • Constructive dismissal • Resignation due to sexual harassment or threats made in the workplace • Resignation after being ordered to perform dangerous duties not within the job scope	• Dismissal due to employee misconduct • Voluntary resignation • Retirement • Expiry of a fixed-term contract or completion of a project

Source: SOCSO (n.d.-c)

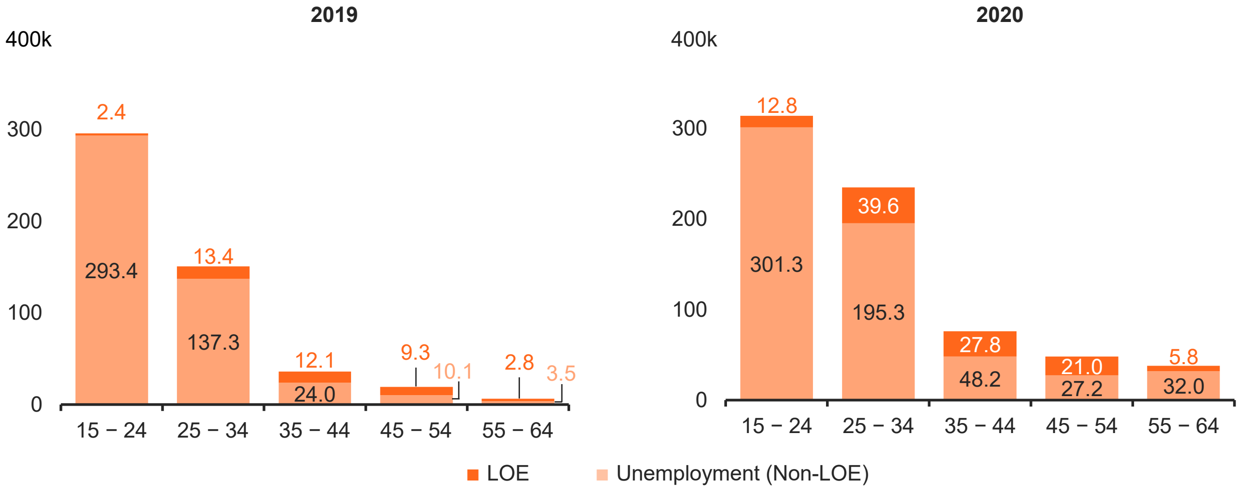
Arguably, Act 800 primarily attempts to address the issue of employee retrenchment (lay-off of workers) and not income insecurity among all unemployed individuals. Prior to Act 800, income security of retrenched workers was only protected by legislation, wherein liquidating companies must provide some compensation for retrenched workers. However, non-payment of compensation was a real issue for many workers. Out of the RM1.2 billion compensation to be paid to 123,077 retrenched workers between 2007 and 2011, only RM493 million, or 38.3% of total expected compensation was paid[170]. Retrenched workers who are not defined as employees as per Act 265 also depend on the company's discretion on whether they are provided termination benefits[171],.

[170] MOHR (2012)
[171] In Employment Act 1955, employees are defined as a person who has entered a contract of service with an employer and wages do not exceed RM2,000; or a person who has entered a contract of service with an employer such that s/he engages in manual labour, operate or maintain propelled vehicle, supervise manual labour employees, engaged in any capacity in any vehicle registered in Malaysia (except selected merchant shipping) or domestic servant, irrespective of their wages. Source: Aishah, Shereen, and Tan (2012)

While the focus on retrenched workers is reasonable, neglecting the welfare of other unemployed persons might have larger consequences on overall welfare because most unemployed workers still face income insecurity. In 2019, the reported LOE was around 40,000, or 7.9% of total estimated unemployment, while in 2020, reported LOE was higher due to Covid-19 at around 107,000, or 15.1% of total estimated unemployment.

The difference between LOE and unemployment figures was most stark were compared by age categories, as depicted in Figure 4.12. Among unemployed individuals between the ages 15 – 25 years old, retrenchment was less than 1% of total estimated unemployment in 2019 and less than 5% in 2020. The rates were slightly higher for unemployed individuals between 25 – 34 years old, at 8.9% and 16.9% in 2019 and 2020, respectively.

Figure 4.12: Number of reported LOE and unemployment, by age category, 2019 and 2020



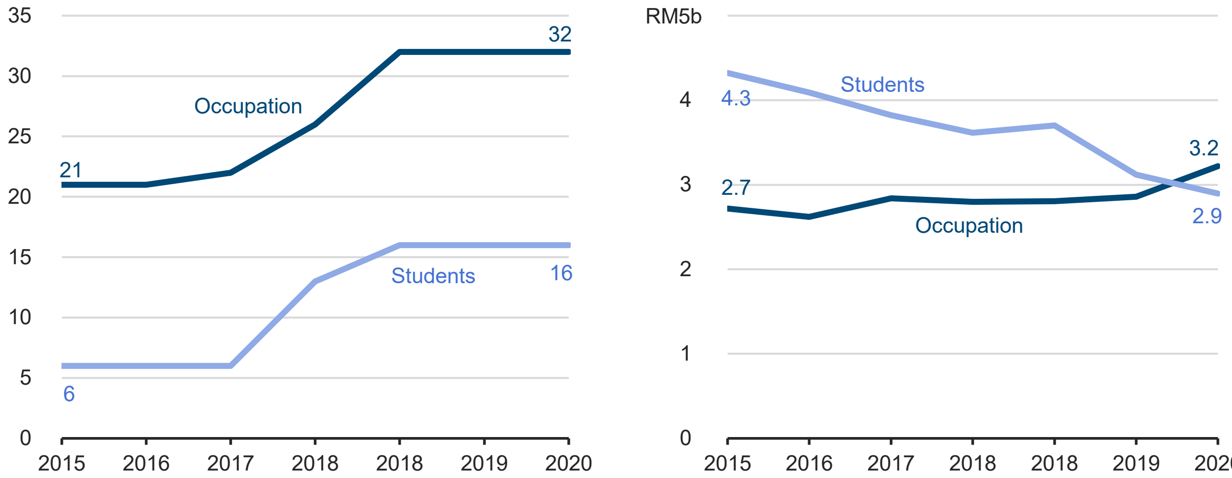
Source: DOS (2020b), DOS (2021c), SOCSO (2020b), SOCSO (2020a)

The low prevalence of youth in the LOE statistics is likely because most are not yet contributors who can claim allowances from the insurance scheme. Many are still looking for jobs in their transition from school to work too. Unemployed young people are not only facing a tough job market which disadvantages them because of their lack of experience, they are also still switching between different jobs to find a good fit, especially considering the rising incidence of skills-related mismatch in the labour market[172]. However, they face income insecurity in the process of switching jobs. More worryingly, some youth might be forced to stay in ill-fitting jobs that under-utilise their skillset and capabilities because of the lack of income security when they attempt to find better jobs.

For workers who are uncovered by these social insurance schemes, there is greater pressure to rely on social assistance. However, individual-based income assistance is only available for selected occupations such as farmers, teachers, village leaders, *tok batin*, veterans and bus drivers. Most of social assistance for the working-age group are also promotive in nature (active labour market policies such as training and education loans) and not protective i.e. they do not guarantee income protection as workers join the promotive programmes. Nonetheless, subsidies for these groups have also spread more thinly, with stagnating or declining total expenditure across rising number of programmes (Figure 4.13).

[172] Siti Aiysyah Tumin (2021)

Figure 4.13: Number of programmes (left) and fiscal spending (right) on social assistance for working age, by category, 2015 – 2020



Note: Data refers to federal programmes, and includes cash and in-kind transfers, but excludes fiscal spending in Covid-19 stimulus. Occupation-based programme refers to allowances for farmers, religious teachers, village leaders, *tok batin*, veterans, bus drivers and teachers. Student-based programme refers to allowances for students or trainees in various education institutions.
Source: MOF (2021d)

Another major challenge of relying on social insurance schemes for social protection in Malaysia is its requirement of individuals to be economically active and earning income. However, some are carrying out unpaid domestic work or are still in education, but they are not excluded from the core life cycle risks commonly experienced by the working-age population. In the next section, we include recommendations to include current non-contributors into existing schemes for the government's deliberations, as one of the ways to expand social protection for a wider set of the working-age population.

Moreover, this does not replace the need to strengthen complementary non-contributory social assistance, alongside policies in other social services to provide adequate social protection beyond the proposed floor. For example, non-working severely disabled people might never be included in any social insurance schemes. This is why reassessment of the true living costs of disabled persons and increasing their benefits levels to sufficient levels such that they could lead a dignified life is essential.

4.5 Policy Recommendation: Towards Inclusive Social Security for the Working-age Population

An inclusive social security for the working-age population envisions that every individual, regardless of their status in the workforce, is guaranteed a minimum level of income security, in the event that they could not work due to injury or invalidity, unemployment and childbirth.

This section discusses some recommendations to improve the coverage rate of existing social security schemes. Moreover, we discuss additional tax-funded social assistance for working-age population who are excluded from existing social security schemes.

4.5.1. Extending the reach of social security schemes

Reforms to existing social security schemes

Malaysia's current social insurance schemes is designed to be mandatory for private sector employees, but not public sector employees. The separation of compensation scheme for public sector employees from private sector employees is not uncommon in Asian countries, but more developed countries tend to integrate all workers under a unified social security scheme regardless of their employment sector[173]. Inclusion of civil servants in the existing social security schemes could lead to two potential benefits. First, it could strengthen and expand the size of the fund, as there will be 1.3 million new contributors, increasing the size of the fund to be between RM482 million and RM1.6 billion[174]. Second, it smoothens the transition of social protection coverage among workers who change their employment from the public sector to the private sector, or vice versa.

Moreover, foreign workers should be covered more systematically under existing schemes. Currently, only the injury scheme covers foreign employees, including foreign domestic workers. However, they are not included in the invalidity scheme as foreign workers are assumed to return to their home country after their employment ends, and unlikely to benefit from the lifetime invalidity or survivors' pension if they are eligible for it. They are also excluded from the employment insurance scheme, which provides income support if a worker is retrenched. However, they are not excluded from the risks of economic downturn. During the Covid-19 pandemic, when both retrenchment and unemployment numbers peaked, foreign workers were more adversely affected. Between 2019 and 2020, total unemployed citizens increased by 32.0%, while non-citizens increased by 134.0%[175]. Excluded from social insurance that could provide some income replacement when they were retrenched due to Covid-19, foreign workers were made more vulnerable because most household-based cash assistance were provided for citizens only.

While selected social insurance schemes have been extended to self-employed (and housewives starting 2022), contribution should be mandatory instead of voluntary. There are at least three weaknesses to the current voluntary schemes for self-employed workers[176]. Firstly, it creates adverse selection i.e. only workers in dangerous economic activities contribute to social insurance because they are more likely to access its benefits, and this will eventually put greater sustainability pressure on the schemes as the insurance premium will have to be increased. Secondly, risks are not effectively pooled due to its small size. Thirdly, it could create perverse incentives among enterprises that seek to cut labour cost, by hiring self-employed workers when in fact they are dependent self-employed. However, since non-standard workers might earn irregular income (or unpaid in the case of some family workers), policymakers must ensure the schemes are flexible and/or supported by government's fiscal assistance. If mandatory schemes are effectively enforced, total SOCSO contributors would increase by more than 5.0 million, and the fund could expand between RM2.0 and RM7.4 billion[177].

[173] Su and Hoe (2008)
[174] See Appendix D.
[175] DOS (various years-a)
[176] ILO (2019a), Nguyen and Simoes da Cunha (2019)
[177] See Appendix D

It is also important to precisely determine who should contribute to the self-employed social security schemes. Currently, employers are fully responsible to pay the 1.25% of employment injury scheme for their employees but this is fully borne by the self-employed because they do not have an employer. If the invalidity pension and employment insurance scheme will be extended to the self-employed, there is an additional 1.4% contribution (1% invalidity pension and 0.4% employment insurance). However, as discussed in Box 4.3, this ignores the heterogenous nature of work relationships and might place an unfair burden to some self-employed workers. Consequently, policies could focus on determining the contribution responsibilities and more ambitiously, fiscal allocation could cover the contribution costs for some self-employed workers.

One way to determine contribution responsibility is by assessing how “independent” the self-employed is, considering their level of authority and economic risks. The matrix illustrated in Figure 4.6 in Box 4.3 could be used for the assessment. For instance, self-employed individuals who have an incorporated business are relatively independent and face less economic shocks, and they could be assumed as capable of independently contributing to their social security schemes. Self-employed individuals without incorporated business (household market enterprise) or contributing family members (usually unpaid and in household market enterprise) might require full government assistance.

Dependent self-employed refer to those who might actually show features similar to an employee of the company but are disguised as independent self-employed. Legal provision and enforcement to ensure that businesses do not misuse the grey area of workers classification to evade labour laws are necessary. In the UK for example, this has been done by defining six types of employment statuses (worker, employee, employee shareholder, self-employed and contractor, director, and office holder) and their employment rights. Once workers are accurately classified based on the nature of their work relationships, innovative ways to sustainably finance social insurance could be considered. Malaysia could consider some solutions based on international examples. In Germany for instance, self-employed artist and publicists have the same contribution rate as a standard employee, but the remaining contribution (usually covered by an employer) is funded by government taxation and global contribution among enterprises that regularly contract self-employed artists and publicists[178].

Moreover, the expansion of social insurance schemes to non-standard workers also necessitates some amendments to qualifying conditions to access benefits. For example, the employment insurance scheme could broaden its definition of “loss of employment”, which relies heavily on the existence of a standard employment relationship between an employee and an employer. For the self-employed, “retrenchment by employer” is simply not possible for them because they work for no one. However, business cycles affect all workers and not just employers and employees in the formal sector. Self-employed workers could face this in the form of non-payment by their clients, destruction of crop due to extreme weather conditions, or sudden closure of economic activities as experienced during a pandemic like the Covid-19 pandemic. Tailoring the qualifying conditions of the existing employment insurance scheme to consider the various experiences of income loss is an essential reform to provide protection for all workers in the economy.

[178] ILO (2019a)

However, if the existing approach of voluntary contribution for the self-employed remains, policymakers must improve their outreach initiatives, especially through cooperation with relevant workers associations and government agencies. For example, SOCSO could work with the National Farmers' Association which has access to more than 920,000 farmers[179], as well as the National Organization of Smallholders with access to more than 100,000 smallholders[180], to formalise agriculture self-employed workers by including them in the social insurance schemes. Recipient of subsidies or assistance administered by agencies such as the Department of Agriculture and Department of Fisheries should also be incentivised to contribute, and they need to be convinced that social insurance is capable of providing adequate and predictable income replacement and other benefits in the event they become injured or experience income loss. Such predictable benefits are likely more beneficial than one-off cash handouts announced annually via the federal government budgets.

Coverage to workers in micro- and smaller enterprises is also very challenging due to their large numbers in the country. They could be reached through local councils and/or municipalities who administers business licenses and collect local taxes. Monitoring and enforcement must also be enhanced by stronger federal-state collaboration to ensure we maximise the inclusion of all workers in the social insurance schemes. Additionally, simplification of payment processes for small businesses could also be considered. Monotax, which is a simplified collection of tax and social security contribution, has been implemented in Uruguay, Argentina, Brazil and Ecuador. In Uruguay, for instance, the social security institution collects a monotax, transfers tax payment to fiscal authorities on behalf of the business and then uses the remaining collection to finance social security contribution[181].

Greater utilisation of social insurance model and strengthening of the social security institution

In Malaysia, currently, social insurance is only used to manage risks associated with injury, invalidity and unemployment. However, it has also been utilised to cover sickness, maternity, family benefits and old-age risks in other countries.

Malaysia's reliance on employers' liability to cover maternity might not be sustainable. Considering the rising share of female employment and deliberate policy focus to further increase female labour force participation rate, shifting to a social insurance model could be a more sustainable way to guarantee basic income protection when women are temporarily unable to work due to childbirth.

Following the implementation of other social insurance schemes, employers, workers, and the government contribute to this social security fund. Contributing workers must include all employment status and genders. The social insurance fund could also be used to finance paternity leave and attempt to equalise the burden of care between mothers and fathers, as well as provide more comprehensive maternity and childcare benefits, as discussed comprehensively in KRI's previous report, *Time to Care: Gender Inequality, Unpaid Care Work and Time Use Survey*[182].

---

[179] NAFAS (n.d.)
[180] NASH (n.d.)
[181] ILO (2017d)
[182] KRI (2019)

The expanded utilisation and dependence on social insurance schemes to cover more life cycle risks necessitate the strengthening of the agency in charge of the social protection for the working-age population, namely SOCSO. Several operational reforms could be introduced to improve the efficiency of the institution. Similar to the automatic registration of children into the UCB upon their birth certificate registration discussed in Chapter 3, we also propose the automatic registration of every Malaysian into all employment-related social security schemes. This could be done at the age of 15 years old, which is the minimum working age.

The automatic registration of individuals into social protection schemes addresses the issue of non-compliance among employers and self-limiting cognitive biases among workers who under-estimate future life cycle risks, and under-value social insurance schemes that will protect them. It also potentially reduces SOCSO's administrative burden of processing new applications every year. Prior to earning an income that allows contribution (during schooling or tertiary education years), every citizen will be categorised as a non-contributor to the system. However, their inclusion into the social security system enables them to access other proposed income security, such as the tax-funded JSA (discussed in the next sub-section of this chapter).

The proximity of SOCSO to various active labour market policies also facilitates the synergy between passive measures that provide income security and active measures to promote the productivity and employability of workers. As productive workers continue making contribution and paying taxes, fiscal resources go back into the social security system and general tax collection fund, to help cover those with atypical circumstances.

Moreover, continuous improvement and modernisation of the administration of social security system is essential. Consolidation of the different schemes covering different risks into one common scheme might also be a way forward, so that collection is easier, risks are better pooled and resources could also be shared strategically. It might also minimise complexity when determining qualifying conditions to access benefits. However, reforms to the structure of the fund must uphold the principles of accountability, transparency and independence from political influence. These reforms might require considerable, yet necessary investment by the government.

4.5.2. Government as the third pillar in social security ecosystem

Aside from policy-setting role, the government is largely absent in the existing social insurance schemes, which focuses on workers in the private sector. However, the experience of the Covid-19 illustrates how the government could play a larger role in providing social protection for individuals in the working-age population, responding to their specific life cycle risks.

For example, retrenchment by struggling companies has been a key concern for the country during the Covid-19 pandemic. The government then leveraged on SOCSO to distribute more than RM25 billion in wage subsidies to keep people on the payroll. Relaxation of some qualifying conditions to access benefits as well as additional assistance have also been provided for some affected workers, as long as they are registered with SOCSO. However, non-contributors cannot be reached through these initiatives.

Building from the experience during the pandemic, this report proposes a more systematic fiscal commitment by the government to invest in social protection. Aside from its direct contribution as an employer (per the suggestion to include civil servants in the social insurance schemes in the previous sub-section), the government could also provide basic income security by including those previously excluded from the system to be included in the system. This would include those facing challenges to contribute to or fulfil qualifying conditions of social insurance schemes as well as for those outside the labour force.

However, proposals in this section do not change the status quo for standard employees in the private sector whose social insurance contribution comes from the employee and their employer. Malaysia could also aspire to adopt a more solidarity approach to manage more life cycle risks of its working population. For example, total contribution rates could be shared between workers, employers and the government for all workers, especially if the country is considering increasing contribution rates of its social insurance. However, the feasibility of this more ambitious proposal is not covered in this report. Instead, we prioritise covering those previously uncovered or face challenges of being covered by existing social insurance schemes.

The government as a partner contributor

To expand the coverage of existing social security schemes among workers without standard employment relationship, the government could consider subsidising contribution costs for these workers. Options include flat or scaled subsidisation rates, matching coverage, or government commitment to cover deficits on social insurance scheme[183].

In this proposal, we extend the initiative proposed in the Budget 2021, where the government offered to provide full coverage for one-year contribution of the employment injury scheme for selected self-employed workers (e.g. delivery riders). In the extended version of this policy, the government could partially or fully cover the 2.65% contribution of all the existing social security schemes (1.25% employment injury, 1% invalidity pension, 0.4% employment insurance scheme) for all non-standard workers, provided that the necessary legislations are amended to include these workers. Based in the average insurable monthly income in the current self-employed employment injury scheme, and the estimated total non-standard workers in 2019, this would incur investment by the government between RM1.0 and RM7.4 billion, or 0.06% and 0.49% of GDP (Table 4.6).

Table 4.6: Estimated investment to cover non-standard workers in all social insurance schemes, by insurable earning and contribution coverage, 2019

Option	Annual contribution per worker (RM)		Total non-standard workers (million)	Investment			
				(RM billion)		(% GDP)	
	Full (2.65%)	Partial (1.33%) *		Full	Partial	Full	Partial
Minimum insurable earning, RM1,050	333.90	166.95	5.9	2.0	1.0	0.13	0.06
Maximum insurable earning, RM3,950	1,256.10	628.05		7.4	3.7	0.49	0.24

Note: *The other half is covered by workers
Source: SOCSO (n.d.-f), DOS (2021f), DOS (2020b), KRI calculations

[183] ILO (2019a)

Undeniably, the proposed contribution subsidisation by the government is not without challenges. For example, in the case of government contributing for the employment injury scheme for selected self-employed workers mentioned earlier, there has been criticism of government subsidising the platform operators. We emphasise that enforcement by the authorities remains important. Regulations must clearly describe the responsibility of contribution by the party that controls the nature of work and exposure to risks among the self-employed (e.g., company hiring self-employed, platform), and efficient ways to check accurate self-reported income should be introduced. Additionally, there are potential disincentive effects that should be monitored. For instance, if the government only provides subsidy for the lowest insurable income, people may subscribe to the cheapest option instead of one that reflects their true income level. Moral hazard can be the case when some choose to continue relying on assistance even if they could afford to contribute themselves. Perverse incentives among employers might exist too because they could cut costs by hiring self-employed workers (whose social protection financing is supported by the government) when in fact they are dependent self-employed.

Moreover, relevant social insurance schemes could also be used to cover population outside the workforce, especially considering that some are performing essential, yet unpaid care work. Disproportionate care responsibilities that force women to leave the workforce is inherently precarious because they are completely without an income source. When they are performing care duties, they are not excluded from risks of accident, leading to injury and potentially invalidity. Their work could be physically strenuous and hazardous as they handle dangerous items (e.g. knives, hot pans) and are exposed to potentially toxic chemicals (e.g. household cleaners)[184].

SOCSO has extended the coverage of its social insurance schemes to domestic workers[185], and housewives starting 2022 (with contribution assistance for housewives in poor households[186]). This ensures that caregivers are entitled to some basic income security (via replacement benefits) and other healthcare support in the event that they are injured or become invalid while performing care work.

A key operational challenge to include unpaid caregivers is the absence of wages, which social insurance typically uses as an anchor to determine the premium rate and consequently claimed benefits. The announced scheme in 2022 has an annual contribution of RM120, but for convenience, we use the existing insurable earning threshold for self-employed injury scheme as guideline instead. The government could consider covering between half of the lowest premium (the other half could be contributed by household who benefit from the unpaid care work) and the full cost of the highest premium. Based on 2019 data, we estimated that the government would need to invest between RM0.4 and RM 3.2 billion, or 0.03% and 0.2% of GDP to cover close to 3.0 million persons outside the workforce, in 2019 (Table 4.7).

[184] Menegatti (2016)
[185] SOCSO (n.d.-a)
[186] Astro Awani (2021b)

Table 4.7: Estimated investment to cover persons outside the workforce due to care responsibilities in injury and invalidity schemes, by insurable earning and contribution coverage, 2019

Option	Annual contribution per worker (RM)		Total people outside labour force (million)	Investment			
				(RM billion)		(% GDP)	
	Full (2.25%)	Partial (1.13%) *		Full	Partial	Full	Partial
Minimum insurable earning, RM1,050	283.50	141.75	3.0	0.9	0.4	0.06	0.03
Maximum insurable earning, RM3,950	1,066.50	533.25		3.2	1.6	0.21	0.11

Note: *The other half is covered by affected recipients or earning household member
Source: SOCSO (n.d.-f), DOS (2020b), DOS (2021f), KRI calculations

Tax-funded and individual-based social assistance for income security during unemployment

As noted in earlier sub-section, not all unemployed persons could benefit from the existing employment insurance scheme. Moreover, social security contribution relies on individuals to first be employed and have income such that they can make social security contributions. This would exclude pre-employed individuals, for example youth in transition from school to work who are actively looking for jobs. In the past, policymakers have introduced various initiatives to assist youth graduates and jobseekers, but income security is only available for participants of certain programmes and depends on participating companies (e.g. Skim Latihan 1 Malaysia and Professional Training and Education for Growing Entrepreneurs programmes).

Due to the unprecedented challenges of the Covid-19, in 2021, the government introduced a JSA of between RM300 and RM400 for those uncovered by the employment insurance scheme, including youth in transition from school to work[187]. The allowance is distributed by SOCSO, lasts up to two months, and require the jobseeker to fulfil certain job-seeking activities. Building from this initiative, we further recommend higher levels of benefits and longer duration of coverage of the job search allowance.

Based on PLI per capita and global comparison[188], we propose the benefits levels to be increased to RM600. More ambitiously, it could be set at minimum wages (RM1,200 in 2019) or average wages (RM3,224 in 2019), so that the unemployment assistance could provide enough financial assistance for unemployed persons. Following the six months coverage of the JSA for retrenched insured persons in the employment insurance scheme, this allowance should also be provided for up to six months for other jobseekers. This initiative will incur government investment between RM1.7 and RM9.1 billion per year, or about 0.1% and 0.6% of GDP (Table 4.8).

[187] SOCSO (2021b)
[188] Countries with youth job search allowance typically set benefit level to be between 23% and 62% of their minimum wages. See Appendix E

Table 4.8: Estimated investment for JSA to cover unemployed* persons, by age group and allowance level, 2019

Age	Unemployed*	Allowance (RM, monthly)	Total allowance (RM, 6 months)	Investment	
				(RM billion)	(% of GDP)
Youth (15 – 24**)	293,441	600	3,600	1.1	0.07
		1,200	7,200	2.1	0.14
		3,224	19,344	5.7	0.38
Above youth age (>24)	174,775	600	3,600	0.6	0.04
		1,200	7,200	1.3	0.08
		3,224	19,344	3.4	0.22

Note: *Refer to total unemployment minus total loss of unemployment because the latter receives JSA from the employment insurance scheme. **Age threshold of youth as defined in the UN (n.d.)
Source: SOCSO (2020a), DOS (2020b), KRI calculations

The distribution of tax-funded unemployment benefits via SOCSO has several advantages. It provides an incentive for future workers to register with the national social security institution even before they earn income from employment. More importantly, recipients will remain close to various active labour market policies that can help them improve their skills and employability. This will taper the heavy reliance on existing household-based income assistance that might not necessarily be linked to policies that support the productive capabilities of the working-age population.

The provision of job search allowances must entail reasonable monitoring of job search activities, and guidance from employment services officers. It must also be supportive and tailored to the jobseeker's circumstances, rather than prescriptive. For example, monitoring behaviour should not be too paternalistic and push jobseekers to simply accept any job. Instead, they should carefully assess whether jobs are suited to jobseekers' qualifications, skills and personality. Some might even choose to be entrepreneurs and should be guided to develop their business plan and connected with other existing initiatives by the government to help entrepreneurs. Unemployment itself is already a difficult situation for most people, and monitoring of job-seeking activities in the provision of basic income support for the unemployed should not further burden the affected individuals.

The scheme could also be designed to prevent perverse behaviours leading to long-term dependence on job search allowance. A time limit could be imposed, for example the youth jobseekers' allowance might only be available for a certain period after graduating from school, college or university. Extension of the time limit could also be considered for individuals facing certain systematic difficulty in their job search efforts. Payment of the allowance could also be staggered, per the implementation of the JSA under the employment insurance scheme, so that workers are incentivised to take up jobs since their allowance decreases over time. In making this a success, we also highly emphasise the government and private sector's roles in creating adequate good quality jobs.

For any policies that provide income support for economically active but unemployed persons, policymakers will always have to balance provision of income security and prevention of work disincentive effects. Benefits should be set sufficiently such that unemployed workers do not fall into poverty or destitution, but it must not be too high such that they reject legitimate and suitable job offers. However, the allowance must also reflect rising living costs, for example, by indexing it to the inflation rate or growth of wages. Moreover, they could also be set at different rates considering different individual circumstances. For example, benefits levels for an unemployed disabled person might be higher to consider their different cost of living due to medical needs.

Maternity cash grants for mothers to complement UCB

As illustrated in Section 4.4.2, a significant portion of the female working-age population are out of the workforce and most of them are performing essential care work. Even if Malaysia decides to shift to a social insurance model to provide income protection for new mothers more sustainably, we would still be excluding women outside the workforce because they are not earning employment income to contribute to the social insurance. In some countries, assistance is still provided for these women through the provision of maternity cash grants[189]. While the implementation varies between countries, such assistance aims to provide all new mothers with some basic income protection following childbirth. For Malaysia, we recommend this benefit to complement the distribution of UCB proposed in Chapter 3 of this report.

We propose that all mothers of newborns are entitled to a universal maternity cash grant of at least RM1,800 per childbirth, which is the PLI per capita (RM600) paid for three months. The grant level could also be set at more ambitious levels of RM3,600 (minimum wage RM1,200 for three months) or RM9,672 (average wage RM3,224 for three months). Based on the estimated total live births in 2019, this would entail investment of between RM900 million and RM4.7 billion, or 0.06% and 0.3% of GDP in 2019 (Table 4.9).

Table 4.9: Estimated investment by on maternity cash grant, by grant level, 2019

Total grant (RM)	Total live births	Government investment	
		(RM billion)	(% GDP)
1,800	487,957	0.88	0.06
3,600		1.76	0.12
9,679		4.72	0.31

Source: DOS (2020e), KRI calculations

[189] See Appendix F for some country comparisons

The guarantee of medical benefits is also an essential element of the minimum and higher standards of the ILO's Maternity Protection Convention (No. 183) and Recommendation (No. 191) 2000[190]. The proposed maternity cash grant might only cover basic income security but should progressively include coverage to more generous medical benefits for maternity care. This is because while public healthcare is available in Malaysia, there is still some costs associated to maternity care[191]. It is essential to emphasise that strengthening of public healthcare facilities will also improve the quality of maternity care for all mothers. The role of public healthcare as another cross-cutting social protection pillar for everyone in the working-age population including mothers, will be discussed in a forthcoming complementary paper to this report.

Estimated investment to expand social protection for the working-age population

We believe the initiatives to create coherent and inclusive social protection schemes for all individuals in the working-age population must begin now. Fiscal commitment from and investment by the government are essential.

In the next decade, the investment of extending the coverage of existing social insurance schemes will entail financial commitment of between RM1.5 and RM13.0 billion annually. Tax-funded JSA for unemployed persons who are not entitled to the employment insurance benefits as well as maternity cash grants for mothers totals between RM2.9 and RM20.9 billion annually[192].

The large range of investment level is due to the different levels of benefits proposed in this report. At the lower bound, estimates opt for the lowest social insurance premium and set benefits at PLI per capita. At the higher bound, estimates opt for the highest social insurance premium and set benefits at the average wage level. Yet, even at the most ambitious thresholds, these investments are less than 2% of the projected GDP in the next decade (Figure 4.14).

---

[190] ILO (2000a), ILO (2000b)

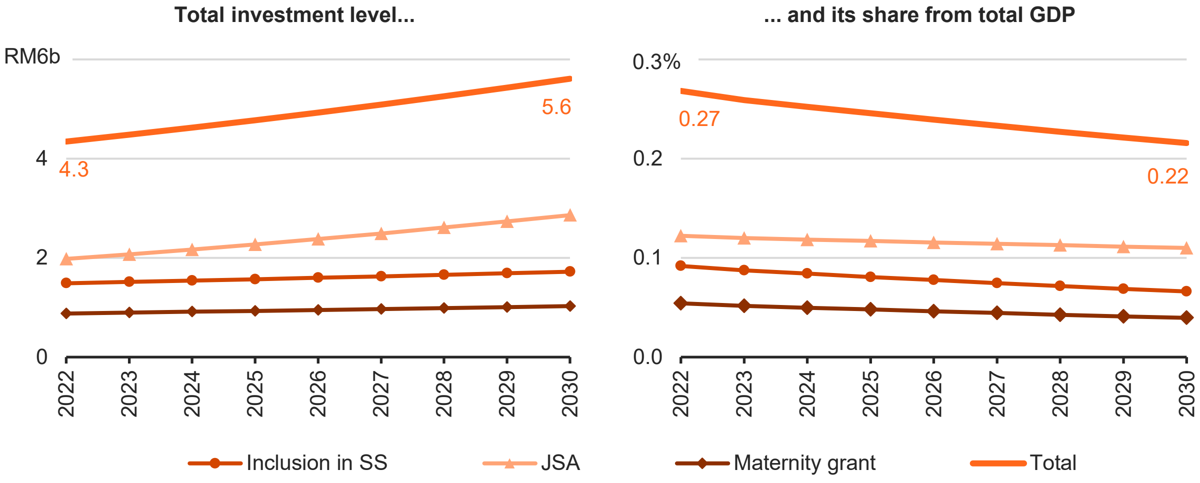
[191] In Malaysia, government hospital charges between RM60 and RM2,000 for normal delivery and RM100 to RM800 for C-Section delivery; while private hospital charges between RM3,000 and RM10,000 for normal delivery, and RM6,000 and RM15,000 for C-section, and about RM4,000 for other check-ups and tests. Estimates based on 2018 figures. Source: FMT (2018)

[192] See Appendix D for full calculation

Figure 4.14: Estimated investment to expand social protection for the working-age population, by scenario, 2022 – 2030

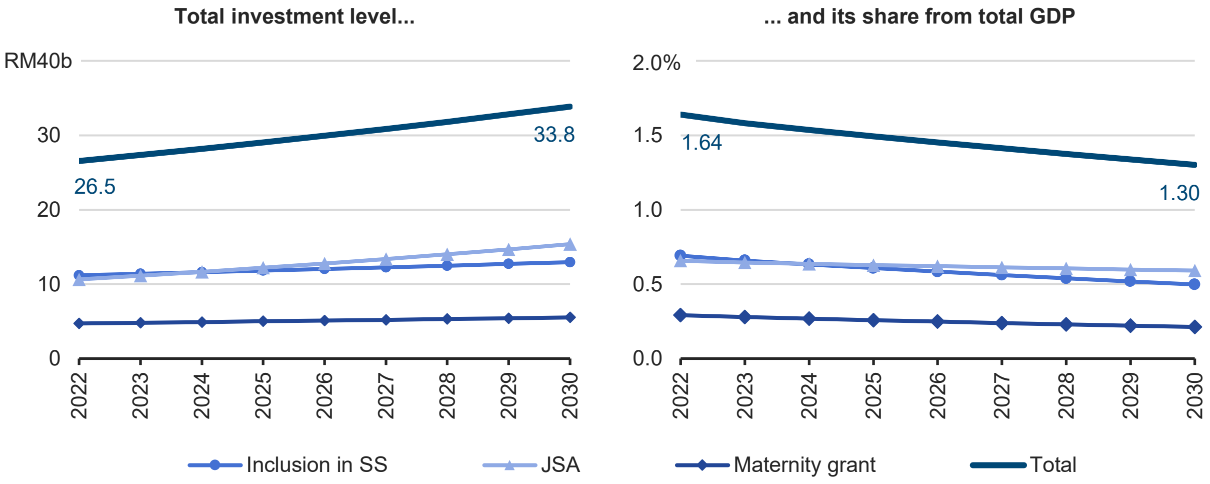
Scenario 1: Lower bound, set at minimum premium and benefit at PLI per capita in 2019

- Partial coverage of lowest insurable earning for all existing social security schemes for all non-standard workers, RM167 per year.
- Partial coverage of lowest insurable earning for injury and invalidity schemes for people outside the workforce due to care responsibilities, RM142 per year.
- RM600 for jobseekers' allowance for unemployed who do not get any benefits from employment insurance scheme, for up to six months and indexed to inflation 2%.
- RM1,800 maternity cash grants to all mothers, indexed to inflation 2%.



Scenario 2: Higher bound, set at maximum premium and benefit at average wages in 2019

- Full coverage of highest insurable earning for all existing social security schemes for all non-standard workers, RM1,256 per year.
- Full coverage of highest insurable earning for injury and invalidity schemes for people outside the workforce due to care responsibilities, RM1,067 per year.
- RM3,224 for jobseekers' allowance for unemployed who do not get any benefits from employment insurance scheme, for up to six months and indexed to inflation.
- RM9,672 maternity cash grants to all mothers, indexed to inflation 2%.



Note: See Appendix G for the full list of assumptions and calculations
Source: KRI calculations

4.6 Concluding Remarks

This chapter looks at the provision of basic income protection among the working-age population in facing core life cycle and employment-related risks. To date, Malaysia has relied on social insurance to manage the risks of income loss due to injury, invalidity and unemployment. However, the social security schemes are only mandatory for employees in the formal sector, with explicit contributory responsibility by the employers. Voluntary schemes for the self-employed remain under-subscribed. Income protection for women following childbirth also depends solely on employers' ability to provide paid maternity leave. As such, women with unscrupulous employers, those who are self-employed, unemployed or outside the labour force remain vulnerable and this serious gap must be addressed by social protection policies urgently.

To minimise the social protection gaps among the working-age population, this chapter then propose the expansion of mandatory coverage of social insurance schemes, requiring the amendment of multiple social security acts and regulations, and the revision of qualifying conditions to consider the heterogenous nature of different groups in the working-age population. The utilisation of the social insurance model to cover more life cycle risks for the working age population, such as maternity, could also be considered, while at the same time, develop the coverage and financing of paid paternity leave.

The government is an essential third pillar that provides essential contribution assistance, tax-funded benefits for some unemployed persons and maternity cash grants for new mothers to complement the UCB. We contend that this tax-funded assistance should be implemented within the ambit of our existing social security institution (i.e. SOCSO) to avoid fragmentation and ensure cohesive delivery of workforce-related public service throughout one's life during the working age.

In addition to its inclusivity, this report attempts to uphold the principle of solidarity and risk sharing between the government, employers, as well as workers of all categories. The proximity between passive labour market policies (embedded in the income protection aspect of social security schemes), and active labour market policies as advanced by SOCSO is also preserved. This ensures that that all workers are prevented from falling into poverty when they face some catastrophic events, promoted to recover from it and to continue being a productive member of the workforce. The provision of such social protection floor smoothens one's risks and vulnerabilities during the working age and contributes significantly to their well-being.

CHAPTER

05

CHAPTER 5

ENSURING OLD-AGE INCOME SECURITY

...there is no method of avoiding the costs of ageing. In fact, all debate and policy decisions are about how to allocate, in the fairest manner, the costs of ageing among all stakeholders. In this debate, however, the term "fair" is open to interpretation, which is driven by the interests of those involved.

ASEAN Secretariat (2020)

5.1 Introduction

The future of a more aged society is nearer than we think. In 2020, Malaysia has transitioned to an "ageing" population, whereby those aged 65 and older reached 7% of the population. The country is projected to become "aged" in 2045 when the share of those aged 65 and older will reach 14% of the population and "super-aged" by 2060, when those aged 65 and older will reach 20%[193]. In 2020, one in 14 persons in Malaysia aged over 65, making up 2.3 million of the 32.4 million total population. Based on the population forecast, older individuals[194] will become more prevalent, expected to reach one in seven in 2045 and one in five in 2060. Similarly, the median age of the population is rising; in 2020, it was 31 years old and in 2060 it is projected to be 43 years old.

Longevity is to be celebrated but ageing often increases the risk of deteriorating income, health and social support. While ageing is inevitable, the experience varies depending on how well the risks are managed. Multipronged policies must accompany the multifaceted nature of old-age vulnerabilities, but a detailed discussion on these challenges goes beyond the scope of this report. Instead, this chapter focuses on the risk of income insecurity in old age which is one of the key factors underpinning other challenges including homelessness, disability, as well as physical and mental health issues. In this context, an effective system that is forward-looking in managing income insecurity during old age matters and must be extended to all.

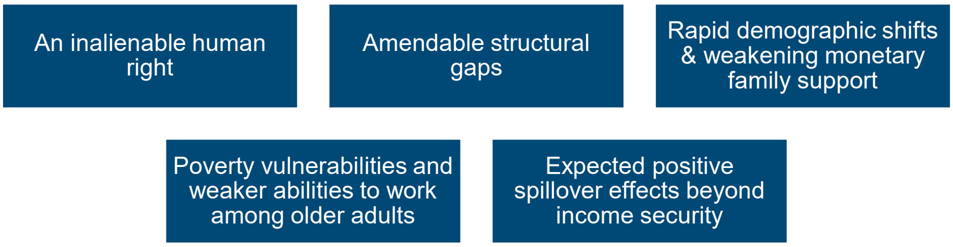
This chapter first outlines the importance of old-age income security. It then discusses key gaps in the pension ecosystem in Malaysia and later compares and contrasts existing solution options. Finally, it offers Social Insurance Pension (SIP) as a policy option to expand pension coverage and help improve pension affordability.

5.2 The Importance of Old-age Income Security

Old-age income security or the ability to meet basic needs in old age is grounded in human rights instruments and international labour standards. It is a pertinent issue as Malaysia is rapidly ageing, with changing family structure *and* weakening monetary family support. Weaker labour market participation and deteriorating capacity to work also make older adults more vulnerable to poverty. At the same time, the current pension system has yet to deliver the much-needed protection coverage with many groups falling through the cracks. Against this backdrop, improving old-age pension has shown promising results in improving the lives of the recipients, their households and the larger economy. Figure 5.1 summarises key points supporting the expansion of old-age income security in Malaysia.

[193] Unless otherwise stated all demographic statistics are KRI calculations based on the medium fertility variant of the 2019 revision of the United Nations Population Forecast via CEIC (n.d.).
[194] See Box 5.1 for a brief note on definitions of older persons

Figure 5.1: The importance of old-age pension



Source: KRI illustration

Box 5.1: Defining older persons

In this report, older individuals refer to both those aged +60 and +65 . This is a common practice, and the thresholds are used interchangeably depending on available statistics[195]. In 1913, American sociologist Isaac Rubinow described the age 65 as the threshold of old age "since it is at this period of life that the rates of sickness and death begin to show a marked increase over those of the earlier years"[196]. In 1982, the UN at the First World Assembly on Ageing adopted the age 60 as the definition of older persons given the prevailing practice in the past[197]. It is worthwhile to note that Malaysia typically uses the age 60 in its age-related policies (Table 5.1), but the 65 threshold is a more common category in many international statistical definitions.

Table 5.1: Age threshold for relevant policies in Malaysia

Relevant age-related policies	Effective
Civil servant mandatory retirement age[198]: **60**	1 January 2012
Statutory minimum retirement age[199]: **60**	1 July 2013
Means-tested monetary assistance for older person[200]: **60**	(1982)
EPF age-related withdrawal policies • Age **60**: Full withdrawal of savings in *Akaun 55* at age 55 and *Akaun Emas*, for those working beyond age 55 • Age **55**: Full withdrawal of savings in *Akaun 55*, consisting of all savings in Account 1 (stores 70% of monthly contribution) and Account 2 (stores 30% of monthly contribution) • Age **50:** Partial withdrawal of savings in Account 2	 1 January 2017 1952 1968

Source: KRI illustration

[195] See UN (2019a)
[196] As cited in Sergei Scherbov (2020)
[197] UN (1982)
[198] Mandatory retirement age for civil servants has increased from 55 to 56 in 2001, 56 to 58 in 2008, and 58 to 60 in 2012. Source: JPA (n.d.-a)
[199] No statutory minimum age existed prior to 2012 but the retirement age was typically set at 55 in practice. With the Act, a fine will be imposed for requiring employee to retire prior to age 60 but employees can choose to retire earlier. Source: SSA (2013)
[200] Bantuan Orang Tua (BOT), known as Bantuan Warga Emas since 2021, was first introduced in 1982 but the age limit was not specified in the original document. Source:SAGC (n.d.)

5.3 Old-age Pension Provision in Malaysia

The right to income security is part of the Universal Declaration of Human Rights. This right is later operationalised in other international standards (see Appendix H for more details). These international documents anchor the ideal by providing broad tools to design a social security system where three main income-security contingencies are covered. These are old age, disability and loss of a breadwinner.

While Malaysia is not a signatory of the relevant international conventions, the country has in place schemes that strive to protect all three income-related contingencies (see Appendix I for key features of each scheme). This chapter zooms in on old age contingency, excluding discussions on disability pension and survivors' pension[201]. As illustrated in Table 5.2, the pension provision for old age has three components: a tax-funded first tier, a second tier of mandatory individual accounts and a voluntary third tier. The first tier aims to ensure a minimum standard of living, the second targets income replacement (the value depends on past earnings or contributions), and the third tier consists of voluntary retirement savings. However, even with the three tiers, not all individuals are covered and benefits vary from one scheme to another. This inconsistency reflects structural shortcomings.

Table 5.2 : Old-age retirement schemes in Malaysia

Old-age income security	Scheme	Agency & governing document/legislation		Tier
Stipulated ILO conventions: i) No. 102 (Social security minimum standards) and ii) No. 128 (Invalidity, Old-Age and Survivors' Benefits)	Means-tested allowances for older individuals	**JKM** National Policy for Older Persons, 2011		First tier
	Mandatory retirement savings	**EPF** Employees Provident Fund Act 1991	**LTAT** Tabung Angkatan Tentera Act 1973	Second tier
	Civil service pension	**KWAP** Retirement Fund Act 2007 (Act 662)	**JPA** Article 147 of the Constitution	
	Voluntary private retirement	**PRS** Capital Markets and Services Act 2007		Third tier

Note: The LTAT is a government statutory body providing retirement savings scheme for officers and members of other ranks of the Malaysian Armed Forces and the volunteer forces; KWAP is Malaysia's civil service pension fund; JPA (Jabatan Perkhidmatan Awam) is the Public Service Department; PRS refers to Private Retirement Scheme
Source: KRI illustration

Table 5.3 shows there were 22.7 million working-age individuals aged between 15 and 64 in 2019. 33% of this population or 7.6 million individuals actively contributed to their retirement savings in the EPF. Active contributors here refer to those who contributed at least once during the reported year. In the same year, almost 1.4 million civil servants including armed forces personnel were either eligible for tax-funded pensions through KWAP or contributing to other retirement funds, like the LTAT. This left almost 13.9 million outside the formal retirement arrangements or 60% of the total working-age individuals[202].

[201] SOCSO provides invalidity pension and survivors' pension for its contributors. In 2017, SOCSO received over 14,000 applications for invalidity pension, only 40% of which were eventually approved. The high proportion of applications has been cited to indicate applicants trying to receive SOCSO pension to meet their old-age income needs. Source: Rabi et al. (2019)
[202] With this deductive method, the total and proportion of uncovered individuals vary based on the denominator. Out of 15.6 million labour force, the total would be 6.77 million or 43.4% in 2019. Out of 15.1 million employed persons, the total would be 6.3 million or 41.5% in 2019. Note that computing coverage for old age as a percentage of the working-age population is a common practice internationally.

While some within the excluded population can eventually seek assistance from the BWE programme—tax-funded financial assistance for poor older persons—as will be shown below, the scale of the programme is small. This means the majority would have to rely on individual efforts like personal savings, house, land ownership, or intra-generational family transfer. Yet, for most, these other sources of income may not always be available to them. Declining fertility rate, shrinking household size[203], the weaker prevalence of a multi-generational household[204], and rising household debt[205] also point to a future where old-age income security would depend less and less on monetary family transfer.

Table 5.3: Number and share of persons in the working-age population, by old-age retirement scheme, 2009 and 2019

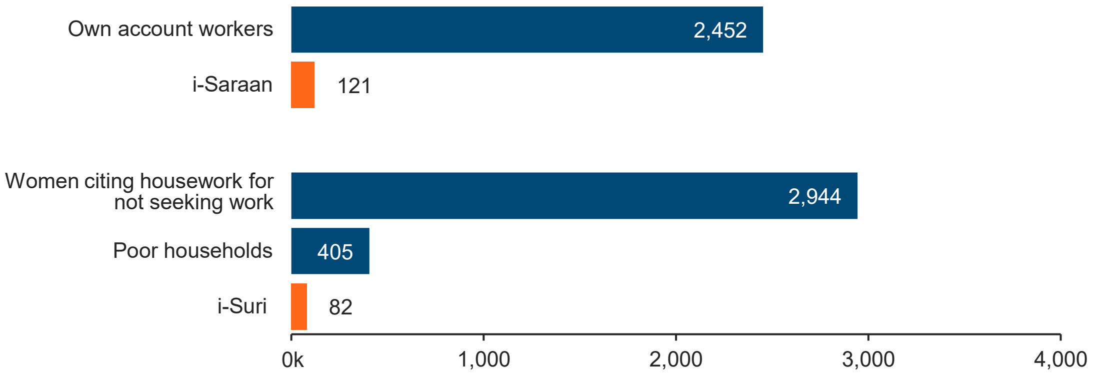
	2009		2019	
	Total	Share	Total	Share
Estimated working-age individuals without formal old-age retirement schemes	**11,200,327**	**62.3%**	**13,869,370**	**61.2%**
EPF active contributors aged below 65	5,773,302	32.1%	7,545,935	33.3%
Civil service (excludes the Malaysian Armed Forces and the Royal Malaysia Police)	1,015,719	5.6%	1,265,335	5.6%
Armed forces personnel	133,600	0.7%	136,000	0.6%
Working-age individuals (15 to 64 years old)	**17,989,348**	**100.0%**	**22,680,640**	**100.0%**

Note: Estimated uncovered individuals are a lower bound as it discounts a potential overlap between EPF active members and civil servants; both include non-pensionable public sector employees. The size of the overlap is expected to be small. Armed forces personnel are used as a proxy for LTAT contributors; 2018 data was used for the year 2019. Account-holders for the PRS are also excluded from the estimation as PRS members are expected to have a higher overlap with EPF active members, with 71% of PRS members being employed Source: SC (2019).
Source: DOS (various years-a), EPF (various years), KPWKM (2020), World Bank via CEIC (n.d.), KRI calculations

The meagre improvement of estimated working-age individuals without old age retirement schemes from 62.3% in 2009 to only 61.2% in 2019 indicates a persistent coverage gap (Table 5.3). This is despite the EPF's efforts to expand coverage by introducing voluntary savings schemes for i-Saraan (previously known as the 1Malaysia Retirement Savings Scheme) for self-employed in 2010 and i-Suri for housewives registered under the National Poverty Data Bank (e-Kasih) in 2018[206]. As a simple comparison, out of the 2.5 million Malaysian citizens working on their own, only 121,000 or 5% registered with i-Saraan in 2019 (Figure 5.2). Meanwhile, only 81,000 housewives registered with i-Suri. This is 3% of the 2.9 million women citing housework for not seeking work or 20% of the total number of poor households among citizens only, assuming one member from each poor household is eligible for i-Suri.

[203] Household size shrunk from 4.3 in 2005 to 3.9 in 2019. The declining pattern is observed in both rural and urban areas. Source: DOS via CEIC (n.d.)
[204] The proportion of three-generation households declined from 41.1% in 2004 to 30.7% in 2016. Source: World Bank (2020a)
[205] Household debt as percentage of nominal GDP has increased from its all-time low of 60.4% in 2008 to 93.3% in 2020. Source: BNM via World Bank (n.d.-b)
[206] The amendment to allow self-employed to contribute to the EPF was made in 1977 under the EPF Ordinance 1951.

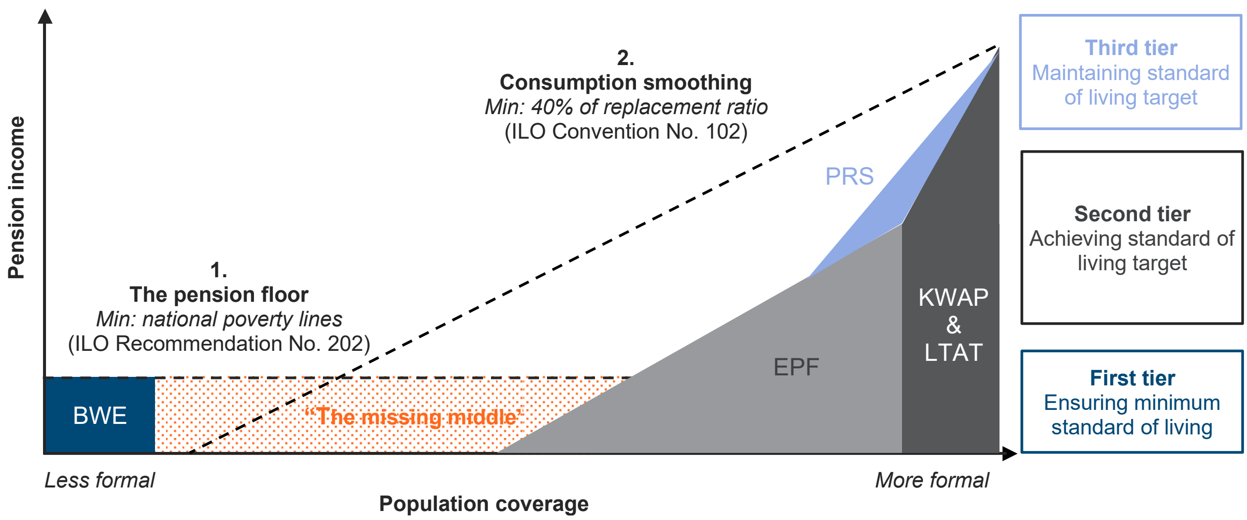
Figure 5.2: Number of EPF members and comparable working-age population, by voluntary EPF scheme, 2019



Note: Own account workers and women citing housework for not seeking work aged between 15 and 64. Women citing housework for not seeking work include non-citizens. i-Saraan and i-Suri members are citizens aged below 55 and age 60, respectively
Source: EPF (2020), DOS (2020b), DOS (2020a)

According to international standards, an old-age pension system should achieve two objectives. One, to provide basic income security that allow for a "life in dignity"[207]. Two, to serve as a consumption smoothing mechanism, enabling stable consumption throughout periods of both high and low income. The fulfilment of these objectives can be assessed by the share of the old-age population drawing pension benefits equivalent to the poverty line per capita (first objective) and pension amount of not lower than 40% of previous earnings (second objective). While Malaysia has a multi-tiered pension system with all three components, the system as a whole has yet to achieve both intended objectives. As Figure 5.3, the sparse provision creates a missing middle. These are individuals who are not part of the retirement savings scheme and who do not qualify for old-age financial assistance. Many are excluded from the system and those covered do not have enough savings for their retirement.

Figure 5.3: Population coverage and adequacy of old-age social assistance and retirement schemes in Malaysia



Source: Adapted from Knox-Vydmanov (2021), OECD (2015) for illustrative purposes

[207] ILO (2014b)

The pension floor is effectively guaranteed only to the few at two ends of the spectrum: pensionable public employees to the far right and poor elders to the far left in. Means-tested allowance for older individuals, known as Bantuan Warga Emas (BWE)[208] is limited to persons aged 60 and above, living below the poverty line, and without work and family support. In 2017, a total of 134, 614 (4.2% of the total population aged over 60) received BWE of RM350 monthly, roughly at the poverty line per capita in 2017. In the same year, 492,898 civil service pensioners (15.3% of the population aged over 60) received at the very minimum RM950 monthly. As of 2021, the minimum pension level for civil pensioners with at least 25 years of service is RM1,000 and the BWE benefit has increased to RM500, aligned with the revised poverty line[209].

If we are to consider civil service pensioners and BWE recipients as old-age pension beneficiaries, only 20% of the elder population in Malaysia received periodic old-age benefits in 2017 (Table 5.4). This means only one in five older individuals in Malaysia were protected from longevity or old age, lower than the world average of one in two[210]. EPF members are not considered pension beneficiaries because of the prevailing practice of lump-sum withdrawal[211]. It is generally accepted that this practice does not adequately protect members from the risk of longevity.

Yet, as explained by Antolin et al (2008), lump-sum payments make more sense individually and administratively when the total savings is too low to be spread across periodical withdrawals, what more to purchase a reasonable amount of life annuity. In 2010 it was estimated that 70% of retirees will exhaust their EPF savings within 10 years[212]. In 2015, 65% or 163, 252 of 251,157 EPF members aged 54 were reported to have less than RM50,000, an amount that could only last for about five years of retirement if they spend below RM820 monthly[213]. In 2020, 54% or 137,000 of 245,000 EPF members aged 54 have savings of less than RM50,000[214]. Note that while the rate may have dropped from 65% to 54% between 2015 and 2020, the saving threshold of RM50,000 remains. This means retirement affordability may have regressed, not improved as RM50,000 in 2015 would worth more than in 2020 after accounting for the inflation.

Table 5.4 : Number and share of old-age pension beneficiaries and non-beneficiaries among individuals aged 60 and above, 2010 and 2017

	2010		2017	
	Total	Share	Total	Share
Estimated non-beneficiaries of old age pension	1,755,255	78.1%	2,590,088	80.5%
Old-age pension beneficiaries	**493,345**	**21.9%**	**628,512**	**19.5%**
BWE recipients	120,496		134,614	
Civil service pensioners	372,849		493,898	
Total population aged 60 and above	**2,248,600**	**100.0%**	**3,218,600**	**100.0%**

Note: Total civil service pensioners may include retirees below aged 60 under an earlier optional retirement
Source: JPA (2013), Rabi et al. (2019), JKM (various years), DOS (2016b), KRI calculations

[208] BWE is formerly known as Bantuan Orang Tua (BOT)
[209] JPA (n.d.-a), MOF (2020)
[210] This is based on an unweighted average of old-age effective coverage from 180 countries reported. Source:ILO (2017b)
[211] The total periodical and monthly EPF withdrawals have been negligible, reported to be 796 in 2017 and just 579 in 2019. Source: EPF (various years)
[212] Othman (2010) as cited in ADB (2012)
[213] EPF (2016a)
[214] EPF via Malaysiakini (2020)

With only the very poor older persons and the pensioners of the civil service sector covered by the tax-funded old-age pension; others are left with the EPF to accumulate savings for their retirement. However, as shown in Table 5.3, the EPF has yet to successfully expand its coverage beyond the formal salaried employees. In 2019, only half of the total 14.6 million EPF members actively contributed to their accounts and among the total active members (7.6 million), the total registered members in voluntary schemes (0.2 million in 2019) only made up a dismal 2.7%[215]. For those with EPF accounts, as highlighted above, most of them do not have adequate retirement savings to last for long.

Considering that more than half of EPF members aged 54 in 2020 had less than RM50,000 in 2020[216], most EPF members are far from meeting the target set in 2019 of meeting RM240,000 total savings by age 55. This basic saving targets can afford members RM1,000 a month for 20 years of retirement, from age 55 to 75 as aligned with Malaysia's life expectancy[217]. This RM1,000 monthly pension is equivalent to 40% of the median monthly salaries of RM2,442 for paid employees in 2019, arguably fulfilling the minimum replacement rate of 40% for regular wage earners[218]. The level was also said to be consistent with the minimum pension for civil service, which was raised from RM950 to RM1,000 in 2018[219]. However, this rate of about RM1,000 is lower than the estimated monthly expenses of RM2,450 for a senior citizen to lead a reasonable standard of living[220].

This issue of inadequacy is further exacerbated by the decision to provide short-term relief for Covid-19 by facilitating early access to retirement savings. While other countries also provide early access to retirement, many of the schemes are conditional to specific Covid-19 financial hardships[221]. Based on the OECD 2020 report, only a few countries like Chile and Peru provide unconditional access similar to Malaysia[222]. In late February 2021, the EPF estimated that before the Covid-19 withdrawal schemes i.e. i-Lestari and i-Sinar were introduced, only 3.3 million or 22% of all their members were meeting the basic savings target[223]. With the Covid-19 schemes, the figures dropped further to 2.7 million or 18% of all EPF members[224]. Between April 2020 and June 2021 withdrawals for Account 2 via the i-Lestari facility, Account 1 through the i-Sinar facility, and a combination of Account 1 and 2 via the i-Citra facility were made available to all EPF members (see Table 5.5). As of August 2021, the EPF reported that about 39% or 4.8 million of 12.5 million members aged below 55 have near zero retirement savings of less than RM1,000[225].

[215] EPF (2020), KRI calculations
[216] EPF via Malaysiakini (2020)
[217] EPF Basic Savings target by age 55 was revised from RM 120,000 in 2008, RM 196,800 in 2014, RM 228,000 in 2017 and RM 240,000 in 2019. Source:EPF (n.d.-a)
[218] DOS (2021f), KRI calculations
[219] The minimum monthly pension for civil service increased from RM720 in 2009, RM820 in 2012, RM950 in 2016, RM1,000 in 2018. Source: JPA (n.d.-a)
[220] The Centre for Social Welfare Research (SWRC) as cited in Malaysiakini (2020)
[221] OECD (2020)
[222] OECD (2020)
[223] EPF (2021) via Astro Awani (2021a)
[224] EPP via Astro Awani (2021a), EPF (2021) KRI calculations
[225] EPF (2021), KRI calculations

Table 5.5 Withdrawal range, by EPF Covid-19 pre-withdrawal schemes, 2020 to 2022

Year	Month	Announcement	i-Lestari (Account 2)		i-Sinar (Account 1)		i-Citra (Max Account 2 then Account 1)	
					Category A < RM100K	Category B > RM100K		
			Max (RM6,000)	Min (RM600)	Max (RM10,000)	Max (RM60,000)	Max (RM5,000)	Min (RM250)
2020	March							
	April	i-Lestari launched						
	May	i-Lestari first credited	500	50				
	June		500	50				
	July		500	50				
	August		500	50				
	September		500	50				
	October		500	50				
	November	i-Sinar announced	500	50				
	December	i-Sinar automatic approval announced i-Sinar Category 1 application opened	500	50				
2021	January	i-Sinar Category 2 application opened i-Sinar first credited	500	50	5,000	10,000		
	February		500	50	1,000	10,000		
	March	i-Lestari ended i-Lestari could apply for i-Sinar	500	50	1,000	10,000		
	April		500	50	1,000	10,000		
	May				1,000	10,000		
	June	i-Sinar application ended			1,000	10,000		
	July	i-Citra application opened					1,000	50
	August	i-Citra first credited					1,000	50
	September	i-Citra application ended					1,000	50
	October						1,000	50
	November						1,000	50
	December							
2022	January							
	February	i-Citra ends						

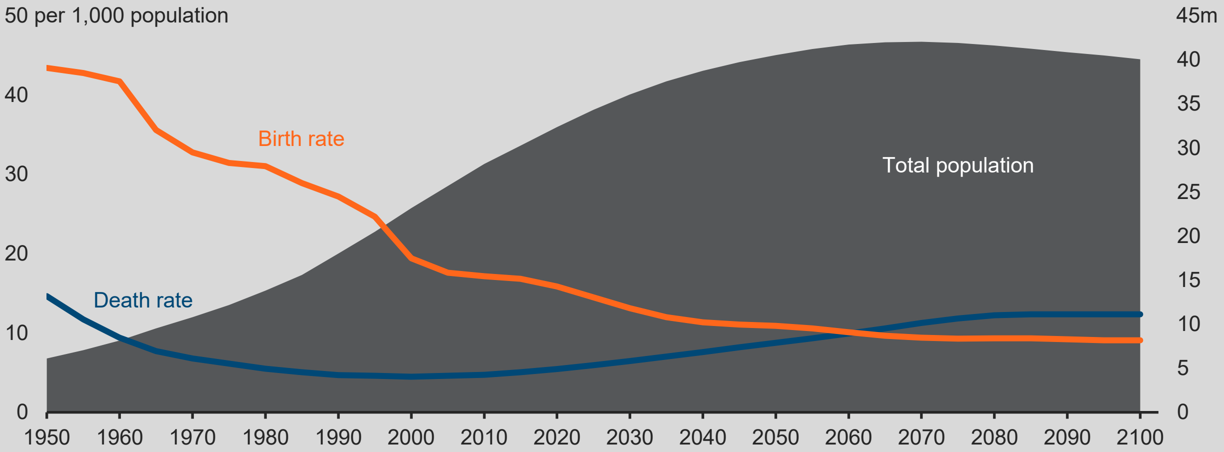
Note: Payment period for i-Lestari and i-Citra depends on application month
Source: KRI illustration

While the Covid-19 early withdrawals have aggravated the problem of savings inadequacy, the issues of inadequate coverage and savings have pre-dated the Covid-19 crisis. For the large majority of the population, Malaysia's pension provision is neither providing the pension floor, nor adequate consumption smoothing. The next section will discuss key existing solutions to tackle the missing middle and strengthen old-age income adequacy along with their inherent limitations.

Box 5.2: Key demographic trends

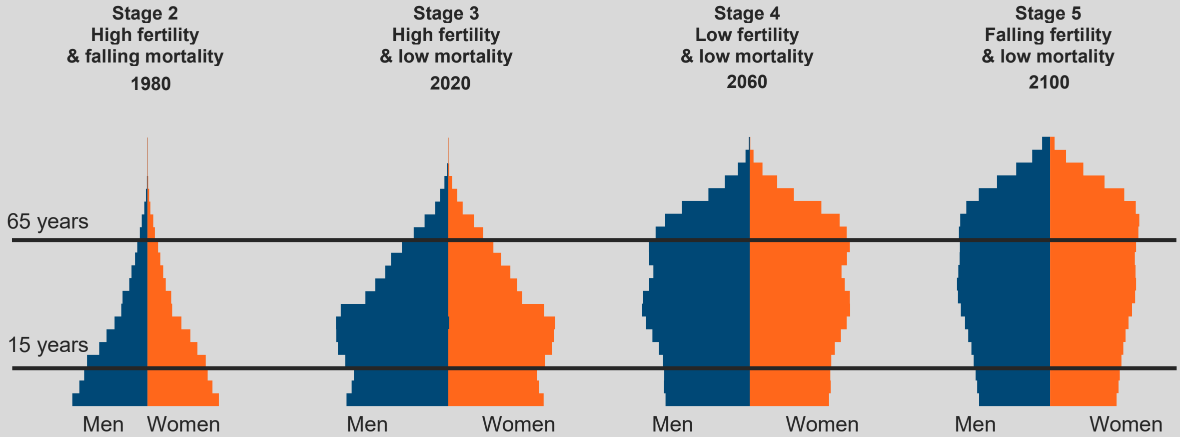
Figure 5.4 and Figure 5.5 captures the demographic transition in Malaysia and its main drivers.

Figure 5.4: Birth and death rate per 1,000 population (left axis) and total population (right axis), 1950 – 2100



Note: Data are five-year estimates. 2019 data onwards are projections
Source: UNDESA population estimates via CEIC (n.d.)

Figure 5.5: Share of population, by age, gender and demographic transition phase, 1980 – 2100



Note: 2019 data onwards are projections. Stage 1 of high fertility and mortality is excluded due to inconsistent longer historical data. Total populations are broken into 5-year age groups, represented as horizontal bars along the vertical axis, with the youngest age groups at the bottom
Source: UNDESA population estimates via CEIC (n.d.)

Increasing volume and share of the elder population

In 1980, Malaysia recorded 13.8 million population, 0.5 million or 4% of whom were aged 65 and over. This elder population grew five times to 2.3 million in 2020, making up 7% of the total population. By 2060, older adults are projected to almost quadruple to 9.1 million or 22% of the total population. Even when the population is forecasted to decline by 2070, older individuals continue to be the only group expected to grow, reaching 11.9 million in 2100, consisting of 30% of the total population.

Reached the tail end of demographic dividend in 2020

In 2020, Malaysia experienced the tail end of a demographic dividend where a greater proportion of the population was of young working age, as reflected in a mid-bulge age pyramid. This was after 55 years of favourable demographic period starting in 1965[226], during which improvements in labour supply, labour productivity, and savings are theorised to create a tailwind for strong economic growth[227]. According to UNFA (n.d.), demographic dividend is "the economic growth potential that can result from the shifts in a population's age structure, mainly when the share of the working-age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older)". Rabi et al. (2019) estimated this by adding the number of years where the working-age population's growth exceeds the total population's growth.

Less working-age individuals to support older individuals

From 2020 onwards, there will be fewer and fewer working-age individuals to support younger and older generations, as seen in the inverted top-heavy pyramid in 2100 in Figure 5.4. The number of persons of working age for every elder tumble from 16 in 1980, 10 in 2020 to just three in 2060[228]. Unless productivity increases faster and/or workers retire later, the shrinking working-age population can affect the current sources of government revenue. In 2021, individual income tax is estimated to account for 17.9% of the total government revenue of RM236.9 billion, almost identical to the size of indirect tax[229].

Falling mortality and fertility as the main drivers of the demographic transition

Like other countries, falling fertility typically coincides with better healthcare access along with improved educational and labour outcomes for women[230]. On average, a woman in Malaysia was expected to have about six children (6.3) in 1958, four (3.5) in 1990 and just two (1.8) in 2018. The fertility rate has also fallen below the replacement level of 2.1 children since 2013.

Migration is estimated to have a far smaller effect on Malaysia's demographic shift[231]. A projected net migration rate (immigrants less emigrants per 1,000 population) for 1980 is only -1.05 and 1.21 in 2100[232]. This is a much smaller rate compared to the birth rate of 31.1 in 1980 and 9.1 in 2100. Similarly, the estimated death rate in 1980 is 5.5 and 12.4 in 2100.

Living longer and longer

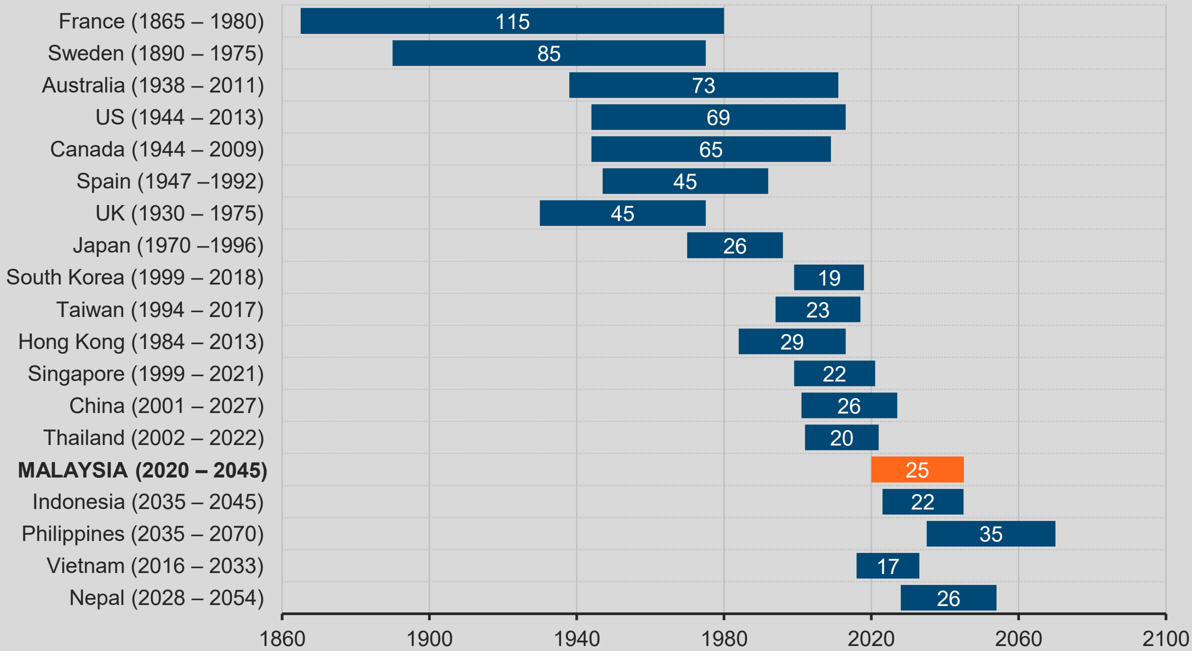
For individuals, a longer life expectancy affects retirement arrangements. On average, a person born in 2020 can expect to live almost 77 years, almost eight more years than those born in 1980. This coincides with the increasing average years a person at 65 can expect to live. A person aged 65 years in 2020 can expect to live an average of 17 additional years, up from 15 in 2000. By 2080, the figure will have increased to 23 years. Survival to age 65 has also increased from 67.9% for females and 60.1% for males in 1969 to 87.0% for females and 76.9% for males in 2019. This means almost nine out of 10 female babies born in 2019 would survive to age 65, an improvement from seven out of 10 for those born in 1969.

[226] Rabi et al. (2019)
[227] See Bloom and Williamson (1997)
[228] Overall dependency ratio will increase (dependent for every working age individual) even after accounting for shrinking young population (under 15) as the reduction in young population is offset by the rapid increase of older population (over 65).
[229] MOF (2020)
[230] SeeKirk (1996)
[231] An IMF (2017) estimate also supports a relatively weaker impact of migration on Malaysian demographic trends and economic growth.
[232] Death rates, birth rates and net migration rates are all from UNDESA via CEIC (n.d.).

Getting old before getting rich

The main concern for Malaysia is not the demographic transition but its speed. Malaysia is expected to double its share of the elder population over 65 from 7% in 2020 to 14% in 2045, effectively reaching the status of an "aged" nation from "aging" within 25 years. As Figure 5.6 shows, the same transition took France 115 years, Sweden 85 years and Australia 73 years. Malaysia experienced a similar pace as Japan, and it even performed better than South Korea. However, unlike Japan, Malaysia is getting old before becoming rich. This is indicated by Malaysia's lower per capita income at its peak of the working-age population relative to other developed countries[233].

Figure 5.6: Number of years to transition from aging to aged society, by selected country



Source: Kinsella and Velkoff (2001), Rabi et al. (2019)

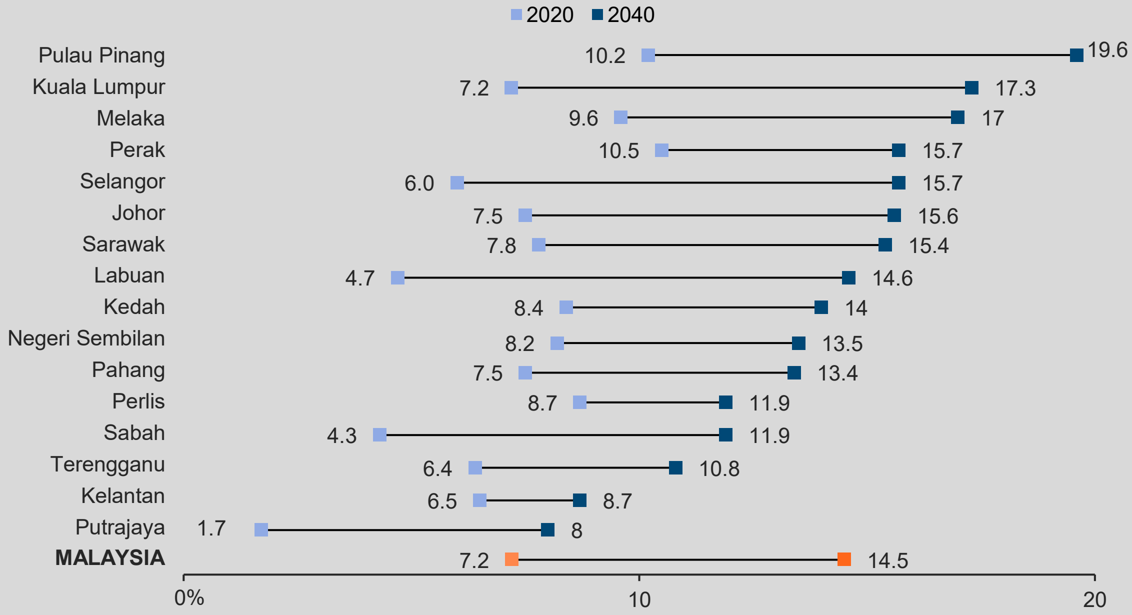
Variations in sub-national demographic trends

Figure 5.7 captures sub-national demographic trends. Within Malaysia, states with a larger population like Selangor, Sabah, Johor, Sarawak, and Perak, have a higher number of populations aged 65 and over. For example, Selangor is estimated to have the highest number of individuals aged 65 and above, with 402,900 in 2020 and 1.3 million in 2040. Yet, a large majority of its population is below 65, with only 6% of the elder population in 2020, lower than Melaka (9.6%), Perak (10.5%) and Pulau Pinang (10.2%).

Similarly, Sabah has many older individuals relative to other states, but a large proportion of its population is "young". Only 4.3% of its population aged 65 and above in 2020 and 11.9% in 2040, much lower than the national average of 7.2% in 2020 and 14.5% in 2040. Pulau Pinang, in turn, continues to have a higher share of the elder population for both 2020 (10.2%) and 2040 (19.6%), well above the national average. Overall, while states within Malaysia have different ageing speeds, the differences tend to be small. Some states like Kelantan may experience a delayed transition but less likely to escape it completely.

[233] IMF (2017)

Figure 5.7: Share of population aged 65 years and over, by state, 2020 and 2040



Source: DOS (2016b)

5.4 Comparison of Potential Solutions

Key demographic trends in Box 5.2 show that each subsequent generation is projected to live longer than ever. With declining fertility and mortality, a shrinking working-age population will have to support a growing older population. Given the speed of ageing in Malaysia, the importance of improving the old-age provision is more pressing than ever.

Yet, longevity improvements are both a cause of urgency (to prevent more from falling through the cracks) and a source of concern (as larger cohorts put more pressures on fiscal expenditures). While the system's equitability must be improved, it has to be sustainable to assure the benefits promised can be delivered. Sustainability-enhancing pension reforms in the European Union (EU) since the early 2000s have decreased the generosity of benefits in many EU countries[234]. The gravity of these trade-offs is also reflected in a large variation in pension provisions across the globe[235].

In Malaysia, available solutions to the persistent issues of poor pension coverage and adequacy can be grouped into two sets of options. The first set of options is geared towards improving the mechanisms within the EPF. The second set of options focuses on broadening the coverage and/or deepening the benefits of tax-funded BWE. These two broad solutions are not substitutable (not an either-or situation) and often presented as complementary to one another. This section will discuss the rationale behind each proposal within the ambit of existing schemes and their corresponding limitations.

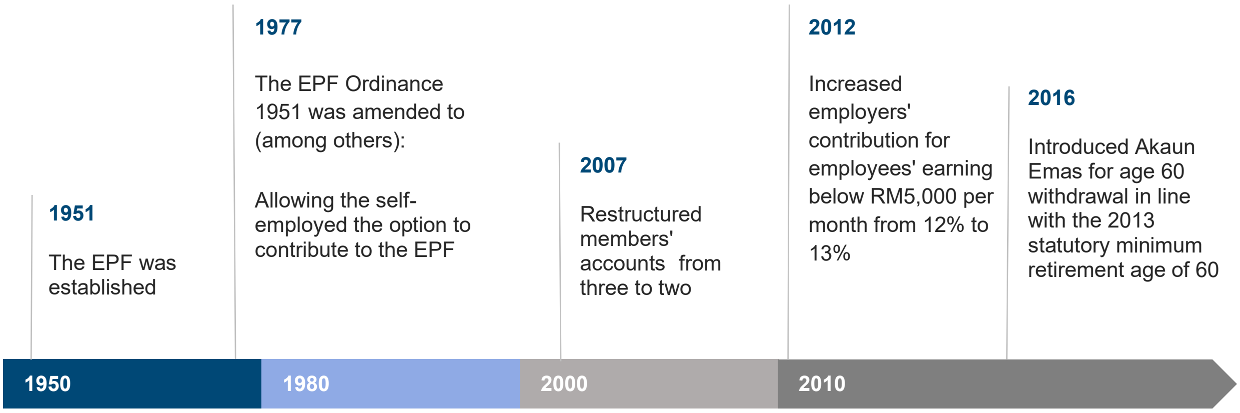
[234] Carone et al. (2016)
[235] See ILO (2017c)

5.4.1. EPF-centred solutions: Parametric changes to existing scheme

Established in 1951, the EPF network has grown from half a million members in 1952 to almost 15 million members in 2019. With total contributions of about RM80 million annually and total assets of almost a trillion ringgit, it is one of the oldest and largest retirement funds in the world[236]. The EPF has also been consistently reporting a dividend rate above the annual inflation rate and the 2.5% minimum mandated rate in the EPF Act 1991 since 1960[237].

Several improvements have been made since its establishment. As shown in Figure 5.8, key reforms include allowing non-employees to contribute in 1977; restructuring savings accounts from three to two in 2008 to discourage early withdrawals; lowering contribution rates for older workers in 2016 to encourage formal labour engagement among older individuals[238]; introducing *Akaun Emas* for age 60 withdrawal in 2016 to encourage later withdrawals and increasing employer's contribution rate for low wage earners in 2012 to increase retirement savings. However, the main criticism that the reforms did not go deep and far enough to yield significant results remains to abound.

Figure 5.8: Selected EPF reforms



Source: KRI illustration

The Covid-19 early withdrawal schemes renewed attention on the retirement inadequacy precisely because individuals who need to withdraw the most are those with the least amount of savings, which invariably make them the most vulnerable group upon retirement. With approval without conditions starting in early 2021, the total reported withdrawal for i-Lestari and i-Sinar of RM78 billion in May 2021 exceeded the initially expected withdrawal of about RM44 billion made in 2020[239]. Despite the safeguard measures (e.g. for i-Sinar, all future contributions will all be credited to Account 1 until the amount withdrew replenished), savings of the most vulnerable members with irregular incomes are expected to take the most hit. According to the EPF, as of August 2021, 5.2 million members have near zero saving (below RM1,000) in Account 1 and 8.0 million members for Account 2[240].

---

[236] According to P&I (2020), as of 31 December 2019, the EPF is ranked the twelfth largest retirement fund in the world.
[237] Narayanan (2002) and Jackson and Inglis (2021) have argued that the return rate could have been higher.
[238] The share of persons aged 55 to 64 working as own account workers has declined from 41.1% in 2011 to just 23.1% in 2020. Similarly, the share of unpaid workers among persons aged 55 to 64 has dropped from 6.8% to 4.5% in the same period. These improvements can be indicative of the positive impact of lowering the contribution for retirement savings for older workers (aged above 60) introduced in 2016 by EPF. Source: DOS (various years-a), KRI calculations
[239] Total reported withdrawal as of May 2021 from BH (2021). Total expected amount from NST (2020) for i-Lestari (RM40 billion) reported in March 2020 and from PMO (2020) for i-Sinar (RM4 billion) announced in November 2020.
[240] EPF (2021)

Given the latest context, three potential suggestions to improve EPF's equitability or helping members with lower incomes and savings have been floated in the public discourse. These are[241]:

- Deepening **progressive contribution** by increasing employer's contribution for local workers with a monthly salary of below RM5,000 from 13% to 15%.
- Introducing **progressive dividends** by applying higher dividend rates for members with lower savings. For a complete table of the tiered dividends by savings level used, see Appendix J.
- Increasing contribution period up to the age of 65 with a **higher statutory minimum retirement age** from 60 to 65.

To gain some sense of the range of impacts of each recommendation, we used a hypothetical simulation model to calculate the accumulated savings under different scenarios. All of our stimulations refer to individuals who entered the workforce in 2018 with different sociodemographic backgrounds. For the details of the techniques, steps and assumptions used, see Appendix J.

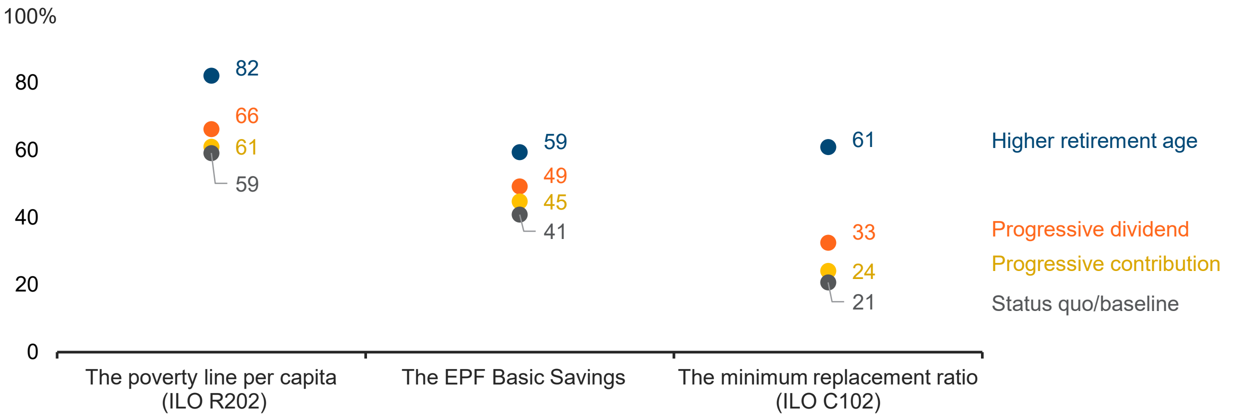
The estimated effectiveness of each proposal is assessed from the coverage of hypothetical accounts achieving the minimum targets set by the EPF (the Basic Savings target) and the ILO (the poverty line per capita and the minimum replacement rate of at least 40% of previous earnings). As shown in Figure 5.9, without any changes to the current EPF scheme, the majority of the hypothetical members would not have accumulated enough savings to meet any of the minimum savings' thresholds under the simulated scenarios.

For example, only 59% of these hypothetical members are projected to acquire enough savings to live above poverty during retirement, 41% are able to meet the EPF Basic Savings target to support basic needs and only 21% are expected to have a monthly retirement saving that is at least 40% of their last drawn salaries. Note that all absolute thresholds like the poverty line per capita and the EPF Basic Savings target have been adjusted to future values in these stimulations. While these are hypothetical stimulations, these findings are consistent with the statistical trends reported by the EPF and other studies[242].

Based on the simulations, higher retirement age is expected to have the largest impact on members' savings, followed by progressive dividend and lastly, progressive contribution. With a longer working period (45 instead of 40 working years), a majority (82.2%) is expected to have enough savings to stay out of poverty. A higher share of the hypothetical accounts is also estimated to be able to reach the minimum savings set by the EPF and to receive a monthly pension with a replacement rate of 40% of their last wages or salaries. This sizeable impact of the longer working period is expected and in agreement with other studies[243].

[241] See PMO (2011) for progressive contribution, The Edge (2020) for progressive dividend and World Bank (2020a) for higher withdrawal eligibility age.
[242] Holzmann (2014) and Rabi et al. (2019)
[243] See Munnell and Saas (2008)

Figure 5.9: Share of hypothetical EPF members achieving minimum income threshold, by threshold and simulation scenario



Note: The EPF Basic Savings thresholds and the poverty line per capita have been inflated into future values, assuming a future constant inflation annual rate of 2%. For more details, see Appendix J
Source: KRI calculations

Two points need to be highlighted from the findings in Figure 5.9. First, even if all members work for longer, EPF cannot guarantee the minimum savings adequacy to all its members (18% of hypothetical accounts are still projected to live below the poverty line per capita upon retirement even with a higher retirement age). While low wages and pre-retirement withdrawals via Account 2 have often been cited as reasons behind the EPF savings inadequacy despite its relatively high contribution rates (cited to rank fifth globally in 2015)[244], less attention has been paid to the frequency of contributions. From the official statistics, it can be observed that only half of all EPF members contribute at least once a year (7.6 million out of 14.6 million in 2019). The number of actual members contributing monthly would have been even lower. By design, the EPF arrangements reward regular continuous contributions, but many may not have the privilege of lifetime employment, let alone without any income disruption. It is yet to be seen whether matching contributions like i-Suri and i-Saraan can be effective in substantially increasing participation and savings in the future[245]. The actual total registered EPF members under these voluntary schemes at the moment is discouraging (Figure 5.2).

Second, the expectation that more older individuals will continue to be active in the labour market for longer by increasing the statutory minimum retirement age should be tampered with. The labour participation of older individuals is an outcome of various external/structural and internal/individual factors. It can be affected by labour market conditions, policies, and institutions; the pension ecosystem; as well as individual characteristics including educational attainment, health status, net wealth and personal preferences[246]. These complex and convoluted factors make it difficult to predict whether more older individuals will stay longer in the labour market. For example, while oft-cited drivers like improvement in policies, health outcomes and educational attainment[247] may explain the recent rise in the participation rate for older persons in the labour market, they cannot explain the high rate of 50.9% in 1975 and the subsequent decline (Figure 5.10).

[244] See EPF (2016a) and World Bank (2018)
[245] Hinz et al. (2013) documented international experience where matching contributions have been successful in increasing participation and savings. By contrast, ILO (2015a) found that internationally coverage expansion efforts through voluntary schemes without government-enforce compliances to be rarely effectively implemented.
[246] See Bodnár and Nerlich (2020)
[247] The statutory minimum retirement age was passed in 2012. Estimated years spent in poor health have improved slightly from 9.1 years in 1990 to 9.5 years in 2019. Source: KRI (2020). Rate of tertiary enrolment has increased from 3.8% in 1979 to 43.1% in 2019. Source: UNESCO Institute for Statistics via World Bank (n.d.-b)

Internationally, the ILO estimate of the labour participation of individuals aged 65 and over in 2019 for Malaysia (25.6%) is comparable to Japan (25.3%) and higher than Australia (14.7%)[248]. Overall, while more older individuals can be encouraged to work longer, the majority of them will likely exit the labour force, which is consistent with the international experience. Put differently, the same high labour participation rate during the prime working age (persons aged 25 to 54) cannot be expected of older individuals (see Figure 5.11)[249]. This is also reasonable considering that older individuals also face a higher risk of functional disability. According to the National and Health Morbidity Survey (NHMS), the prevalence of functional disability to perform Activities of Daily Living and Independent Activities of Daily Living increases with age[250]. The NHMS findings suggest that as we age, we face higher risks of functional limitations that can limit our capacity to work.

Figure 5.10: Labour force participation rate for persons aged 60 – 64, 1975 – 2020

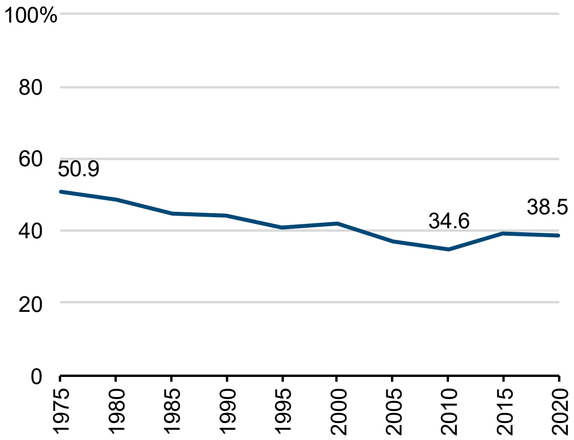
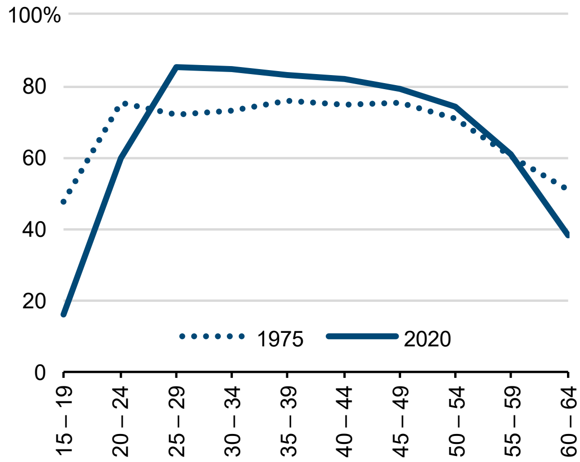


Figure 5.11: Labour force participation rate, by age group, 1975 and 2020



Source: Ong and Tengku Aizan Hamid (2010) and DOS (various years-a)

5.4.2. BWE-centred solution

Considering the persistent challenges faced by the EPF particularly concerning informalisation of work as well as under- and unemployment, there has been a growing call to avoid the contributory complexity by introducing social pension in Malaysia[251]. Social pension is essentially tax-funded periodic old-age benefits and Malaysia already has a form of this in existence. However, it is currently limited to highly targeted poor older individuals without income and family support (under the BWE) and pensionable civil employees (under the civil service pension). It has been argued that the next step forward is to expand BWE, inching towards a universal social pension. Under the universal social pension, all individuals reaching the eligibility age will be provided with regular old-age benefits, typically pegged at the poverty line.

[248] ILOSTAT (n.d.)
[249] Unless the public sentiment changes, it is also highly unlikely for the current withdrawal age of 55 to be changed. In 2015, 94% of respondents from the EPF Members Consultation Exercise overwhelming agreed for the EPF to maintain the Age 55 Withdrawal despite the introduction of the minimum retirement age of 60 in 2013. Source: EPF (n.d.-b)
[250] Seventeen percent of the survey respondents aged above 60 experienced functional limitation in performing Activities of Daily Living (ADL), quadrupled the rate for respondents aged between 50 and 59 (3.8%), while 42.9% of its respondents aged above 60 were estimated to require assistance for IADL, doubled the rate for those aged 50 to 59 (21.3%). Source: MOH (2019)
[251] See ADB (2012)

The main hindrance to the proposal continues to be the cost implications[252]. Financing challenges with the impending demographic transition captured in Box 5.2 is becoming harder to ignore. While the system's equitability must be improved, it has to be sustainable to assure the benefits promised can be delivered. This trade-off is also evident in many countries' recent sustainability-enhancing experiences that invariably led to lower pension benefits[253].

The policy inertia revolving around the provision of social pension through the expansion of BWE can also be explained by its institutional legacy. The BWE was introduced as early as 1982 in the state of Sabah, and it has been packaged as social "assistance" ever since. This coupled with the fact that the BWE is the only old-age provision scheme without legislative underpinning (see Table 5.2), making it difficult to pivot it from means-tested old-age assistance to non-revocable old-age benefits for all[254].

Indeed, this label of social assistance has put a tab on its expenditure. The total BWE recipients dropped from 135, 217 in 2011 to 134, 46 in 2018, or 6% of the total population aged over 60 in 2011 to just 4% in 2018. The total expenditure increased from RM477.8 million to RM554.2 million within the same period with the increase of benefit from RM300 to RM350 starting in 2017. However, in relative terms, it has decreased from 2.3% to 2.0% of the annual government expenditure and 0.052% to 0.038% of the nominal GDP. Undeniably, this declining pattern is in line with the decreasing rates of absolute poverty[255] although the old-age population is increasing.

Since the base of the BWE's expenditure and recipients has been very low, expanding it to a universal coverage even at the minimum benefit level (at the poverty line per capita) is still a big leap (Figure 5.12 and Figure 5.13). If the BWE is to be expanded to all aged over 60 in 2022, the total cost is expected to 44 times more than the cost in 2018. Even by increasing the eligibility age (say from 60 to 65), the estimated universal social pension expenditure share between 1% and 2% of the national GDP is not as small as one might initially think, especially when compared to the pre-existing minuscule share of 0.038% in 2018.

To put things into context, the sustainability of the civil service pension has been called into question for its rising pension and gratuities expenditures (% of GDP) from RM11.5 billion or 1.4% of GDP in 2010 to RM27.5 billion or 2.0% in 2020, doubled in size with an increase of 0.6 percentage points in a decade[256]. Unlike the BWE, the civil service pension benefits are much harder to revoke as they are protected under the Federal Constitution[257]. Notwithstanding the constitutional protection, the rapid ageing has led to a greater call to harmonise and rationalise the civil pension scheme[258]. In the region, countries like Brunei, Indonesia, Laos and the Philippines have made a switch from tax-financed to contributory insurance or savings schemes for government employees[259].

---

[252] Saidatulakmal Mohd, Norma Mansor, and Halimah Awang (2015) and World Bank (2020a)
[253] Carone et al. (2016)
[254] The Old Age Assistance Scheme Regulations 1982 is limited the state of Sabah. The BOT scheme is currently under the 2011 National Policy for Older Persons. Source: Karto and Teh (1986) and SAGC (n.d.)
[255] The reduction applies when the PLIs are based on both the past (2005 methodology) and recently revised methodology (2019 methodology). Source: DOS (2020a)
[256] BNM and IMF data via CEIC (n.d.), KRI calculations
[257] JPA (n.d.-b)
[258] The serving members of the other ranks in the Armed Forces make 10% mandatory contribution to the LTAT, while the government pay 15% from their monthly salaries. See Appendix H. For other studies on civil service reform, see Chee (1997), Darmaraj and Narayanan (2019) and BNM (2021a)
[259] ILO (2015b)

Figure 5.12: Estimated fiscal spending on BWE, by targeting mechanism, 2008 – 2025

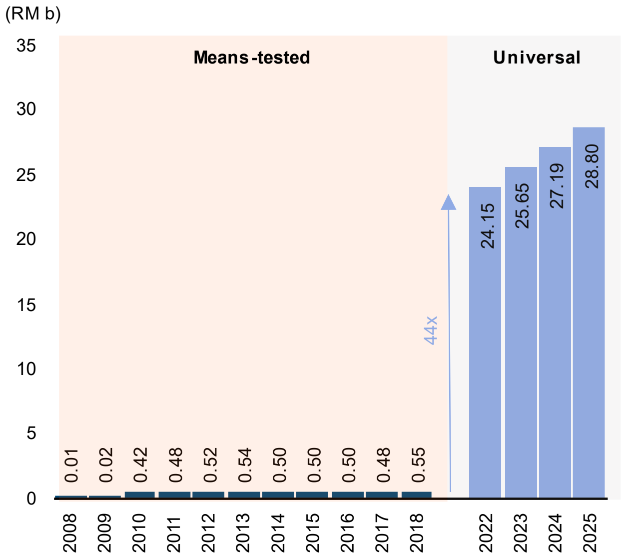
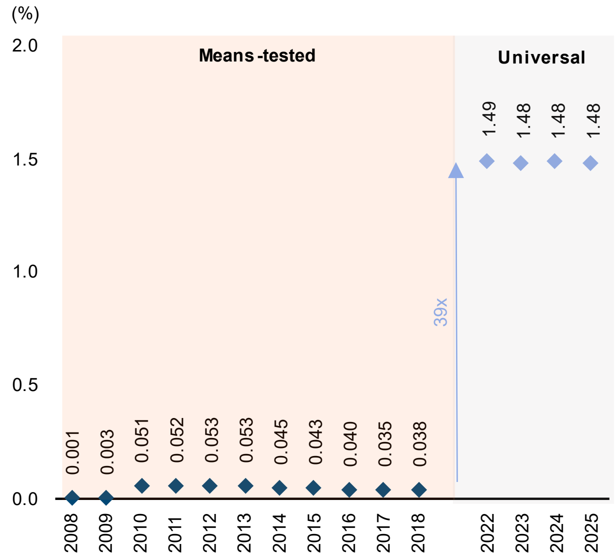


Figure 5.13: Share of estimated fiscal spending on BWE from total GDP, by targeting mechanism, 2008 – 2025



Note: 2022 to 2025 figures are based on forecasted GDP. See Appendix K for more details. Results are indicative as they exclude administrative and upfront investment costs
Source: JKM (various years), IMF (n.d.), World Bank (2021c), UNDESA via CEIC (n.d.), KRI calculations

It is still worth stressing that in principle, a social pension that is universal (available to all older individuals) and fully tax-funded (the present budget pays for the present older population) is the most ideal. It is the easiest to administer and has been argued to be the most effective in minimising exclusion error and providing the fastest full coverage[260]. As shown in Figure 5.14, contrary to popular perception, universal fully-tax funded social pensions are also more prevalent in developing countries outside Europe and Central Asia.

Figure 5.14: Countries with universal tax-funded social pensions, by income classification and region

High income	Upper middle income	Lower middle income	Low income
Brunei Darussalam	Botswana	Bolivia	Tanzania
Canada	Cook Islands	Kiribati	Uganda
Faroe Islands	Georgia	Myanmar	
Netherlands	Guyana	Papua New Guinea	
New Zealand	Kosovo	Timor-Leste	
Seychelles	Mauritius	Zambia	
	Namibia		
	Samoa		
	Suriname		

East Asia & Pacific
Europe & Central Asia
Sub-Saharan Africa
Latin America & Caribbean
North America

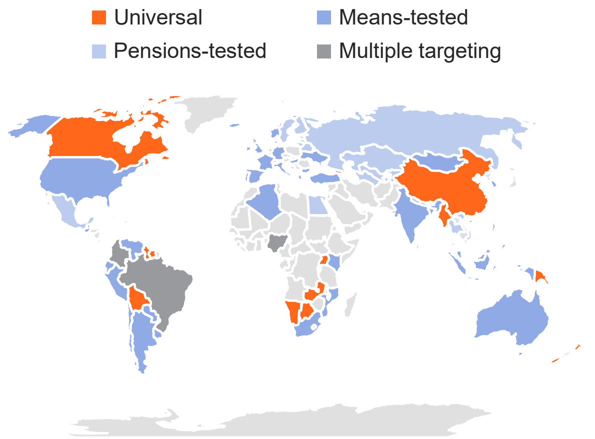
Note: The list is not exhaustive and was last updated in 2018
Source: HelpAge (n.d.)

[260] Kidd (2015)

Yet, in practice, this gold standard remains the exception to the rule. Based on HelpAge International's social pensions database, there are now about 108 countries with social pensions. As seen in Figure 5.15, there is a large variation in the delivery of tax-funded social pensions across the globe. Within these 108 countries, only 24 countries or 22% of the total observed countries provide universal social pensions with a flat benefit level for all persons above a certain age. The remaining 78% essentially offer targeted social pensions. Like Malaysia, most of the countries (52 or 48%) offer means-tested social pension targeting older persons in poor or vulnerable households. Another 28 countries (26%) have pensions-tested social pension targeting older persons without or with insufficient formal retirement savings. The remaining four countries (4%) combine multiple targeting objectives or offer multiple social pensions with different population targets. This large variation in the delivery of tax-funded social pensions across the globe shown in Figure 5.15 further highlights the fiscal pressure faced by governments.

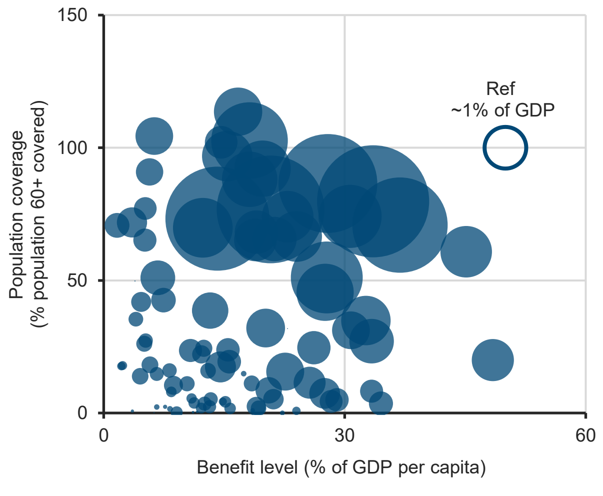
In most instances, for tax-financed pensions, the government has to balance between other competing priorities, fiscal consideration and policy parameters. This can be seen in the actual delivery of tax-funded pension where most countries reside in the bottom left quadrant of Figure 5.16 restricting the population coverage of eligible beneficiaries (vertical axis) and the benefits received (horizontal axis) to keep their budgets small. Indeed, as the budget size is represented by the size of the bubbles in Figure 5.16, the higher the coverage and adequacy, the larger the budget.

Figure 5.15: Social pension coverage, by country and targeting mechanism



Note: Last updated in 2018
Source: HelpAge (n.d.)

Figure 5.16: Share of population above 60 with social pension versus share of pension benefit level from total GDP per capita, by country



Note: The size of the bubble reflects total cost (% of GDP). Last updated in 2018.
Source: HelpAge (n.d.)

The points made do not diminish the importance of investing in a universal social pension. Indeed, the benefits of expanding social pension are well documented[261]. Instead, these points are raised to identify major stumbling blocks to advancing universal social pension in Malaysia. It appears that the cost and institutional implications behind any proposal must not be taken for granted. The next section offers an alternative for Malaysia to move closer to this aspiration.

[261] See ILO (2017b)

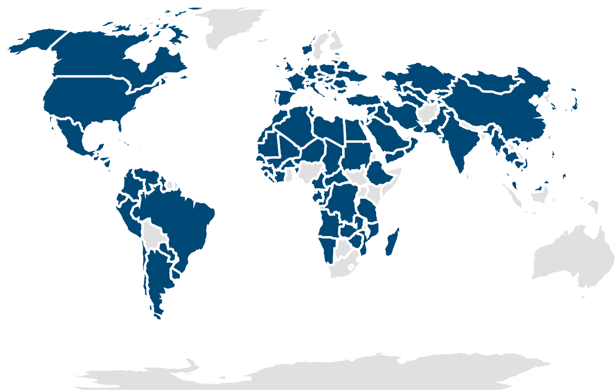
5.5 Policy Recommendation: Introducing Social Insurance Pension

Recognising the inherent challenges and limitations of the two sets of options highlighted above, we view a social insurance pension model as a more enduring approach to work towards achieving full coverage for basic income security during old age.

Social insurance as a vehicle to deliver old-age pension has a long history. It was first introduced in Germany in 1889. Originally restricted to and made compulsory only for blue-collar workers below a certain income threshold, it was later further extended to the rest of the workforce in 1957 and 1972. Social insurance is now by far the most widespread form of old-age protection globally (see Figure 5.17). Social insurance, however, should not be confused with private insurance. At its core, it is based on the fundamental principles of solidarity and collective financing. Fundamental differences between social and private insurance are listed in Table 5.6.

The extension of social insurance coverage is indeed made possible with greater job formalisation. This can be a cause of concern as we observe a steady rise in self-employment and other trends pointing to a greater job informalisation[262]. Yet, the continuous improvement and expansion of protection to previously excluded groups like the self-employed and housewives for EPF and non-standard and domestic workers for SOCSO in recent years have been encouraging. While Covid-19 pre-withdrawal schemes (e.g. i-Lestari, i-Sinar and i-Citra) remain highly debatable for their expected adverse long-term impacts, both EPF and SOCSO (with the delivery of wage subsides) have shown impressive agility and adaptiveness in crisis response. Given their performance and institutional capacity, the changing nature of work will require these agencies to be adaptive but will less likely make them obsolete. On the contrary, the Covid-19 pandemic underscores their importance in a rapidly changing and highly uncertain future.

Figure 5.17: Social insurance coverage, by country, 2014/15



Note: The listed countries are not exhaustive. Social insurance coverage presented here may exclude old-age provision. There is no internationally comparable data on just SIP contributions
Source: ILO (2017b)

Table 5.6: Difference between social and private insurance

Social insurance	Private insurance
Participation is compulsory	Participation is voluntary
Emphasis on social adequacy and solidarity (“group” fairness)	Emphasis on individual equity (“individual” fairness)
Public sector-driven	Private sector-driven
Benefits protected by statutory law	Benefits protected by contract law

Source: Adapted from Singh (1991)

[262] See Hawati Abdul Hamid and Nur Thuraya Sazali (2020)

In general, a social insurance pension provides old-age benefits to individuals who have met the qualifying age and the minimum contribution period, which can vary between 10 and 35 years. Compulsory contributions are made during the working years and typically are a percentage of an earned income. Like other schemes, the operational details vary significantly from country to country. It is also worthwhile to note that most social insurance schemes are a hybrid of both defined benefits scheme and defined contribution scheme as one's entitlement depends on one's contribution[263]. Yet, the benefits are defined in advance and are not determined primarily or strictly tied to individual contributions. In many instances, because of the contribution parameters, there are transfers between members, preserving the element of social solidarity.

It is acknowledged that social insurance or social security agencies are also facing increasing fiscal pressure. In the OECD experience, reforms to address increasing longevity by increasing the retirement age, lowering pension benefits or penalising early retirement remain understandably highly unpopular[264]. In Malaysia, under SOCSO, survivors' pension and invalidity pension continue to occupy a larger share in SOCSO's annual expenditure and the schemes' sustainability has been called into question[265]. One potential way to balance between equity and sustainability is by introducing a life annuity scheme as the social insurance pension.

5.5.1. Life annuity as a mode of SIP's delivery

By definition, an annuity is a series of periodic payments. For life annuity, a person is guaranteed a predetermined lifetime stream of income in exchange for paying the policy premium. The premium can be a lump sum payment that one makes upon retirement or through a series of premium payments before retirement. By design, the life annuity covers the risk of outliving one's accumulated savings. In the private sphere, the cost of this scheme depends on individual profile (life expectancy) and preference (the length and the depth of annuity or benefit).

In 2000, the EPF introduced the EPF Annuity Schemes (Epfas[266]) which allowed EPF members to withdraw from their retirement savings to purchase a single premium deferred annuity from private insurance companies. Within less than a year, over 200,000 EPF members registered totalling over RM4 billion, signalling high demand for the product[267]. However, by the end of 2001, the scheme was suspended after massive backlash from several entities, most prominently from the Malaysian Trades Union Congress and the Consumers Association Penang because i) it was managed by private insurers it was suspected to excessively benefit the private insurers; (ii), there is no guarantee against investment loss; and (iii), there were allegations of product misselling[268]. While the scheme was halted after just one year, the final number of policies sold was surprisingly high, at 273,392 policies sold with a total of RM5.1 billion premium payment signalling a strong appetite for securing income for life[269].

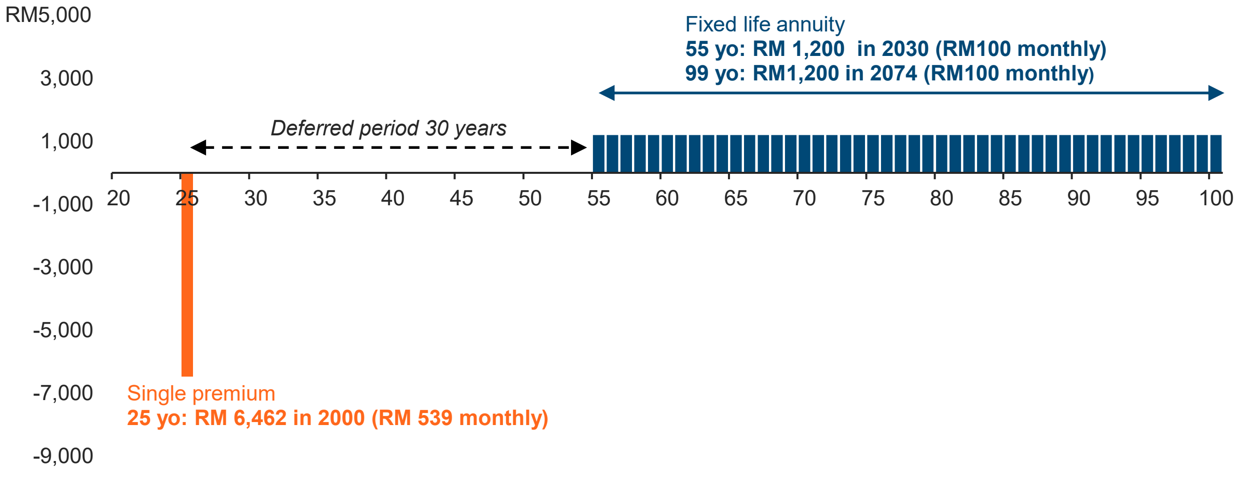
[263] As the names suggest, defined-benefit schemes are those where benefits of the schemes are predetermined, while in defined-contribution schemes, the contribution rates are predetermined.
[264] OECD (2019b)
[265] SOCSO (2019). ILO (2017a) projected that the specific funds would deplete in 2026 and the combined assets would deplete in 2040 if the current contribution rate of 1% for the invalidity scheme is not increased.
[266] The official acronyms are the SAKK (Skim Annuiti Konvensional) for the conventional scheme and the SATK (Skim Annuiti Tidak Konvensional) for the non-conventional Islamic scheme.
[267] Zainal Abidin Mohd Kassim (2003)
[268] Product misselling refers to allegations that private insurance agents were misrepresenting the scheme. Source: Zainal Abidin Mohd Kassim (2003)
[269] Nurin Haniah Asmuni (2018)

Our proposed SIP took three key lessons from the demise of Epfas. First, the scheme has to be managed by a public entity and delivered as a social insurance pension. Second, the premium can be made far more affordable by removing expense loading (administrative and maintenance costs typically charged by private insurers) and a risk premium (additional capital needed by private insurers to support short-term claims on annuity). Finally, the importance of public engagement to identify potential loopholes and to ultimately gain public buy-in.

The proposed lifetime annuity under SIP is significantly different from the one offered previously by Epfas in terms of the mechanism, policy design and actual benefits. As a social insurance, the premium cost can be kept at a minimum because it uses existing infrastructures. More importantly, as a compulsory scheme like existing social security schemes under SOCSO, it does not have to account for additional costs like underwriting, agent commission and a risk premium to back the annuity. The latter is not needed because by design, a compulsory social insurance scheme guarantees a continuous steady stream of contributions[270].

Unlike the single premium deferred annuity with a flat benefit, the proposed SIP is an inflation-indexed deferred annuity with periodic premium payments. Note that an actuarial modelling is applied to calculate the proposed SIP premium. In 2000, under Epfas, a man aged 25 would have had to pay RM6,462 once to receive RM1,200 every year (equivalent to RM100 a month) for as long as he lives starting from the age of 55 (Figure 5.18). A woman of the same age would have had to pay a higher premium at RM7,226 as they have a longer life expectancy than a man[271]. The policy also comes with other additional features like bonus annuity payment (not guaranteed) and compensation for those who decided to withdraw.

Figure 5.18: Example of annual premium across a lifetime under Epfas introduced in 2000



Source: Zainal Abidin Mohd Kassim (2003)

[270] See Singh (1991)
[271] 2019 life expectancy at birth for males is 72.2 years and 77.3 years for females. Source: DOS (2020c)

5.5.2. Key features of life annuity under the SIP

In contrast with the Epfas, our proposed life annuity comes with the following policy features (Table 5.7). In terms of design, the proposed SIP differs from Epfas as it disburses pension benefits monthly, not annually; it has a single rate for both men and women, and its pension benefits do not remain flat but increase annually to account for inflation. The unisex rate also serves two functions. One, as a common practice in social insurance, the same rate eases the administrative burden. Two, it serves a redistributive role between members where, as informed by data, women are more likely to have fewer savings than men but are more likely to live longer than men. Based on these key features, an actuarial model is set up to compute the premium required to sustain expected pension disbursement. For more details, see Appendix L.

Table 5.7: Key features of the proposed annuity

Feature	Description
Monthly payout	Annuity (benefit payout) is received monthly.
Unisex rate	Annuity and premium are the same for both men and women.
Deferred annuity	Annuity starts after a specified period.
Lifetime annuity	Annuity continues for an entire life. It ends when the annuitant dies.
Single life annuity	Annuity is not transferable to dependent or nominee.
Increasing annuity	Annuity increases at a fixed rate annually to account for inflation.
No return of purchased premium	No money is given when the annuitant dies.

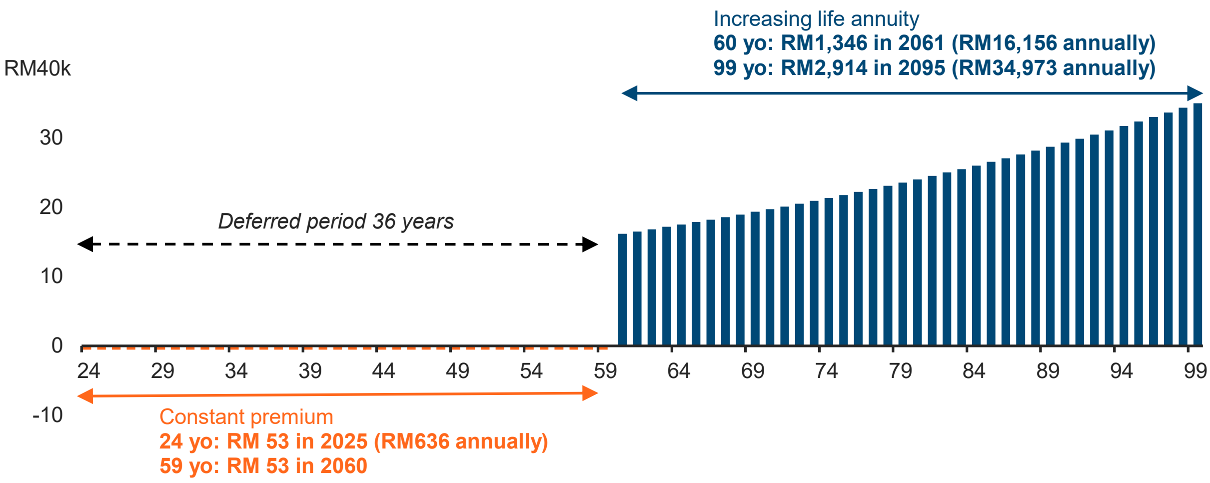
Note: Annuity = benefit payout = pension disbursement
Source: KRI illustration

Assuming the proposed SIP will be launched in 2025, based on our calculations, an individual aged 24, irrespective of gender, will pay a premium of RM53 per month for 36 years (amounting to a full total of RM22,896) to receive a monthly annuity equivalent to the future value of the poverty line per capita for a lifetime starting from the age of 60[272]. So, instead of RM600 in 2020, individuals will be receiving the future value of RM1,346 monthly each upon reaching the age of 60. During the first year, the annuity or pension benefits received will add up to RM16,156 substantially higher than the static annual annuity of RM1,200 under Epfas. As seen in Figure 5.19, the SIP annuity is also increasing annually at a fixed rate of 2% to account for inflation.

While the actuarial model used to compute the premium has accounted for the sustainability of annuity disbursement, to ensure its continuity and inspire public confidence, the government has to be a guarantor for the social insurance scheme, which is a common practice even in the private sector[273]. It is also worth noting that the monthly premium of about RM50 for real pension benefit at poverty line per capita of RM600 is much higher than the SOCSO monthly contribution of 2.25% of wages for at least 25 months that guarantees a minimum pension of RM475 per month for the invalidity and survivors' pension. Nevertheless, like existing social security or insurance schemes, this scheme has to go through periodical independent actuarial valuation in order to ensure the contribution rate is able to meet potentially increasing benefit expenditure. This will invariably lead to an increase in contribution or premium in the future.

[272] This referred to the expected investment return or interest rate of 4%.
[273] Deposit of no more than RM250,000 in all commercial banks and insurance benefits up to RM500,000 bought from insurance companies licensed in Malaysia are protected by a system established by the government.

Figure 5.19: Annual premium across a lifetime under SIP in 2025



Note: This refers to the scenario with 4% expected investment return or interest rate
Source: KRI calculations

Unlike Epfas that offered bonus and a withdrawal feature, to minimise the premium SIP only offers a basic annuity scheme. As shown in Table 5.7, since it covers the risk of longevity, no compensation is given when the annuitant dies. Like car insurance, generally, no return of purchased premium is provided if there is no accident. The annuity is also not inheritable and cannot be transferred to surviving dependent or nominee. The latter is justifiable as the risk of losing the breadwinner is still covered under the survivor's pension (see Chapter 4) and widows or widowers themselves upon reaching the eligible age will receive the SIP benefits. Moreover, if successfully implemented, the UCB proposal in Chapter 3 would also provide some basic income security for children, who are dependents.

As social insurance pension schemes are typically offer to employees with clear employers, gap in coverage can still be in issue. To address this, we propose for a greater government role by financing or paying the premium contribution for individuals without regular incomes. This can include homemakers, unemployed individuals and self-employed with low and irregular wages. Because the entitlement to the life annuity rests on regular and consistent premium payment for an extended period, individuals who are experiencing income shock and those without income or sufficient income would have their payments covered by the tax revenue. This will not lead to double taxation for contributing individuals who are liable to pay for income tax as their contributions to the SIP are tax-exempted. This is similar to the current tax treatment for other social security contributions.

Anticipating administrative challenges, tax revenue can be channelled directly to make up the residual gap between active members with regular contributions and inactive members with dormant accounts. Administrative and compliance burden can also be further managed by accepting a simple self-declaration as an eligibility requirement for the means-tested scheme. For example, self-employed earning a take-home pay below the minimum wages can self-declare to be eligible for his or her premium to be covered by the tax. They do not have to submit specific evidence upon application but must have the necessary documents ready to prove their income in preparation for a random inspection. The same applies to working-age individuals without income (e.g. homemakers and unemployed individuals). This is similar to the current tax refund practice where a periodic random check is conducted to verify the self-declaration.

Once it achieves the desired coverage, the SIP has the potential to effectively provide the necessary pension floor for the missing middle. The benefit or annuity set at the poverty line per capita or RM600 is also sufficiently high to cover basic needs during old age while at the same time sufficiently low to still encourage individuals to continue contributing to their existing retirement savings[274]. Note that typically contribution to and benefits gained from the social insurance pension is typically set as a proportion of one's wages and salaries as the current practice for SOCSO invalidity and survivors' pensions. For SIP, the contribution and benefits are set as an absolute amount for three reasons.

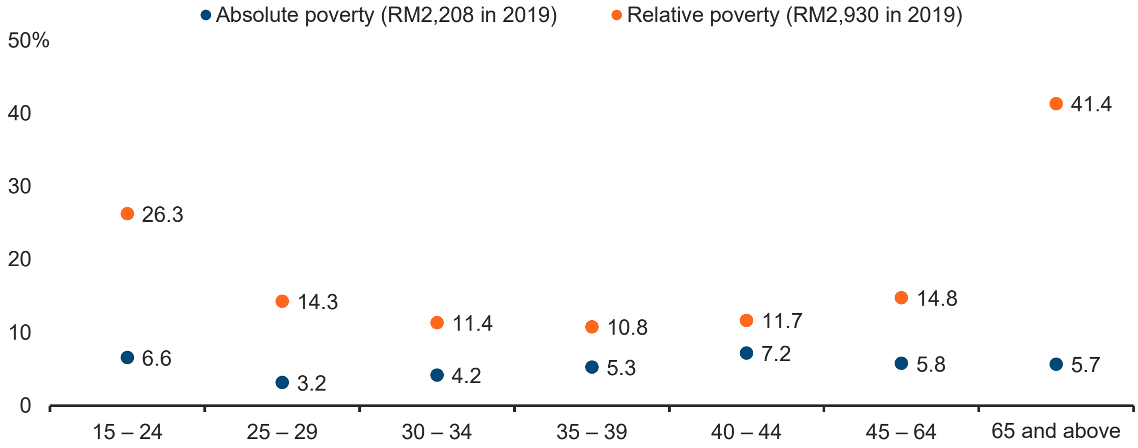
One, information needed to calculate the contribution rate is outside the purview of this report. Two, the absolute premium is computed to illustrate the cost difference between the provision of tax-funded universal social pension and the proposed SIP. Three, while the premium contribution will make a higher proportion of individuals with lower wages, the subsequent benefit will also make a higher proportion of their last drawn salaries. For instance, for a worker aged 59 with a monthly salary of RM3,000, the premium of RM55 will be 1.8% of its salary. However, at 60, she or he would receive a pension of RM600 or 20% of its last drawn salary. Comparatively, a worker with RM12,000 monthly salary will only contribute 0.45% but the pension will only replace 5% of her or his last salary.

It is also worthwhile to note that while older individuals are found to not be particularly prone to absolute poverty relative to other age groups, they are particularly susceptible to relative poverty (Figure 5.20)[275]. Measured at RM2,208 in 2019, 5.7% of households headed by persons aged above 65 fell below the absolute poverty line (a situation where a household does not have sufficient income to meet basic needs like food, shelter, and clothing), a rate similar to the national average of 5.6%. Using the relative poverty rate, which reflects the relative living standard among all households, a much higher share of households headed by older persons fell under relative poverty compared to other age groups in 2019. This suggests that incomes earned by many older households only hovered slightly above the absolute poverty line. As highlighted in KRI (2020), this implies that households headed by older persons are more vulnerable to falling into absolute poverty if there is any shock that leads to an income reduction of about RM700. Having access to the SIP may not reduce the presently low poverty rate but it can prevent it from relapsing especially in times of unexpected crisis.

[274] To discourage sole reliance on this scheme, the benefit can only cover basic needs. The poverty line per capita of RM600 is much lower than the minimum civil pension rate of RM1,000 set since 2018 and the single but arguably aspirational expense of senior citizen of RM2,450. Source: Malaysiakini (2020)

[275] This finding is consistent with other studies that utilised different poverty lines and household arrangements. Tengku Aizan Hamid (2019), Rabi et al. (2019) and World Bank (2020a) showcased absolute and relative poverty rates among older persons using the past absolute poverty line (prior to the 2019 revised methodology) and categories (household with older persons and all older persons).

Figure 5.20: Absolute and relative poverty rate, by age group of head of household, 2019



Source: DOS (2020a)

The low cited premium of about RM50 per month is also a function of young age and the corresponding long-expected period of premium payments. The older a person is, the closer she/he to the retirement age, the higher the price of the premium will be. This entails certain age eligibility to enrol into the proposed SIP scheme, making it inaccessible to existing older age groups. As the proposed scheme starts with a single age cohort of 20 to 24 years old, it will take many years before a universal coverage can be achieved. Cognisant of fiscal implications, the scheme can be made compulsory for the first young batch and voluntary for other age groups, including those in the civil service.

Since SIP is based on a social insurance model, we recommend for the premium to be prorated for one age group, instead of having different rates for different ages. As seen in Table 5.8, this means the larger the age group covered, the higher the prorated rate will be. For instance, if the scheme is made compulsory for persons aged 20 to 39, the prorated rate is computed to be RM95, higher than the recommended rate of RM53. During its first introduction, the scheme can be made available voluntarily to other individuals aged above the threshold of 24. The older individuals can access the same benefits, but an age-specific premium will have to be applied to them, as seen in Table 5.9. To facilitate participation, an automatic deduction for the premium payments from their EPF accounts can be considered to be made permissible.

Table 5.8: Prorated SIP premium, by age group

Age group	Prorated monthly premium (RM)
20 to 24	53
20 to 29	63
20 to 34	76
20 to 39	95
20 to 44	122
20 to 49	167
20 to 54	257
20 to 59	669

Table 5.9: Age-specific SIP premium, by single age

Age	Age-specific monthly premium (RM)
20	46
25	64
30	89
35	128
40	192
45	309
50	562
55	1,377

Note: The figures assume the SIP is launched in 2025, with 60 as the eligibility age for the SIP benefits. See Appendix L for details on the calculation
Source: KRI calculations

Note that the age eligibility for SIP benefits is assumed to be 60 years old. However, premium calculations have been made for both age thresholds of 60 and 65 (see Appendix L). There are merits to extending the age eligibility. This includes lowering premium contributions during the working years (as shown in Appendix L), improving the scheme's financial sustainability (more time to build reserves) and better managing public expectations (easier to lower than increase the age thresholds[276]). While indexing the age eligibility to the demographic trends has been argued the best practice, the age 60 is considered to be reasonable at least for the first few cohorts to improve public receptiveness and participation in the scheme. It is also in line with existing age-related policies in Malaysia and appropriate given that for most, their individual EPF retirement savings do not last very long. As mentioned in the earlier section, the estimated range of the saving to last is between seven to 10 years upon the EPF's withdrawal age at 55 years[277].

It is also worth mentioning that the international conventions advised against pushing the prescribed age above 65 unless it is demonstratively justified. This is with "due regard to the working ability of elderly persons" (ILO Convention No. 102). The ILO Convention No. 128 further emphasises that "If the prescribed age is 65 years or higher, the age shall be lowered, under prescribed conditions, in respect of persons who have been engaged in occupations that are deemed by national legislation, for old-age benefit, to be arduous or unhealthy". This point is highlighted as another angle that needs to be considered when setting the age eligibility. In other countries, they typically choose the contribution or working years as the threshold instead of a person's age as workers in hazardous jobs tend to start working earlier.

[276] Germany initially set age 70 as the retirement age when it pioneered the old-age social insurance program in 1889. This was later reduced to 65 in 1916. Source:SSA (n.d.-b). For a concise history rundown on the old-age social insurance, see Cutler and Johnson (2004).
[277] EPF (2016a)

In line with the workers' well-being protection agenda, it is recommended for the current EPF contribution rates be reduced with the introduction of this scheme. For a monthly premium of RM55, the contribution rates for income earning below RM5,000 have to at least be deducted by 2.5 percentage points from both the employer and the employee to create a net neutral impact. Our simulations suggest that the deduction that will be used for the SIP, on balance can benefit all types of workers to face the longevity risk. This deduction can also be applied to workers earning above RM5,000, making the contribution rates in Malaysia more comparable to its peers. For comparison, Japan's total contribution for retirement fund is only 18.3% and 9% for South Korea (Table 5.10). In the Southeast Asian Region, Malaysia shared the second rank with China as countries with the second-highest contribution rate after Singapore at 28%, with Vietnam following closely behind at 22%[278].

Table 5.10 Contribution rate for retirement-related programmes and statutory retirement age, by selected country

	Contribution rate (%)	Statutory retirement age
Philippines	4.1	65
Laos	5.0	60
Thailand	6.0	60
Indonesia	8.7	57
South Korea	9.0	62
Hong Kong	10.0	65
India	10.0	60
Japan	18.3	65
Taiwan	19.0	62
Vietnam	22.0	60
Sri Lanka	23.0	55
China	24.0	60
MALAYSIA	**24.0**	**60**
Singapore	28.0	62

Note: China (55), Laos (55) and Vietnam (55.2) have a lower retirement age for women. The minimum contribution rate for Malaysia has been reduced for employees below RM5,000 from 24% (13% for employers, 11% for employees) to 22% (13% for employers, 9% for employees) for 2020 and 2021
Source: Allianz Research (2021)

In terms of government investment, this proposed SIP route is expected to cost much lower than directly providing the universal tax-funded social pension for all older individuals. This is still the case even if the current eligibility age for BWE or social pension is increased to 65 and if the total premiums are paid completely from the tax revenue. The large cost difference still holds even if we compare the annual cost of paying the premium today (0.09% of GDP) versus the cost of paying social pension tomorrow (0.3% of GDP) for the same age cohort (See Table 5.11). Note that the forecasted expenditure pattern observed in Figure 5.22 is over an extended period and it is based on forecasted positive but slower future GDP growths (see Appendix J).

[278] Allianz Research (2021)

Table 5.11: Estimated investment for old-age pension, by scenario

	Scenario A	Scenario B	Scenario C
Pension Options	**Universal Social Insurance Pension**	**Universal Social Pension**	**Government funds the annuity in 2065 instead of the premium** for 2.7 million individuals aged 20 to 24 in 2025
Start of scheme	2025	2025	2065
Target population	**Option 1** **All individuals aged 20 to 24** 2.7 million persons **Option 2** **Estimated inactive[1] individuals aged 20 to 24** 1.7 million persons	**Permutation 1** **Individuals aged 60 and above** 4.3 million persons **Permutation 2** **Individuals aged 65 and above** 2.9 million persons	**Individuals aged 60 to 64** (those aged 20 to 24 in 2025) 2.7 million persons
Value	**Prorated premium[2]**: RM55 monthly RM660 annually	**Future-adjusted PLI per capita**: RM552 monthly (RM500 in 2020) RM6,624 annually	**Future-adjusted annuity received in 2065**: ~RM1,460 monthly (RM600 in 2020) RM17,520 annually
Total annual expenditure[3]	**Option 1** **Universal tax-funded SIP**: **RM1.8 billion**, 0.09% of forecasted GDP in 2025. **Option 2** **Means-tested SIP**: **RM1.1 billion**, 0.06% of forecasted GDP in 2025.	**Permutation 1** **Universal Social Pension for aged 60 and above**: **RM28.8billion**, 1.48% of forecasted GDP in 2025 **Permutation 2** **Universal Social Pension for aged 65 and above**: **RM19.5billion**, 1.0% of forecasted GDP in 2025	**RM47.5 billion**, 0.3% of forecasted GDP in 2065

Note:
1. A sum of individuals outside the labour force, unemployed individuals, and non-standard workers. Estimates are calculated based on past labour force data
2. The exact pro-rated premium is RM53 but for simplicity it is rounded to RM55
3. Results are indicative as they exclude administrative and upfront investment costs

The premium expenditure is expected to increase as the SIP expands its coverage beyond just one age cohort in subsequent years (Figure 5.21) but as seen in Figure 5.22, there will still be a substantial expenditure gap between the SIP and the universal tax-funded social pension. This implies that the SIP may have greater potential to be sustainable in an increasingly aged society.

Figure 5.21: SIP working-age scheme coverage, 2025 – 2100

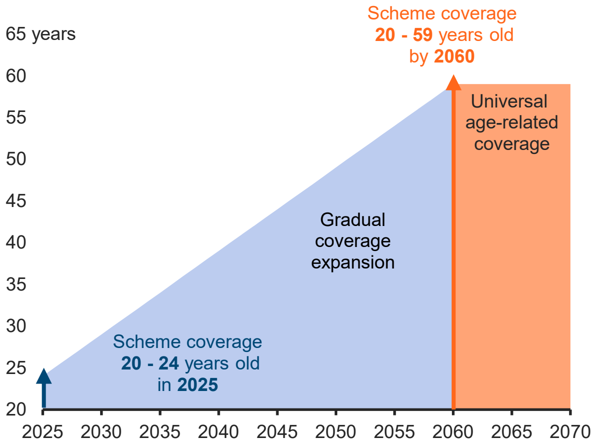
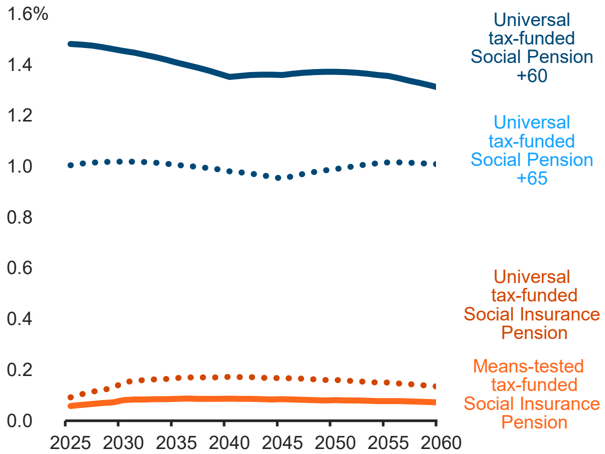


Figure 5.22: Share of estimated investment from total GDP, by scheme, 2025 – 2060



Note: Results are indicative as they exclude administrative and upfront investment costs
Source: KRI calculations

5.6 Other Issues and Considerations

The previous section lays out our recommendation to establish the SIP scheme that would offer a pension floor for all older adults once it achieves the desired coverage. This coverage is not instantaneous and will have to be gradually built. If the scheme is launched in 2025 and made compulsory for those aged 20 to 24 years old, it will take about 36 years before all working-age individuals can be covered in this scheme. Two options were considered, one to apply an age-specific premium for older individuals who would like to access the same benefits (see Table 5.9). This can be voluntarily with direct deduction from EPF savings can be considered. Two, to lower the contributory period from, say, 40 years to 20 years by imposing a higher prorated rate (see Table 5.8).

The proposed scheme is centred around providing sustainable and equitable old-age income security for future older adults. For vulnerable older adults in the present and the near future, existing schemes can be made available to a wider population and expanded when necessary while the SIP scheme matures and the benefit kicks in. One concrete way is to enlarge the population coverage of the current BWE to the bottom 40% of older individuals but at a lower benefit level (RM350 instead of RM500 budgeted for 2021). This is in line with the recommendation made in Chapter 3. Expenditure projections for potential interim measures are provided in Table 5.12. While various other permutations and parameters can be considered, ultimately, Malaysia has to weigh the size of the target population, the benefit level and the fiscal implications.

Table 5.12: Estimated fiscal spending on BWE, by targeting mechanism, 2020 – 2060

		RM million			As a % GDP		
		2020	2040	2060	2020	2040	2060
Poverty-tested	Bottom 4% of individuals aged 60+	RM596m	1,725	4,379	0.04%	0.04	0.04
B40	Bottom 40% of individuals aged 60+	5,962	17,249	43,790	0.42	0.38	0.37
Pension-tested	60% of individuals aged 60+	8,943	25,873	65,685	0.64	0.57	0.55
Universal	All individuals aged 60+	14,905	43,122	109,475	1.06	0.95	0.92
		2020	**2040**	**2060**	**2020**	**2040**	**2060**
Poverty-tested	Bottom 4% of individuals aged 65+	391	843	3,376	0.03	0.02	0.03
B40	Bottom 40% of individuals aged 65+	3,906	8,428	33,758	0.28	0.18	0.28
Pension-tested	60% of individuals aged 65+	5,859	12,642	50,637	0.42	0.28	0.42
Universal	All individuals aged 65+	9,765	21,069	84,395	0.69	0.46	0.71
		2020	**2040**	**2060**	**2020**	**2040**	**2060**
Poverty-tested	Bottom 4% of individuals aged 70+	235	571	2,422	0.02	0.01	0.02
B40	Bottom 40% of individuals aged 70+	2,348	5,709	24,218	0.17	0.13	0.20
Pension-tested	60% of individuals aged 70+	3,522	8,563	36,328	0.25	0.19	0.30
Universal	All individuals aged 70+	5,870	14,271	60,546	0.42	0.31	0.51

Note: The monthly benefit of RM350 is adjusted to future values assuming an annual inflation rate of 2%. Coverage for BWE recipients of population aged 60 and above in 2018 and 2017 of about 4% is used as an indicator for poverty-tested. Coverage for formal old-age retirement schemes is used as an indicator for pension-tested. Results are indicative as they exclude administrative and upfront investment costs
Source: UNDESA via CEIC (n.d.), World Bank (2021c), KRI calculations

5.7 Concluding Remarks

While pension systems have become a foundation on which income security for older persons is built, old-age income security also depends on the availability, accessibility and affordability of other quality public services. This includes health care, housing, care services, transportation and more. This interconnectedness highlights that no single scheme or programme can be the panacea for all possible challenges arising from a more aged society.

This chapter offers a universal pension based on a social insurance model as an alternative to the often discussed but not yet realised Universal Social Pension. SIP posits itself as a preventative measure for an increasingly pressing issue. SIP also seeks to balance equity and sustainability. Learning from the experience of other countries, the sustainability, adequacy, and coverage challenges for old-age pensions are expected to persist. Therefore, the best way forward would be to continue honing the balancing act.

This chapter sets out a proposal to introduce the SIP scheme in Malaysia to gradually install a pension floor for all its older adults. We propose for the scheme to be launched in 2025 and be made compulsory for individuals aged 20 to 24 years, with the government subsiding or financing contribution for certain groups. Participants in the scheme would make monthly payments of RM53 for at least 36 years to receive a monthly annuity or pension equivalent to the inflation-adjusted poverty line per capita for a lifetime starting from the age of 60. This scheme is argued to be an important step towards developing a sustainable and equitable pension system in Malaysia that can ensure (or in this case insure) old-age income security. While the fruit of SIP may only be seen long into the future, the seeds of change have to be sow now.

CHAPTER

06

FINANCING AND DELIVERING SOCIAL PROTECTION 122

CHAPTER 6

FINANCING AND DELIVERING SOCIAL PROTECTION

Social protection is no longer considered to be a luxury. Neither is it seen as something that countries can only afford after reaching certain income levels. Instead, social protection is now largely regarded as a pre-condition for sustainable growth, social inclusion, and as a mechanism to promote equity.

Xiaoqing (2016)

6.1 Introduction

There has been a global consensus that social protection is a key element in the sustainable development agenda[279]. A large body of literature suggest that strong social protection system with breadth and depth can have a positive impact on poverty, inequality, human capital, consumption and aggregate demand leading to economic growth[280]. While many compelling arguments on the positive impact of social protection can be found in literature, the discussion inevitably must entail the source of financing to ensure successful and sustainable implementation.

Undeniably, social protection is not insulated from intense debate of its impact on overall economic performance. A large welfare state is argued to be creating excessive administrative cost, affect the allocation of productive resources and give rise to moral hazard[281]. Others claimed that welfare aids create reliance on public support and perverse incentives in the labour market, undermining the notion of work. For example, the provision of unemployment benefits has been argued to provide perverse incentives in the labour market as it may negatively influence the job search effort of the unemployed[282]. Nevertheless, the experiences of economically successful and socially stable countries—which demonstrated that economic development and strong social protection are mutually reinforcing—have largely countered these arguments[283].

An effective social protection system needs to be grounded by solid financial resources. Identifying sustainable funding either within the existing fiscal space or generating additional revenue will be necessary in light of population ageing, erosion of the participation and contribution base for social insurance due to the changing nature of work, and economic uncertainty leading to higher risk of unemployment, underemployment and other types of precarity.

This chapter consolidates the social protection floor proposals for children, working age and old age populations in the earlier chapters and ties the recommendations in the context of fiscal space and sustainable financing. As Malaysia currently have several providers of social protection schemes, the discussion is extended on the institutional arrangements and administrative coordination in delivering the services effectively.

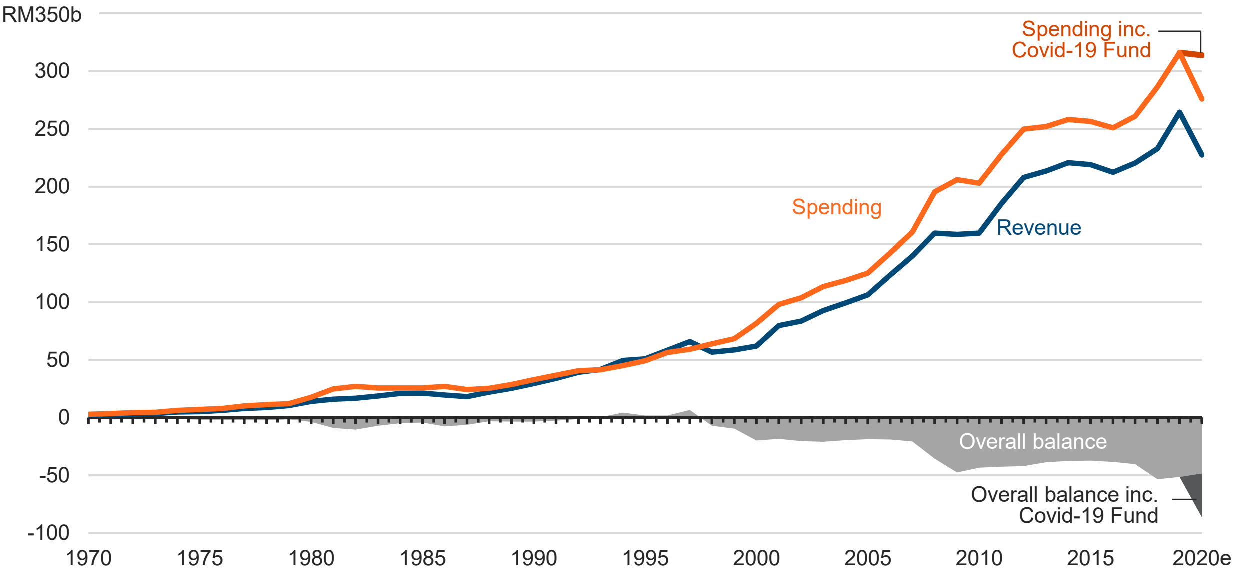
[279] UN (2015), ILO (2012)
[280] ILO (2018a)
[281] Cichon et al. (2004)
[282] Arranz Muñoz and Muro (2004)
[283] Headey et al. (1999)

6.2 Malaysia's Fiscal Landscape

Fiscal policy is key in determining the success of social protection reforms. Although social protection financing is not confined to the fiscal policy space alone—as mandatory individual retirement savings and contributory schemes also exist under Malaysia's social insurance pillar—funding from government revenue still forms a vital foundation. This will especially be the case in bridging the existing gaps of Malaysia's social protection system. Given that fiscal policy must also balance against various objectives including macroeconomic stabilisation and economic growth, in addition to funding the social sector, it is thus important to assess Malaysia's fiscal landscape as a whole when seeking to adopt social protection reforms.

In absolute Ringgit terms, Malaysia's federal government revenue and expenditure (inclusive of both operating and development) had been on a clear uptrend (Figure 6.1). However, throughout the years for which data are available, expenditure exceeded revenue, except briefly between 1993 and 1997. After the Asian Financial Crisis (AFC) in 1997 – 98, fiscal deficits were noticeably larger than the pre-AFC years.

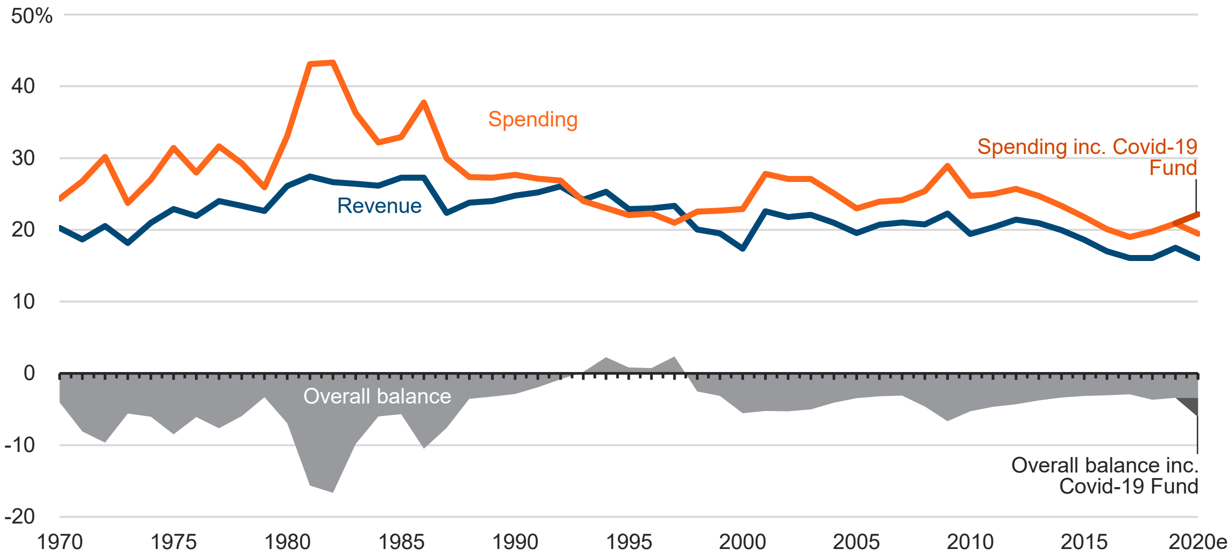
Figure 6.1: Fiscal spending, revenue and balance, 1970 – 2020



Note: Data refers to federal government. 2020 data is an estimate
Source: MOF (2021b)

However, the trends are the opposite when seen in comparison with GDP—both revenue and expenditure had been trending downwards as a percentage of GDP after a peak in the 1980s (Figure 6.2). Likewise, while deficit levels were larger in absolute Ringgit terms post-AFC, the opposite is true when seen as a percentage of GDP.

Figure 6.2: Share of fiscal spending, revenue and balance from total GDP, 1970 – 2020



Note: Data refers to federal government. 2020 data is an estimate
Source: MOF (2021b)

To minimise the unprecedented adverse health and socio-economic effects from the Covid-19 pandemic, the Malaysian government introduced a series of fiscal stimulus packages. Moving beyond the convention of financing social assistance only through government revenue as set by fiscal rules, the packages are financed by domestic borrowings. With a direct fiscal injection of RM83 billion across seven packages since the start of 2020[284], the fiscal deficit is estimated to have risen from 3.4% in 2019 to 6.1% in 2020 and further up to 7% in 2021[285]. This is about on par with the 6.7% at end-2009 during the Global Financial Crisis (GFC), although well below than its highest at 16.6% in 1982[286].

Overall, fiscal policy in Malaysia is anchored against a set of fiscal rules, which are imposed by legislation and guided by administrative guidelines (Table 6.1) These are important in ensuring fiscal sustainability and limiting debt exposure[287]. The "golden rule" stipulates borrowings as only for financing development expenditure (and later the Covid-19 Fund). In addition, there must always be a current surplus, with operating expenditure well within revenue and financed only by it. The second set of rules impose multiple legal limits on debt instruments, including domestic debt, offshore borrowing and treasury bills. Recently, the statutory domestic debt ceiling has been raised temporarily from 55% to 60% of GDP to provide sufficient fiscal space for the Covid-19 Fund—as the statutory debt has reached around 58% of GDP in September 2021[288]. Lastly, there is also an administrative guideline that debt service charges should remain below 15% of revenue or operating expenditure.

[284] This includes Prihatin, Penjana, Kita Prihatin, Permai, Pemerkasa, Pemerkasa Plus and Pemulih.
[285] Bernama (2021b)
[286] This followed a period of expansionary fiscal policy and investments in major public projects to overcome the global economic downturn in the early 1980s. Source: Mohamed Aslam and Raihan Jaafar (2020), Narayanan (1996)
[287] Adams, Ferrarini, and Park (2010), Syed and Badia (2018)
[288] The Star (2021c)

Table 6.1: Fiscal debt legislations and administrative guidelines

Rules	Acts	Status
Borrowings only to finance development expenditure & Covid-19 Fund	Loan (Local) Act 1959 Government Funding Act 1983	Current balance 2020e: RM550m
Current balance always in surplus to ensure operating expenditure is financed by revenue	Temporary Measures for Government Financing Covid-19 Act 2020	
Domestic debt (MGS, MGII, MITB) ≤ 60% of GDP	Temporary Measures for Government Financing Covid-19 Act 2020	End-2020e: RM56.6% of GDP
MTB ≤ RM10b	Treasury Bills (Local) Act 1946	End-Sept 2020e: RM6.5b
Offshore borrowing ≤ RM35b	Statute Paper 77 of 2009, External Loans Act 1963	End-Sept 2020e: RM29.3b
Debt service charges ≤ 15% of revenue	Administrative Guideline Federal Constitution Article 98 (1)(b)	2020e: 15.4% of revenue

Note: e stands for estimate
Source: Adapted from MOF (2020), MOF (2021c), MOF (2021b)

Overall, Malaysia is fast approaching the limits of these fiscal rules, especially as efforts to contain Covid-19 and to recover from the ongoing crisis continue further into 2021 and beyond. Thus, there is a need to further revisit these rules to grant some flexibility towards ensuring that critical social protection programmes can be delivered in times when people need them most. To this end, the IMF has proposed for countries to put in place exemptions: (i) identify a limited set of events that can be exempted; (ii) fix the duration on how long we can deviate from the targets; and (iii) put in place a correction mechanism when things resume to normal[289].

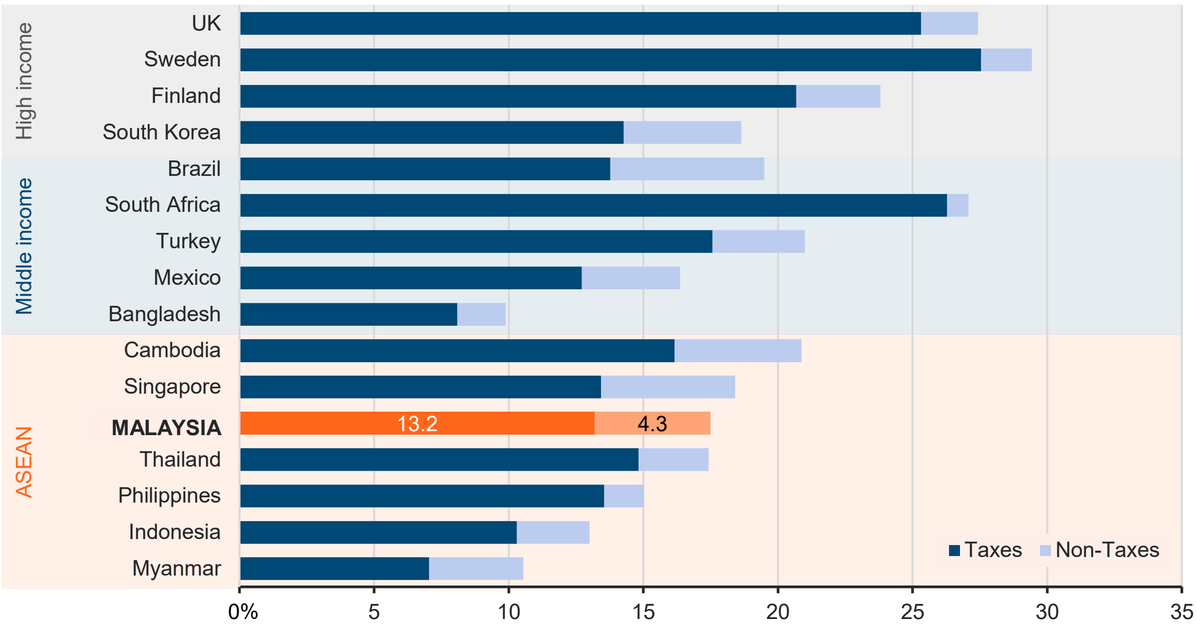
Given that Malaysia had already been approaching the limits of fiscal rules pre-pandemic[290], there is also a need to reassess the efficiency and productivity of government revenue generation and spending. This is so that fiscal rules can continue to be adhered to during normal times, beyond the short to medium term and in years of crisis. With regard to social protection reform, the key constraint would be the golden rule, which limits social assistance and other operating expenses to be funded only through government revenue. This is because operating expenditure and revenue—while still at a surplus nearly every year—has quickly been narrowing[291]. Thus, the rest of this section explores some persistent issues further specific to Malaysia's government revenue generation and spending.

[289] Syed and Badia (2018)
[290] See Choong and Adam Firouz (2020) for an illustration of historical trends against the thresholds of these fiscal rules.
[291] The current surplus, which is revenue less operating expenditure, averaged at RM2.0 billion per year during 2015 to 2019 vs RM14.4 billion during 1995 to 1999. Source: MOF (2021b), KRI calculations

6.2.1. Government revenue: remains relatively low with a narrow tax base

While Malaysia's federal government revenue has been on a decline relative to GDP, revenue collection relative to economic size also falls behind a few other middle-income countries (Figure 6.3). Between 2014 and 2019, Malaysia's total federal government revenue averaged at 17.5% of GDP. In comparison, countries such as Cambodia, Turkey and South Africa averaged higher. Malaysia's tax base is also relatively narrow, as tax revenue averaged at 13.2% of GDP or 75.5% of total revenue during 2014 to 2019. Tax revenue collection in Thailand and the Philippines, for example, averaged at 14.8% and 13.5% of GDP, respectively (85.1% and 90.0% of their total revenues).

Figure 6.3: Share of fiscal revenue from total GDP, by selected country, 2014 – 2019 average



Note: Data refers to federal government
Source: MOF (2021b), IMF (2021b), KRI calculations

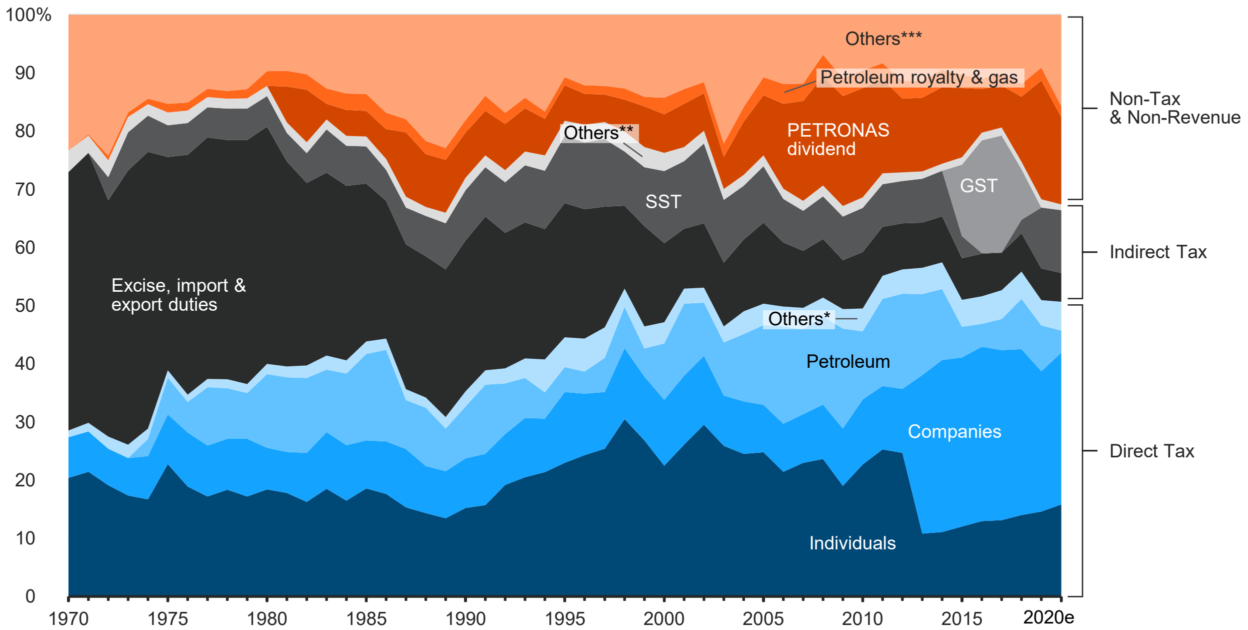
While taxes contributed 75.5% of total federal government revenue on average between 2014 to 2019, the year-to-year share has shrunk since 2017 from 80.6% to 68.3% in 2019 (Figure 6.4). In 2019, just over half of revenue came from direct taxes at 51.0%, while 17.3% is derived from indirect taxes and 31.7% from non-tax and non-revenue sources. Direct tax revenue is attributed largely to income taxes on petroleum, companies and individuals—although tax revenue from individuals contracted sharply in 2013, contrasting to the increase in tax revenue from companies.

Meanwhile, indirect taxes used to make up a large share in the 1970s due to large revenues from excise, import and export duties, but it had since remained small except for a brief period in 2015 to 2017 owing to the goods and services tax (GST), which contributed up to 20.1% of revenue in 2017. However, it subsequently shrunk due to lower revenue collection from the reintroduced sales and service tax (SST), which contributed just 10.5% of revenue in 2019. Under non-tax revenue, PETRONAS dividends remain a large contributor.

There has been a continued heavy reliance on petroleum-related revenues

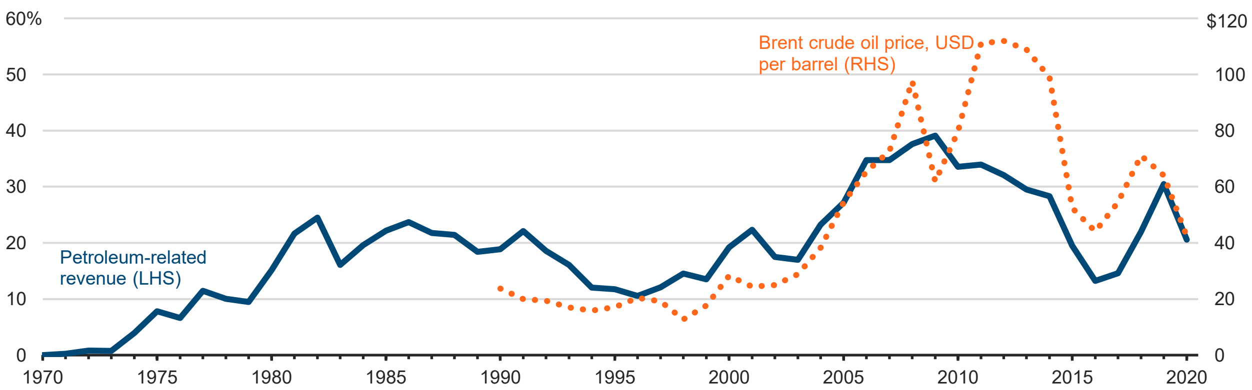
Overall, despite efforts in diversifying revenue sources, Malaysia continues to rely heavily on revenue related to petroleum. This includes direct taxes on petroleum, and other non-tax revenues from petroleum royalties and dividends from PETRONAS. In total, these had increased post-AFC, peaking at 39.1% of total revenue in 2009 during the GFC (Figure 6.5). It moderated in the subsequent years until 2017 when GST revenue was at its highest, but it peaked again in 2019 at 30.5% following a one-off RM30 billion special PETRONAS dividend after the GST abolishment. The relatively substantial share of revenue from petroleum poses a risk, given that such revenue is highly correlated with global oil prices, placing Malaysia's fiscal standing highly susceptible to unexpected shortfall in revenue, especially during the pandemic when prices hit historic lows.

Figure 6.4: Share of fiscal revenue, by source, 1970 – 2020



Note: *Includes withholding and other direct taxes. **Includes other indirect taxes ***Includes road tax, Bank Negara dividends, revenue from Federal territories and other non-tax revenue and non-revenue receipts. Data refers to federal government revenue.
Source: Source: MOF (2021b), KRI calculations

Figure 6.5: Share of petroleum-related revenue from total fiscal revenue (left axis) and brent crude oil price (right axis), 1970 – 2020

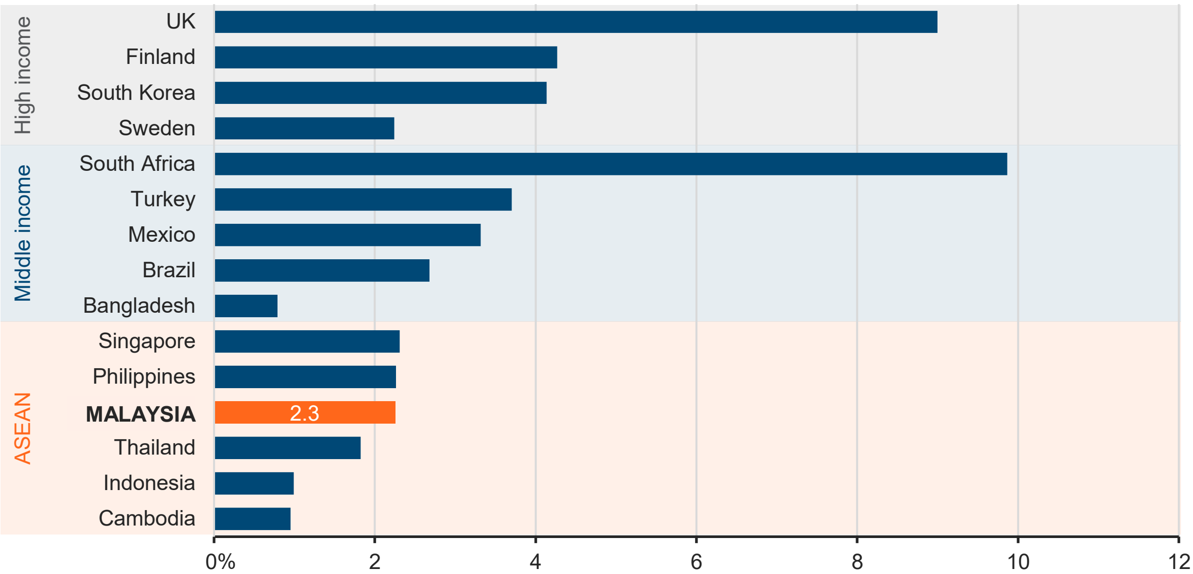


Note: Total fiscal revenue refers to federal government revenue. 2020 data for revenue is an estimate
Source: MOF (2021b), IMF (2021a), KRI calculations

Low income tax collection persists and other progressive tax measures are lacking

Malaysia's government revenue from individual income taxes also remains limited, worsened after a sharp contraction in 2013 as its contribution to total federal government revenue fell to 10.8%, compared with 24.7% in 2012. This is expected to worsen in 2020 following the Covid-19 pandemic due to higher unemployment and pay reductions[292]. Malaysia's low personal income tax revenue is even more prominent when compared to a few other upper-middle income countries (Figure 6.6).

Figure 6.6: Share of personal income tax fiscal revenue from total GDP, by selected country, 2014 – 2019 average



Note: Data refers to federal government. Total income tax collection may be higher in countries where municipal taxes are paid
Source: MOF (2021b), IMF (2021b), KRI calculations

The low revenue collection from income taxes from individuals can be attributed to the low number of tax-paying individuals. In 2017, only 16.5% of the 15 million workforce in Malaysia were subjected to individual income tax in 2017[293]. Meanwhile, although Malaysia's tax collection from companies ranks fairly high relative to comparator countries[294], only 62.4% of 1.3 million companies were registered with LHDN, of which just 7.8% were subjected to tax[295].

The multiple tax incentives and reliefs further narrows Malaysia's tax base. Whilst tax incentives for companies have been in place to stimulate private sector development and economic growth, the true extent of their positive impact is questionable[296]. On the side of tax reliefs for individuals, while these also may have been intended to stimulate demand and reduce the tax burden for households, whether they are effective or even equitable have also been contested. The doubt is raised given the small number of individual taxpayers that also largely excludes low-income earners. Ultimately, tax incentives and reliefs entail forgone revenue for the government. From tax incentives for companies, the revenue forgone between in 2010 and 2015 has been estimated to range from 0.8% – 1.3% of GDP or 6.0% – 8.9% of tax revenue[297].

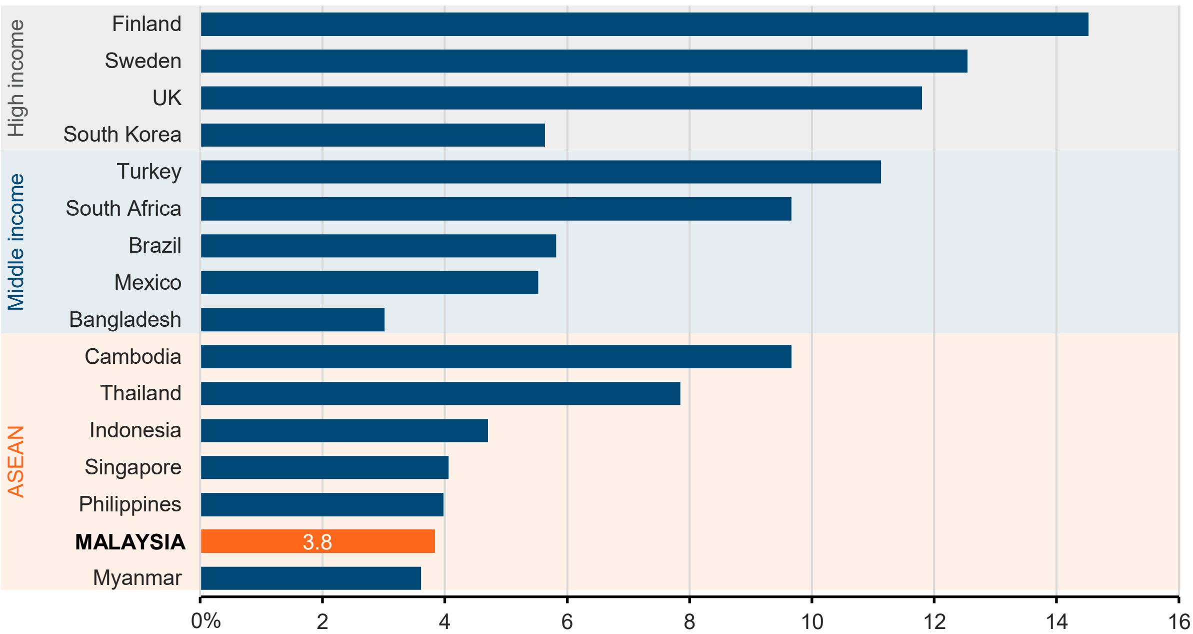
[292] Bernama (2020), MOF (2021b)
[293] MOF (2019)
[294] IMF (2021b)
[295] MOF (2019)
[296] World Bank (2021a), World Bank (2021c)
[297] Mohd Shazwan Shuhaimen et al. (2021). For Malaysia, while wealth data is limited, proxy indicators suggest that it is greater than income inequality, based on the distribution of EPF savings and investments in Amanah Saham Bumiputera (ASB). Source: KRI (2016)

Aside from income taxes, other measures to progressively tax the well-off are lacking. Capital gains remains untaxed in Malaysia, except only for gains from the disposal of real property or on the sale of shares in a real property company. Taxing wealth may be pertinent for Malaysia given that wealth is typically more unequally distributed than income in other countries[298]. Meanwhile, issues of tax evasion and under-reporting of income especially under the informal sector also persist[299]. If addressed with effective use of technology, information sharing and enforcement among government agencies, it could provide an additional revenue source.

Consumption tax collection remains low

Consumption tax collection in Malaysia also remains low. Although the more broad-based GST introduced in 2014 generated a large amount of revenue, it was replaced by the re-introduction of the SST in September 2018. During the GST regime from April 2015 to May 2018, its annual gross revenue collection averaged at RM41.9 billion. Accounting for the total refunds of RM28.4 billion[300], the average GST collection would stand at RM33.0 billion. This is still a considerable difference compared to SST's collection in 2019 at RM27.7 billion. This roughly translates to an estimated annual revenue loss of RM8.2 billion. Overall, Malaysia's tax collection on consumption remains below many of its ASEAN neighbours and other upper-middle income countries (Figure 6.7).

Figure 6.7: Share of consumption tax fiscal revenue from total GDP, by selected country, 2014 – 2019 average



Note: Data refers to federal government
Source: MOF (2021b), IMF (2021b), KRI calculations

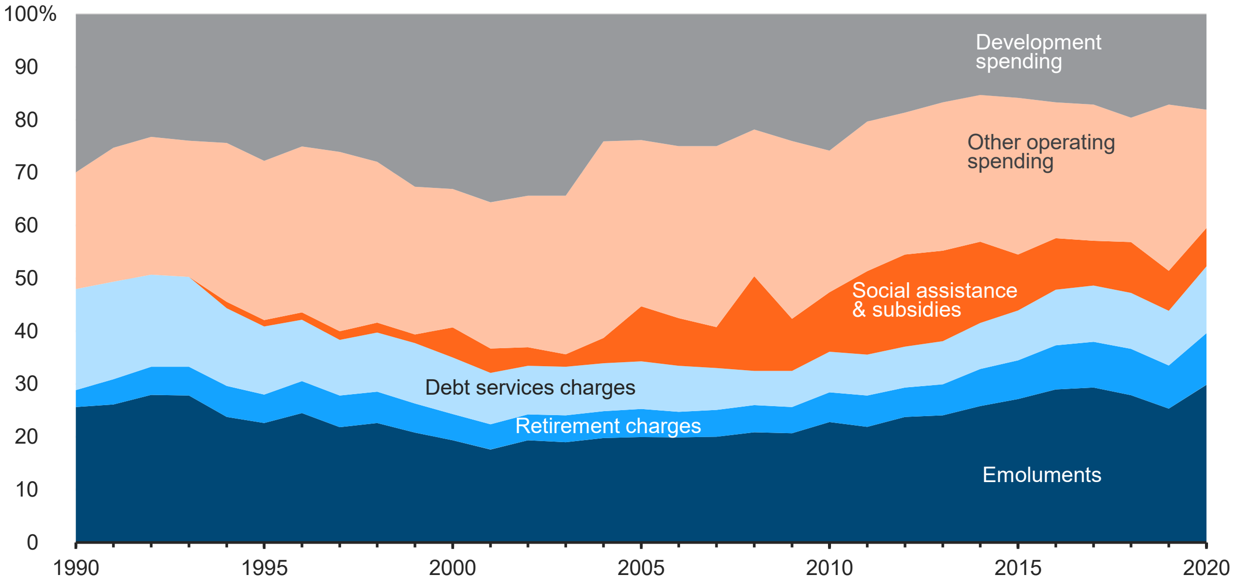
[298] Piketty and Saez (2014)
[299] MOF (2019)
[300] TMR (2020a)

6.2.2. Government expenditure: constrained with low social protection spending

Commitments to civil service spending and debt service continue to constrain spending

Against the backdrop of the declining government expenditure relative to GDP, a large share of this expenditure continues to be committed to "locked-in" expenditures, comprising emoluments and retirements for the civil service, as well as debt service charges (Figure 6.8). In 2019, these expenditures made up 43.9% of total federal government expenditure. Although this is lower than the 48.0% in 1990, it is considerably higher than its lowest ever point of 32.1% in 2001, after its steady rise since then. It is likely that such committed expenditures will continue to comprise a large share of government expenditure. This reduces fiscal space for other key spending areas, including in social assistance and subsidies—which have instead been further rationalised despite the proliferation of new schemes (see Chapter 2).

Figure 6.8: Share of fiscal spending, by object, 1990 – 2020

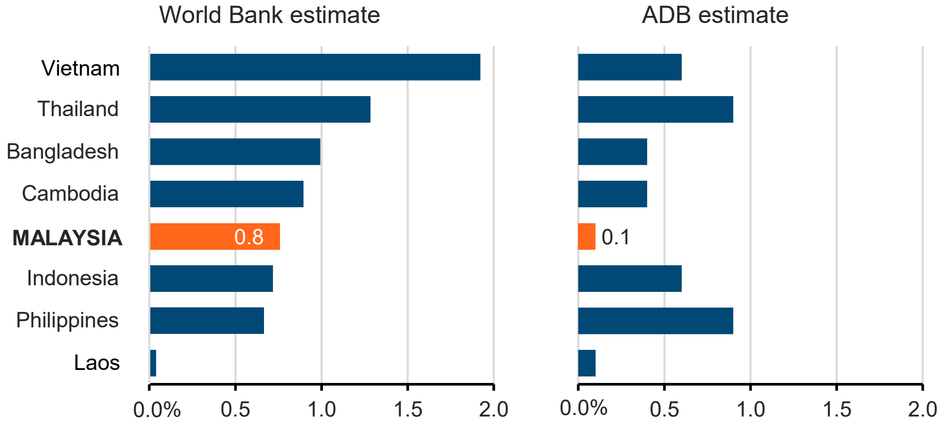


Note: Data refers to federal government and excludes the Covid-19 fund. 2020 data is an estimate
Source: MOF (2021b), KRI calculations

Social protection spending remains low

With the fragmentation, under-coverage and low adequacy of social protection in Malaysia, greater government spending would be highly beneficial. As one of the key pillars, Malaysia's social assistance (excluding untargeted subsidies) trails in spending compared against some of its ASEAN neighbours whom all have lower GDP per capita (Figure 6.9).

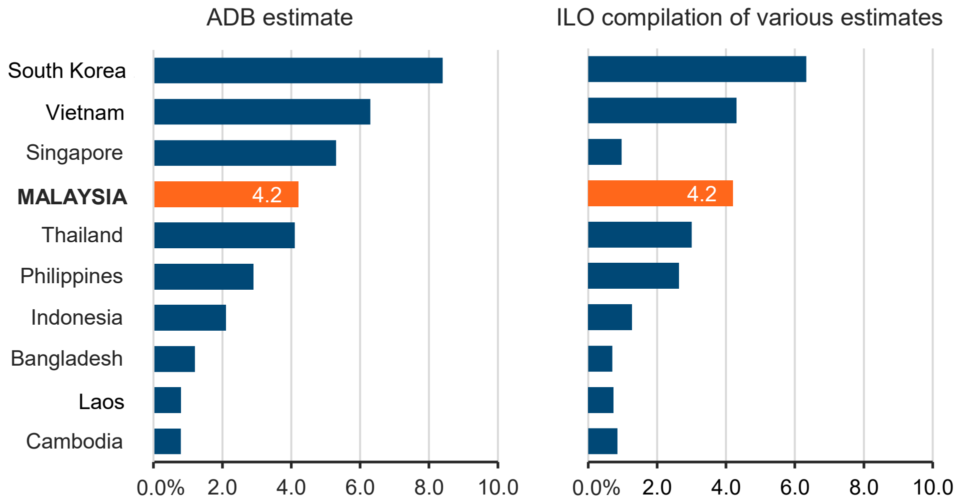
Figure 6.9: Share of social assistance spending from total GDP, by selected country, 2014 – 2019 average



Note: Data refers to federal government. Subsidies such as for consumption are excluded from the calculation
Source: World Bank (n.d.-a), ADB (n.d.), KRI calculations

For total social protection spending including social insurance benefits, the narrative holds regardless of the estimates used (Figure 6.10)[301]. An important note is that more than half of Malaysia's total spending includes pensions for the civil service, who only make up small share of Malaysia's workforce. In 2019, the total number of civil servants was 1.6 million (or 10.3% of the total workforce), and the total number of civil service pension beneficiaries (including derivative pensioners) was 834,000 persons[302].

Figure 6.10: Share of social protection spending from total GDP, by selected country, 2014 – 2019 average



Source: ADB (n.d.), ILO (n.d.-f)

[301] Estimates differ due to differences in the definition and boundaries of social protection, including social assistance and social insurance. Malaysia's total social protection spending is higher under a broader definition of social protection to include untargeted consumption subsidies and various other programmes accounted under the category of "subsidies and social assistance" as reported in national statistics by MOF. Adapting ADB's estimation to include these additional schemes, total spending would be 6.4% of GDP, raising Malaysia's ranking—but this would be an unfair comparison given that estimates for other countries typically excludes these additional schemes.
[302] The Edge (2019b)

6.3 Financing Social Protection

6.3.1. Estimated total investment required

The main feature of the recommendations discussed in the earlier three chapters entails prioritising the provision of child benefits as a universal basic income for children financed by the general government revenue pool. For the working age and old age social security schemes, the financing arrangement under the social insurance system is recommended to be strengthened with greater government involvement as the third contributor in addition to employers and employees. Table 6.2 tabulates the estimated level of investment required for the social protection floor schemes for children, working age and old age populations, as discussed in earlier chapters.

Table 6.2: Estimated investment, by population group and scheme, 2022

Group	Scheme	Estimated investment	
		RM (b)	As % of GDP
Children (0 – 12)	Universal child benefits	RM12.0	0.74%
Working age (15 – 64)	Injury	0.7	0.05
	Invalidity and survivors' pension	0.6	0.04
	Employment insurance	0.2	0.01
	Job search allowance	2.0	0.12
	Maternity grant	0.9	0.05
Old age (20 – 24)	Social insurance pension	1.2	0.07
Total		**17.5**	**1.08**

Source: KRI calculations

Towards achieving an inclusive social protection floor, the UCB forms the critical component in the broader efforts of building an inclusive and effective system in Malaysia. As childhood is inherently considered as a vulnerable stage of life, ensuring all children to be part of the scheme would provide the impetus to building further schemes for the next life phase. Once the childhood stage ends for an individual, the system could be designed to ensure automatic enrolment into schemes for the next life stages i.e. the working age and old age. This will ensure the vision of providing the necessary protection to everyone from cradle-to-grave can be realised.

Our estimates show that the total initial investment for all three key groups would be RM17.5 billion or 1.1% of GDP, assuming all schemes are rolled out simultaneously but with phased expansion. These three groups are: children aged 0 – 12 under the UCB; individuals aged 15 – 64 for working-age specific schemes; and individuals aged 20 – 24 for the SIP.

The implementation of the UCB scheme will require an investment of RM12.0 billion or 0.74% of GDP for a monthly per-child benefit of RM150. As highlighted in Chapter 3, implementation for the first cohort of children (0 – 12 years) can be done with neutral fiscal impact by streamlining BPR as well as tax reliefs related to children, which is estimated to provide around RM14.0 billion. The balance can be utilised for other sub-population groups especially for elders under the BWE scheme before the proposal on SIP bears fruit and its benefit starts to kick in.

To completely provide the social security for all population in the working-age group, the investment required from the government is estimated to be RM4.3 billion or 0.27% of GDP in 2022. When projected until 2030, the share as a percentage of GDP remains to be about 0.20%. The estimated amount includes government contributions for various social insurance premium as well as tax-funded JSA and maternity grant.

Assuming the SIP scheme also commences in 2022, the projected gaps in the premium contributions that require funding from the government is estimated to be RM1.2 billion or 0.07% of GDP. In this estimation, the amount refers to the contribution gaps for the working-age population aged 20 – 24 years as of 2022. The aim is to provide a monthly income security of RM600 in real terms for individuals in this age cohort when they reach 60 years old in 2062 – 2064.

Overall, the initial investment to start the basic income for children, expand the social security coverage to all working-age population and install a foundation that would ensure income security for all future old-age population is estimated to be RM16.9 billion or about 1.1% of GDP. As shown in Chapter 3, if BPR and existing child-related tax reliefs are rationalised, only RM2.4 billion is needed for the proposed children and working-age schemes during the first implementation year of 2022. Streamlining another wide number of existing programmes, particularly many that are small-scale and overlapping in nature, could yield even greater fiscal space.

6.3.2. Progressive realisation strategy

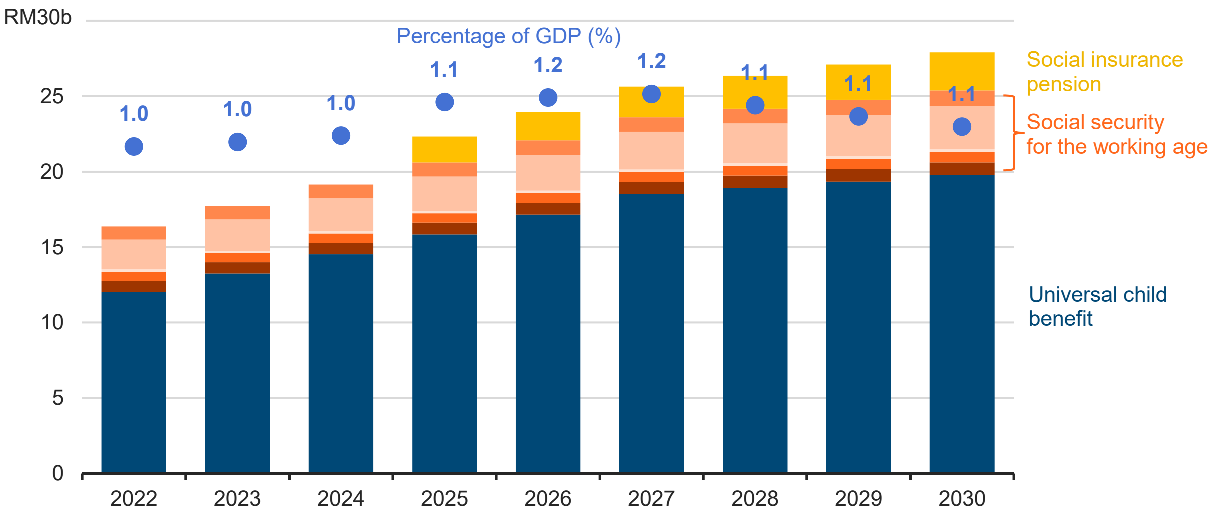
Considering the limited fiscal space that the government may face, the schemes can be implemented in stages with gradual expansion strategies. As highlighted earlier in Chapter 3, it is proposed for the UCB to cover initially children aged 0 – 12 during the inception year. A smaller population coverage is to account for the fiscal capacity of the government in the early stages of roll-out. Gradual expansion can be undertaken to achieve full coverage of all children aged 0 – 17 years by automatically registering newborns into the programme while the children already in the programme continue to receive the benefits. The recipients will exit the programme once they reach their 18th birthday. The required investment to cover all children is estimated to be RM18.5 billion or 0.85% of GDP in 2027, with the same transfer value in real term. Nevertheless, the figure as a percentage of GDP would fall in the long term, corresponding to the declining size of the population under the age of 18 and the projected growth in GDP.

The expansion of social security schemes for the working-age population can be rolled out gradually to achieve full coverage and higher than the minimum standards. In Chapter 4, we recommended a six-month coverage of JSA under tax-funded income security scheme for unemployment. The allowance period can be extended to at least 6.5 months in the long run to meet the higher standard described in ILO Convention No. 168 for means-tested non-contributory scheme. The recommended rate of RM600 for tax-funded JSA could also be increased gradually later considering government's fiscal position as well as the importance to support employment. The proposed maternity grant could also move beyond covering basic income security to include other medical benefits.

As discussed in Chapter 5, the SIP is recommended to be implemented later in 2025 or latest by the time the UCB reaches universal coverage in 2027 when the eldest cohort of children will graduate from the scheme. This also recognises the time necessary to build institutional capacity, including the amendment of relevant legislation as well as giving the government time to shore up finances. In this regard, the SIP must be made mandatory to the first youngest working-age cohort (in our example 20 to 24 years old) and voluntary for other older age cohorts. As demonstrated in Chapter 5, the coverage is expected to incorporate an additional 5-year age cohort each year of implementation. It is estimated to take around 35 years to achieve full working-age population coverage i.e. by 2060 if the scheme is rolled out in 2025. With the expanded coverage, the total investment required is expected to grow to almost RM4.0 billion in 2038 (covering 20 – 44 age group)[303]. Assuming positive economic growth, the share of total investment to GDP will remain around 0.1%, lower than the estimated figure for universal tax-financed social pension of 1.0 to 2.0% of GDP.

Considering the progressive realisation strategies, Figure 6.11 shows the estimated investment required from 2022 until 2030. As the SIP is recommended to be launched in 2025, RM16.4 billion is required during the first year of implementation in 2022. However, our analysis in Chapter 3 shows that streamlining BPR and child-related tax reliefs programmes would incur only around RM2.4 billion in additional amount to finance the proposed schemes for children and working-age population during the first implementation year. Our medium-term projection suggests that the total investment required to fund social protection floor schemes for all three key groups is projected to increase from RM16.4 billion in 2022 to around RM28.0 billion in 2030. Despite the increase in the absolute amount over the years, the figure as a percentage of GDP is expected to be at around 1.0% – 2.0% in tandem with the projected real GDP growth, assumed at 4.0% per year. The steady share of the total investment required relative to GDP suggests that more fiscal space will be available in the longer term, providing more time for the government to manage its fiscal space.

Figure 6.11: Estimated investment level and share from total GDP, by scheme, 2022 – 2030



Source: KRI calculations

303 Longer projection or until 2060 is not feasible due to data limitation

As the benefit levels are anchored at minimum standards and may seem modest, over a longer term, progressive realisation strategies can be deployed to increase the depth of the schemes by incorporating more aspirational targets.

6.3.3. Creating the fiscal space

The projected investment required in absolute amount presented earlier means that viable financial resources need to be identified to fund the social protection floor schemes. The international community, especially within the UN system and the International Financial Institutions (IFIs), has outlined eight financing options that could extend a country's fiscal space for social protection coverage and adequacy. These measures are described in Box 6.1 .

Box 6.1: Financing options for social protection

The eight options below are recognised either directly or indirectly in the Addis Ababa Action Agenda for Sustainable Development Goals which contain targets for universal social protection. The first option entails improving the effectiveness of existing fiscal resources and Options (2) – (8) deal with potential revenues to enlarge fiscal space.

(1) Re-allocating public expenditures: Some of the measures include assessing on-going budget allocations through a review of public expenditure and other types of thematic budget analyses, replacing high-cost, low-impact investments with those with larger socio-economic impacts, eliminating spending inefficiencies and/or tackling corruption.

(2) Expanding social security coverage and contributory revenues: The idea is to increase coverage and therefore increase the collection of contributions of social security systems. As the social protection benefits are linked to employment-based contributions, the measure is expected to increase formalisation of the informal economy.

(3) Increasing tax revenue: This is a channel for generating domestic resources and is achieved by expanding the tax base and altering different types of tax rates e.g. on consumption, corporate profits, financial activities, personal income, property, imports or exports, natural resource extraction, etc. It can also include measures to strengthen the efficiency of tax collection methods and overall compliance.

(4) Eliminating illicit financial flows: It is estimated that a substantial number of resources—more than 10 times the total aid received—escape developing countries each year illegally. Therefore, this option involves cracking down on money laundering, bribery, tax evasion, trade mis-invoicing and other financial crimes that are illegal and deprive governments of revenues needed for social and economic development.

(5) Tapping into fiscal and central bank foreign exchange reserves: This includes drawing down fiscal savings and other state revenues stored in special funds, such as sovereign wealth funds, and/or using excess foreign exchange reserves in the central bank for national development.

(6) Managing debt (borrowing or restructuring sovereign debt): This involves an active exploration of domestic and foreign borrowing options at low cost, including concessional loans, following a careful assessment of debt sustainability. For countries under high debt distress, restructuring existing debt may be possible and justifiable if the legitimacy of the debt is questionable or the opportunity cost in terms of worsening deprivations of vulnerable groups is high.

(7) Adopting a more accommodating macroeconomic framework: This involves creating an enabling macroeconomic condition that can promote economic growth and government revenue. It may entail allowing for higher budget deficit paths and higher levels of inflation without jeopardising macroeconomic stability.

(8) Increasing aid and transfers: This requires either engaging with different donor governments or international organisations in order to ramp up transfers and aid.

Source: ILO (2019b)

The financing options presented in Box 6.1 can be applied as a mix of policies depending on the country's context. Three relevant measures of creating the fiscal space needed to finance the proposed programmes in Malaysia are discussed below.

1. Reallocating and consolidating existing subsidies and social assistance expenditure

Reallocating public expenditures requires replacing high-cost and low-impact investments with investments that can generate larger socioeconomic impact. It also involves eliminating spending inefficiencies as well as tackling corruption. There are a wide range of options in accomplishing fiscal rationalisation. One pertinent way could involve streamlining spending within the social sector itself.

From the sectoral perspective, Malaysia channelled RM91.9 billion or 40.5% of operating expenditure for the social sector in 2019, comprising spending on various initiatives related to education, health, housing and other types of social services. Meanwhile, from the perspective of expenditure by object, RM23.9 billion or 9.1% of operating expenditure was allocated for subsidies and social assistance—an expenditure component that is closer to the definition of social protection. If retirements charges—a form of old-age protection exclusive for civil servants—is included, the amount increases by RM25.9 billion to RM49.8 billion or 18.9% of operating expenditure. Together, spending on subsidies and social assistance, and retirement charges constitute 3.3% of GDP.

As highlighted in Chapter 2, Malaysia has been implementing a substantial number of small social protection and poverty reduction programmes, often fragmented and overlapping in nature. Some programmes can be streamlined and consolidated to form social protection schemes that are more inclusive and larger in scale, providing increased efficiency. Chapter 3 has identified an amount of around RM14.0 billion related to existing social assistance programmes such as BPR and tax reliefs related to children that can be streamlined in order to introduce a more broad-based scheme for children. Furthermore, several occupation-based tax-funded social assistance programme such as allowances for farmers, religious teachers, village leaders, *tok batin*, veterans and bus/taxi drivers can be redesigned as social insurance schemes.

In another related dimension, several studies have suggested moving towards a defined-contribution scheme for the public sector pension to unlock financial resources more broadly to equally protect both public and private sector workers[304].

2. *Supplementing social insurance schemes with government contribution*

A more durable and sustainable approach to financing social protection programmes would be to generate an independent source of funding out of the general tax pool. Typically, this can be achieved by establishing a social wealth fund in which the return from investments would cover the costs for generations to come. To date, this idea has largely been the case of social insurance schemes that involves creation of "earmarked fund" with the whole community standing together to contribute for the protection.

Malaysia has long adopted this earmarking approach as exemplified by the existing retirement savings and the occupational social insurance schemes that are funded by employers and workers' contributions. To protect and balance the interest of both employers and workers, the government currently plays a supervisory role at the policy level, yet with limited role as a co-contributor.

On the other hand, the government implements its social assistance initiatives quite separately outside the social insurance system using funds from taxation and other public revenues. Tax-funded schemes (compared to contributory social insurance schemes) are often considered to be more effective in averting exclusion of marginalised populations, especially those who are poor and in the informal sector.

However, the pool of revenue in the national budget typically faces many competing needs from various other sectors. Due to various financial constraints, the principles of rationing, targeting and conditionality have been considered to be more effective in guiding and distributing social assistance. This usually happens at the expense of higher administrative costs and fragmentation between social assistance programmes which subsequently could not fully promote social inclusion and cohesion. Moreover, social assistance schemes that target the poor are stigmatising and are often perceived as unfair, discriminatory and politically motivated.

At the same time, the lack of coordination between social assistance and social insurance programmes exacerbates the fragmentation problems further, undermining social justice. Benefits deployed via social insurance channels, such as the wage subsidy and employment retention programmes, are mostly seen as accruing to the relatively "well-off" formal sector workers who are already registered and participating in the formal social insurance system.

A coherent system that ensures long-term sustainability can be achieved by a well-coordinated mix of contributions by employers, employees and the government (from general public revenue pool) in an integrated social protection system. We contend that instead of dispensing poor reliefs separately, greater government commitment in the social insurance platform is a more effective strategy in extending protection to all.

[304] BNM (2021a), Darmaraj and Narayanan (2019)

As shown in Chapter 5, providing a universal tax-funded social pension would cost 1.0% to 2.0% of GDP annually. This is 10 times higher than the projected cost of the proposed social insurance pension of less than 0.5% of annual GDP. With the social insurance approach, the pension fund that disperses benefits in the future is slowly built today. However, as the proposed scheme will take a few years to expand its coverage and directly benefit future older adults, interim relief for existing elders should continue to be made available. Similarly, the government can ensure that all working-age population are protected from occupational injury and invalidity, maternity and employment risks at an investment of only around RM4.0 billion to RM6.0 billion annually or less than 0.3% of GDP when this is done via social insurance channels.

Hence, we recommend the tripartite arrangement under the social insurance system to be strengthened with government involvement as a third contributor for the working age and old age schemes. In this arrangement, the government would contribute social insurance premium on behalf of adult individuals who are unable to work or are involved in non-standard employment that does not entail a relationship with an employer.

In short, the fundamental principle in making social protection system more inclusive and sustainable is to generate an independent source of funding via employers and workers' contributions while at the same time integrating government contribution for the residual population groups who are unable to pay.

3. *Increasing tax revenue*

Although the above two measures provide some fiscal space to finance the proposed social protection floor schemes, these sources would not be sufficient to finance the projected investment required. This means that increasing tax and other revenue is still critical in ensuring an adequate and sustainable funding base for years to come.

It important to highlight the Tax Reform Committee formed in 2018 has reviewed the overall tax system and outlined four key areas with the strategic objectives of enhancing government revenue. The overarching strategies are (1) reduce the tax gap, mainly informal and hard-to-tax sectors as well as widening the tax base through digitalisation and effective enforcement activities; (2) reduce tax leakages by reviewing existing tax incentives and legislations; (3) explore new sources of sustainable tax revenue such as digital and environmental tax; and (4) enhance tax administration by reviewing the legislation and simplifying administrative processes and procedures towards improving compliance[305].

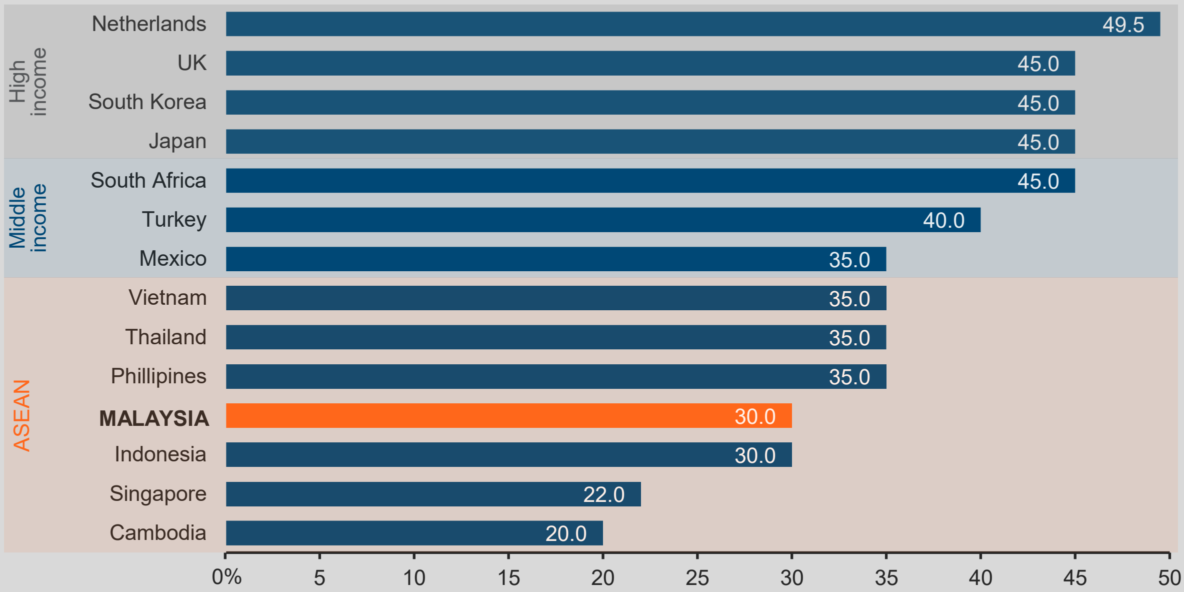
Looking at the outlined strategic objectives, it can be assumed that the recommendations prepared by the Tax Reform Committee are all-encompassing, having reviewed the tax system holistically. Given that a review has already been done by the Tax Reform Committee, this report does not attempt to provide comprehensive recommendations on measures to generate tax. Nonetheless, Box 6.2 illustrates the potential of generating additional revenue from raising income tax rates.

[305] MOF (2019)

Box 6.2: Increasing top income tax rates

Comparing Malaysia's top marginal tax rate of 30%, it falls below several other middle-income countries and a few others in ASEAN (Figure 6.12), suggesting room to increase tax rates for greater progressivity. This is despite having increased since 2015, from 25% to 30% in 2020.

Figure 6.12: Top marginal personal income tax rate, selected country, latest available year

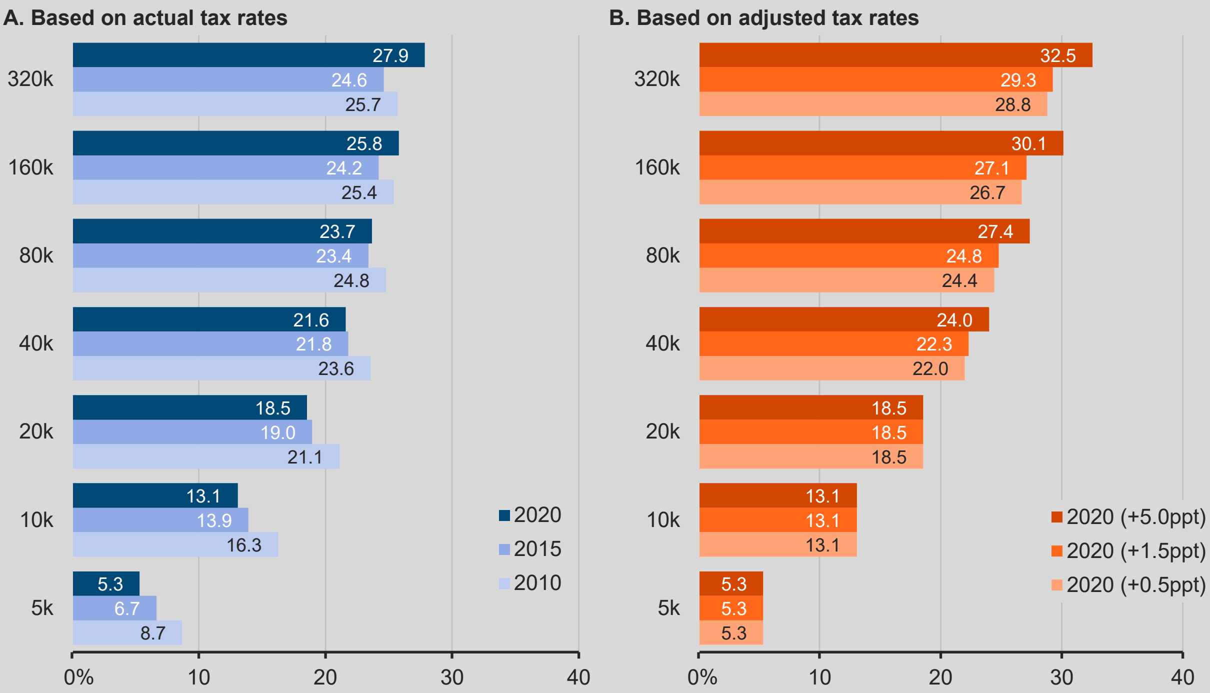


Source: PwC (2021)

A simulation of current average tax rates substantiates the need for greater progressivity (Figure 6.13A). While top income earners (those earning RM320,000 per month) pay a higher average rate in 2020 than before, the balance income is still quite substantial in absolute terms. The ratio of post-tax for those earning RM320,000 over those earning RM5,000 is 49x—a large gap even though an improvement from the pre-tax ratio of 64x. Meanwhile, the average tax rate for those earning RM320,000 and RM160,000 per month is only marginally higher than those in the RM80,000 income group. Further down the income scale, for those earning between RM20,000 and RM80,000 per month—amounts which are rather hefty relative to the average living standards in Malaysia—the average tax rates had actually decreased to levels lower than 2010.

To optimise average tax rates, marginal tax rates could be adjusted upwards further (Figure 6.13B). Based on the 2020 tax structure, by adjusting the tax rates by an addition of 0.5 percentage points (ppt) for each income bracket with annual chargeable income above RM250,000, it further optimises the average tax paid by high income earners. For those earning RM320,000 per month, the average rate increases from 27.9% to 28.8%. A further upward adjustment up to 5.0 ppt translates into a top marginal tax rate of 35% and would be in line with neighbouring countries Vietnam and Thailand who both have rates of 35%, but lower than more advanced countries such as the Netherlands whose top rate is 50%. Furthermore, an increase of 5.0 ppt across the board for higher income brackets yields even greater average tax rates, up to 32.5% for those earning RM320k per month. Meanwhile, those earning RM40,000 to RM80,000 would then be paying average rates that are higher than or on par with the average rate paid in 2010 and 2015.

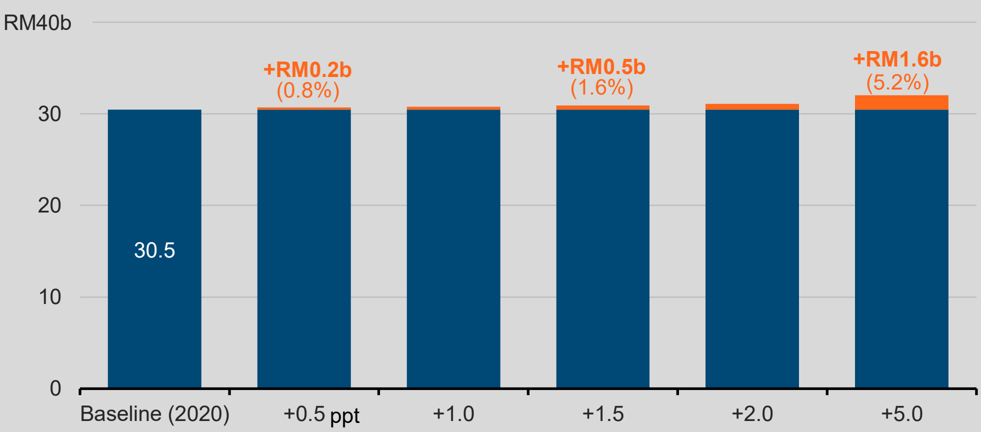
Figure 6.13: Simulated average effective tax rate, by monthly income group, 2010 – 2020



Note: LHDN (n.d.-a), KRI calculations

Overall, increasing top marginal tax rates could yield considerable returns in tax revenue, based on a static estimate (Figure 6.14). For an increase of marginal tax rates by 1ppt for each income bracket above RM250,000, this increases tax revenue by RM1.2 billion (2.5%). With a 5 ppt rise, this increases tax revenue by RM5.8 billion (12.4%). Nonetheless, the estimates assume no changes in the working population, behaviours in tax avoidance nor changes in economic activities and jobs. Thus, the actual return from raising tax rates could be either greater or smaller than the estimates shown.

Figure 6.14: Estimated increase in individual income tax fiscal revenue, 2020



Source: LHDN (n.d.-a), LHDN (2021b), MOF (2021b), KRI calculations

Inclusive social protection and the virtuous cycle of expanding government's fiscal space

With the tax reform initiatives already outlined by the Tax Reform Committee, enhancing fiscal space appears to be a policy choice that is also fundamentally underpinned by political will—rather than purely constrained by a lack of options to generate additional revenue. The current fiscal scenario and tax system characterised by an extremely narrow revenue base underscore the urgent needs to initiate the impending tax reform actions.

As illustrated earlier in Section 6.2.1, Malaysia's government revenue collection in relation to comparator countries suggests that there is significant space to increase tax revenues in Malaysia and prioritise social protection. Likewise, the international comparison of public spending shows that social protection spending does not necessarily depend just on a country's income levels. Low-income countries can spend reasonably well as a proportion of their GDP. Rather than just a matter of finance, public spending on social protection eventually boils down to society's preference and political will in determining public spending priorities. Broadly, social protection is observed to be an essential component of successful and sustainable society.

While it is essential that effective tax systems can ensure an adequate and sustainable funding base, we also believe that a combination of taxes and social security contributions has a greater potential in ensuring a social protection system that is sustainable fiscally, economically and socially. Building on the principles of risk sharing, equity and solidarity, Inclusive social protection will induce a virtuous cycle of strengthening the social contract, fostering trust in government and enhancing government revenue[306].

6.4 Driving the National Social Protection Agenda

In addition to sustainable funding, Malaysia's social protection system also requires an administrative system that is efficient and transparent to ensure good-quality service delivery in addition to responsiveness to extraordinary shocks. The administrative processes of social protection schemes need to be underpinned by strong operational policies and procedures, supported by well-coordinated institutional arrangements, human resources, information management systems, communications strategies and fiscal management, as well as monitoring and evaluation[307].

From a long-term viewpoint, schemes for social protection in Malaysia have evolved in tandem with the country's needs as a developing nation. The foundation for social protection was embedded right at the beginning of the development process with wide ranging publicly funded programmes aimed to eradicated poverty and improve access to health, education and basic infrastructure. Contributory schemes were institutionalised with the establishment of the EPF in 1951[308] and SOCSO in 1971[309] as responses to increasing wage labour in the private sector. Meanwhile, schemes for civil servants are largely administered by JPA, the LTAT and KWAP. In addition to these main institutions, there have been a proliferation of social programmes undertaken by many other ministries and agencies, largely targeting specific vulnerable and poor population groups.

[306] ILO (2018a), Kidd et al. (2020)
[307] ESCAP (2018)
[308] EPF (n.d.-a)
[309] SOCSO (n.d.-g)

Today, the fragmentation and coverage gaps highlighted in earlier chapters indicate that more work needs to be done. As part of the transformation agenda to put in place an inclusive and coherent social protection system, these institutional arrangements need to be reviewed to ensure that all initiatives are well coordinated, and their effective implementation is well supported.

One good governance practice is to delineate the policy design and service delivery functions. With regards to the former, Malaysia is already a step ahead with the formation of the Malaysia Social Protection Council (MySPC) in 2016 and reactivated in 2020 as the authority to coordinate a holistic and integrated social protection agenda. The council is well positioned to push for reform initiatives as four strategic core areas are rightly under its purview: (1) social assistance, (2) social insurance, (3) labour market policy and (4) data integration and governance. However, MySPC's effectiveness is largely untested. Malaysia is yet to have a national social protection masterplan that describes both a comprehensive package of social protection measures and a roadmap for realising this package[310].

In terms of service delivery, institutional coordination can be improved to reduce gaps and increase efficiency. In the specific context of social security (one that has a similar objective of providing basic income security), the arrangement for the institutions involved in providing social assistance and social insurance can be streamlined.

On this matter, we assert that there is a need to have an anchor institution in driving initiatives on social security comprehensively. One model that could be considered is Kela (Kansaneläkelaitos)[311], a Finnish government agency in charge of administering benefits under national social security programs. Initially founded in 1937 to handle retirement pay, its role was expanded in the 1980s and 1990s to other fields like child benefits, unemployment benefits, sickness benefits, health insurance and student financial aid.

On the whole, proposals in this report entails establishing a social protection floor especially in the form of income security for children, working-age and old-age populations when they are unable to provide for themselves. One institution with the capability to strengthen Malaysia's social security is SOCSO—an agency currently responsible for the provision of protection schemes for workers who predominantly work in the private sector. While it is well recognised that SOCSO's mandate is somewhat confined to social security for the working population, we propose for SOCSO's functions to be expanded as the National Social Security Institution to implement and administer the extended and newly proposed social security schemes.

As aforementioned, we believe that social security initiatives can be implemented more efficiently and sustainably when it is organised as a mix of tax-funded and contributory social insurance schemes. As it stands now, the provision of social security via defined-contribution mechanism has largely been funded by employer and employee contributions, with SOCSO as the administrator. In this regard, there is a room to expand the role of SOCSO to also include the residual working-age population who are not engaged with paid work, as well as the population outside the working age, namely children and the elder.

---

[310] World Bank (2020c)
[311] Kela (n.d.)

Two new important universal schemes that we are proposing are: (1) UCB for all children and (2) social insurance pension for all elders. Meanwhile, the proposals for the working-age population are largely an extension to the existing schemes to address significant coverage gaps particularly among workers in informal employment as well as the residual working-age population who are not working either by choice or by force (e.g. homemakers, youth). As highlighted earlier, the source of financing for these newly expanded schemes can be sourced from tax revenue with government becoming the third contributor.

In embarking on an inclusive social protection system, it is imperative that everyone is included. As it stands now, workers in informal and non-standard employment are among those who are severely left behind. These are the vulnerable group who have a higher likelihood of being adversely impacted in times of crisis[312]. A report by the ILO detailed that this group of workers have fallen between the cracks of the government's PRIHATIN stimulus package during the pandemic, only receiving one-off cash payments from the BPN and BSH[313]. In contrast, formal sector employees can benefit from multiple relief measures such as the i-Lestari provision, BPN, Employment Retention Programme (ERP), Employment Insurance System (EIS) and Wage Subsidy Programme (WSP).

In addition to the expansion of SOCSO's functions, we propose for a one-stop service centre to be established as the front-line service delivery to the public. The Shared Service Centre (SSC) can be done by leveraging existing social protection providers network and branches including SOCSO, the EPF, KWAP and the LTAT. For example, currently EPF and SOCSO with their 62 and 49 branches, respectively[314], serves very similar population segment namely the formal workforce with each institution having physical branches and manpower across Malaysia. Coordinating these networks of branches to provide shared social security services is not only cost-effective, but also convenient for the public.

In the future, the services by the income tax agency (i.e. LHDN) can also be integrated to enable people to declare their incomes alongside their application for social security benefits. Technology holds tremendous capabilities to integrate data for various schemes; the MyKad, for example, can be maximised given that it already accords Malaysians with a unique identification number that allows for seamless data integration. Improved integration of service delivery is practical and cost-saving.

6.4.1. National Social Protection Registry

The importance of having a complete and comprehensive database of the population is underscored during the Covid-19 crisis, with the government heavily utilising existing databases to deploy stimulus measures and to guide efforts in alleviating the *rakyat*'s burden[315]. However, the design and delivery of assistance is a challenge due to database inflexibility and cross-database verification issues[316].

[312] A special survey by DOS on effects of Covid-19 showed 46.6% of self-employed workers lost their jobs, significantly higher than those in other categories. In addition, 94.8% suffered reduction in income, and 71.4% responded having savings sufficient for less than one month. Source: DOS (2020d)
[313] ILO (2020)
[314] EPF (n.d.-a), SOCSO (n.d.-g)
[315] For example, LHDN's database was used to channel cash handouts for the BSH/BPR programme, and SOCSO's existing infrastructure enables the implementation of wage subsidy programmes. Source: BNM (2021b)
[316] UNDP (2021)

Multiple sets of administrative social protection data exist across many ministries and institutions in Malaysia. This is the result of having numerous programmes and schemes, each with their own specific target demographics and objectives. On the other hand, some are legacy schemes that have long existed such as the civil servant pension and injury and invalidity insurance for private sector workers. Six major information systems related to social security and social protection are shown in Table 6.3.

Table 6.3: Major social protection information systems and registries

Data registry	Custodian institution	Unit of data (targeting)
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 existence of multiple data registries that are sparsely located and stored within various agencies has somewhat limited the full potential of utilising data to enhance social policy planning. As seen today, this has resulted in duplications and the marginalisation of some underprivileged subgroups not currently recognised by the system.

6.4.2. Efficient service delivery

Chapter 1 of this report has elaborated on how individuals face different risks throughout their life course. Although different risks need different interventions to address them, social security forms a critical element that protects individuals from poverty and vulnerability. For this reason, the life cycle approach that target individuals (instead of households) will require everyone to be identified and their information captured in the system throughout their life cycle.

Further down the road, special needs of individuals such as disability, orphanhood and health record can be added to the data registry where supplementary assistance can be provided. At the same time, state governments and the third sector, such as civil society and non-governmental organisations, can use this database to supplement the assistance (vertical expansion) or conduct more targeted programmes ("piggybacking") as according to the respective community's needs.

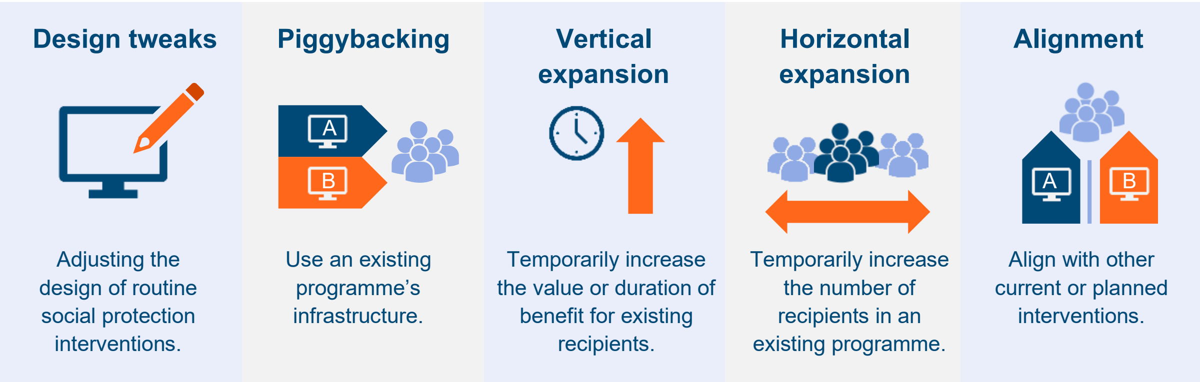
Subsequently, integration can be extended to the payment system, which can facilitate the disbursement of benefits. For beneficiaries, the process will be simplified as data becomes more integrated and comprehensive. Overtime, this system can function as a central database for coordination, assessment and monitoring for the social protection institutions. For the system as a whole, it reduces fragmentation and duplication, resulting in a more inclusive, coherent and timely implementation.

In the most ideal scenario, a National Social Protection Registry should be established to store every individual's information and enable a more efficient channelling of social security and services. However, since multiple databases have already existed for a long time, digital technology can be utilised to form a unified registry by integrating existing databases. As mentioned earlier, the MyKad number can be used as a single unique ID to enable integration of personal data from various institutions. Apart from individual data, information in the MyKad provides the necessary information necessary to identify beneficiaries and their dependents.

6.4.3. Better response to "shocks"

A unified and comprehensive registry that covers everyone will subsequently facilitate government in formulating supplementary interventions especially a more targeted supports for vulnerable groups such as disabled persons and orphan children as well as better responding to "shocks" like the Covid-19 pandemic crisis. The Oxford Policy Management[317] has outlined how governments can adapt their existing system to respond to shocks by doing design tweaks, piggybacking, vertical expansion, horizontal expansion and alignment (see Figure 6.15). Malaysia can perform a similar quick, and targeted delivery of assistance by having a unified national social protection registry.

Figure 6.15: Adapting existing system to respond to shocks



Source: O'Brien et al. (2018)

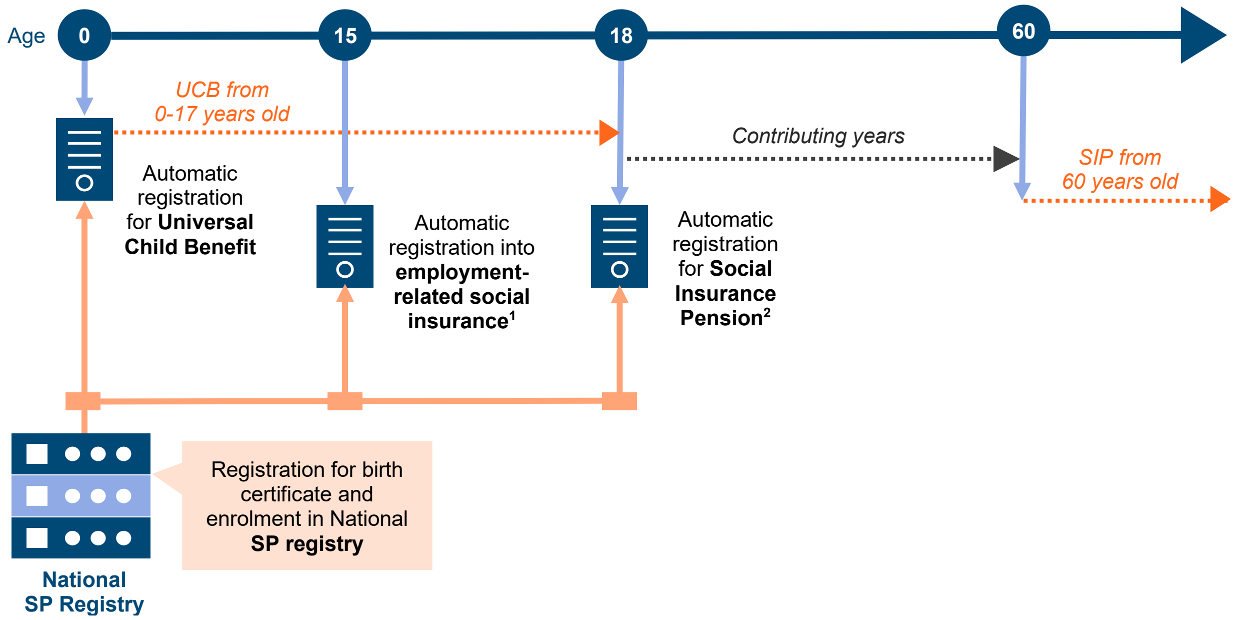
6.4.4. UCB as a critical record entry point

The UCB scheme is an ideal entry point programme to kickstart the National Social Protection Registry for Malaysia. As it is designed as a universal programme, all children will be registered into the programme to receive the benefits. For newborns, they can be automatically enrolled into the programme when their parents/guardians register for their birth certificate. Upon reaching 15 years old (the minimum working age), automatic registration can be done for employment-related social insurance schemes (under SOCSO) and provident fund (EPF). Contribution to protect from risks during working age can be done only when they start earning income. Once the children graduate from the UCB scheme upon reaching 18 years old, they will be enrolled automatically into the social insurance pension scheme to prepare ahead for life after the working age (Figure 6.16).

[317] It is a consortium with the Overseas Development Institute (ODI), the Cash Learning Partnership (CaLP) and INASP.

This process must be coordinated among different institutions in charge of providing assistance so that every individual is linked to each institution in charge at different stages of their life. Having SOCSO as an anchor institution for social security as proposed above becomes important to coordinate all implementation and service delivery. Over a few years, this will result in a single registry that could support programme management and monitoring at the national level.

Figure 6.16: National Social Protection Registry from life cycle perspective



Note:
1. Begin contribution when earning starts
2. Tax-funded in non-earning years
Source: KRI illustration

6.5 Putting it All Together

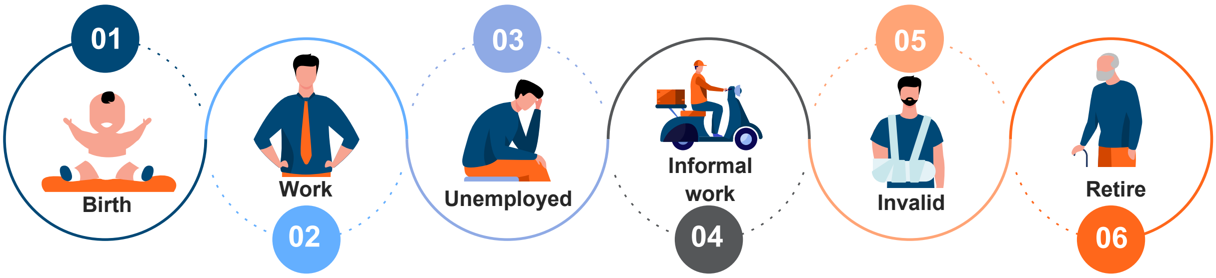
In this report, we advocate for an inclusive and universal access to basic income security (instead of means-testing such as through explicit poverty targeting) as the core principle for social security provisioning. We recommend the life cycle approach based on its strength that emphasises provisions of appropriate protections against major risks at each stage of everyone's life. We affirm that this principle and approach would provide a firm basis of streamlining existing programmes and addressing gaps with a vision to build a social protection system that is more coherent and inclusive.

6.5.1. What does it mean for individuals?

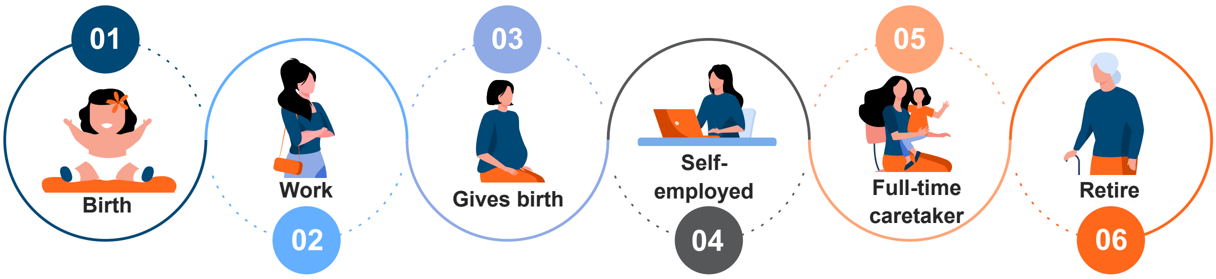
The potential benefits of the proposed social protection floor schemes for individuals are shown in the hypothetical scenarios in Figure 6.17.

Figure 6.17: Social protection for individuals throughout the life cycle, by gender

A. Illustration of a man's life cycle



B. Illustration of a woman's life cycle



Source: KRI illustration

From the outset, upon the birth of a male individual, he will receive a monthly transfer of RM150 under the UCB scheme until he is 17 years of age (Figure 6.17A). The steady transfer ensures basic income security for the child at that vulnerable stage of life where he is highly dependent on parents or guardians to fulfil his basic needs, who are themselves subjected to insecurities.

In transitioning from school to work, the JSA that offers a monthly transfer of RM600 for up to six months will support this young man in his job search effort, improving his chances of acquiring work suitable to his skillset.

Throughout his working age, he can be exposed to risks that could result in income shocks. In the event of retrenchment, he is insured under the employment insurance scheme where provision of income replacement from three to six months based on his previous income, otherwise he is entitled to a tax-funded JSA of RM600 for up to six months, which will help to weather his finances through a period of income reduction.

He is also eligible for training allowance and various employment support services which support his pursuit of reemployment. If the man subsequently enters informal employment and got into an accident and becomes invalid, the expanded invalidity pension scheme which includes non-standard employees should provide him with income security of 50% to 65% of his previous wage, along with other medical benefits. Upon retirement, he will be one of recipients of the monthly social pension annuity equivalent to the inflation-adjusted poverty line per capita of RM600 per month. The annuity provides a pension floor for old-age individuals and function as a basic income in addition to his mandatory retirement savings with EPF and other personal savings.

Similar to the male individual, a female individual will be equally protected during childhood, working age and old age (Figure 6.17B). During her working age stage, if she is working and giving a birth, her income is protected through paid maternity leave and supplemented with maternity cash grant of RM1,800. For women who are not entitled to paid maternity leave, the maternity grant could provide some basic income support especially for the postpartum care.

Her child will be entitled to UCB which contributes to her household income pool, further alleviating financial pressures that comes with child-rearing. If the woman wishes to venture into self-employment, she is invariably allowed to contribute to the social security schemes and the benefits would protect her from income shocks associated to injuries, invalidity, and income loss.

If later in life she takes up full-time unpaid care work, she remains eligible to some social security schemes despite being outside of the workforce as the government could also be contributing for her social security insurance premiums. In her life after the working age, she will be receiving an annuity pension up to RM600 per month for her remaining lifetime under the SIP schemes. Considering the life expenses associated with old age, she is at least guaranteed with a basic income which support a dignified life during old age.

6.5.2. What does it mean for households?

The potential benefits of the proposed social protection floor on a household level are illustrated in three hypothetical household scenarios, as shown in Figure 6.18. Different household types and compositions could benefit or be insulated from shocks through provisions of basic income security.

Figure 6.18: Social protection for households, by household composition

Source: KRI illustration

The first scenario involves budding young families such as Household 1, which includes the father who is the sole breadwinner, the mother who has just given birth, the newborn and another young child. As there are four family members, significant pressures remain with the sole income earner. Under the UCB scheme, each child will receive a monthly RM150 transfer and in total the family will be guaranteed with an amount of RM3,600 per year for the two children. This grant would assist the parents with the cost of raising children such as food, education and healthcare expenses. The benefits could markedly improve the family's capacity to smooth the expenses associated with raising children or could simply be dedicated as savings for future education. Postpartum care could also account for a significant share of household expenses as it implies an extra amount to be set aside for both the mother and the new addition to the family. The mother who is a homemaker is entitled to a maternity grant of RM1,800, hopefully to cover some of these costs.

Household 2 illustrates the case of a family which comprise the father who is currently injured and unable to work due to an accident at the workplace, the mother who is self-employed, a son who is looking for a job and a school-aged daughter. The illustrated household experiences income insecurity due to an injury experienced by one of the income earners which suspends their main source of income. The disablement benefits from the injury scheme provides some income replacement (80% to 90% of wage), as well as other medical benefits. The income replacement scheme mitigates the magnitude of income loss during the period of disability, thus alleviating the stress placed upon the second earner to replace the loss.

The expanded social security schemes and associated fiscal support from the government also provides the opportunity for the self-employed mother to contribute to and benefit from the social insurance schemes in case of future unexpected contingencies. The household also receives additional income support, especially for the job-seeking son through the tax-funded JSA of RM600 per month. This would finance his job searching effort for a period of six months, which could further build the household income pool and relieves him from accepting an ill-fitting job due to financial constraints. The schooling daughter will be receiving RM150 child benefits monthly, further adding to the household income pool.

In an extended family where aged members are often present, life risks could be higher with more demanding living expenses. Household 3 illustrates a family comprising two retired parents, a working son and a daughter who has just graduated. Old-age parents without adequate income security could put financial pressures to the other earners in the household. Under the old-age social security proposal, the parents will be provided with a monthly social pension annuity equivalent to the inflation-adjusted poverty line per capita for the rest of their lives. In 2020 prices, the amount will be roughly RM600 per month depending on the contribution for the social insurance premium during the working-age years. The consistent annuity provides a pension floor for retired individuals, effectively shielding them from falling into poverty, guaranteeing a life of dignity in old age. Additional income is available if they are also contributing for their own EPF savings. The household income is also supplemented with an additional RM600 per month for up to six months, in the form of a JSA for the recently graduated daughter. The young working son is thus relieved from the high living costs to support other family members as the forward-looking social security system is built around a preventive principle that mitigate the risk of falling into severe financial hardship.

The above illustrations demonstrate the scope of the proposed social protection floor in providing income security, protecting all individuals at all stages of life cycle. While the social protection shifts from providing household-level benefits to individual-level benefits, the consistent and predictable transfer of income based on individual life cycle stage (e.g. children, youth job seeker, temporarily unemployed, unable to work due to disability, retired elders) could still provide household-level income security by combining individual benefits.

6.6 Concluding Remarks

This report advocates for an inclusive and universal access to basic income security (instead of means-testing such as through explicit poverty targeting) as the core principle for social security provisioning. We recommend the life cycle approach based on its strength that emphasises provisions of appropriate protections against major risks at each stage of everyone’s life. We affirm that this principle and approach would provide a firm basis of streamlining existing programmes and addressing gaps with a vision to build a social protection system that is more coherent and inclusive.

It is hoped that the proposed core life cycle social security schemes would contribute to the reform agenda and enable Malaysia to transform from a welfare-based to development-oriented social protection system—one that could create a sustainable and inclusive system with profound impact for generations to come.

CHAPTER

07

CHAPTER 7

CONCLUSION

The legitimate object of government is to do for a community of people whatever they need to have done, but cannot do at all, or cannot so well do, for themselves – in their separate, and individual capacities.

Abraham Lincoln (1854)

Social protection has been globally recognised as instrumental for preventing poverty and addressing socio-economic vulnerability, as well as advancing social justice and sustainable development. Recently, its importance has soared to new heights with the ongoing Covid-19 pandemic that has posed unprecedented health and economic challenges for nations across the globe. Notwithstanding the Covid-19 pandemic, several long-standing issues and new trends highlight the challenges in social protection provisions in Malaysia.

The first is the issue of child deprivations and malnutrition across income groups and the socioeconomic deprivations that hamper children's full potential. If not urgently addressed, it will have cascading effects as the children transition to adulthood. While Malaysia has implemented several social assistance programmes for poor and vulnerable children, these interventions suffer from fragmentation that compromises both the breadth and depth of the programmes, leading to the exclusion of many children and low adequacy or quality of the benefits delivered.

The second trend concerns Malaysia's workforce, with continued concentration in low paying jobs in traditional services and rising vulnerable employment. The interactions between technological development, globalisation and socioeconomic policies have accelerated structural change in the economy, transforming work environments and employment relations. These fast-emerging trends are rendering existing social protection systems increasingly insufficient, especially those that are "employer-tied". If left unchecked, the rapid informalisation of jobs and encroachment of non-standard employment on traditional full-time jobs could pose challenges to Malaysia's social protection as many schemes are typically built around standard employment relationships.

The third trend concerns rapid population ageing as reflected by rising old-age dependency against a shrinking working-age population share, resulting in increasing health and old-age care needs. This trend is compounded by Malaysians living longer, but not necessarily healthier, with the increasing prevalence of non-communicable diseases affecting especially the elder population. While rising longevity is to be celebrated, if these trends persist, an increasing proportion of elders will spend these additional years of life gained in poor health and without sufficient retirement savings. If the status quo is not reversed, larger older cohorts will put more pressure on fiscal expenditure.

Against these trends, social protection in Malaysia continues to grapple with issues of coverage and adequacy. Among contributory social insurance schemes and other provisions backed by legislation, benefits continue to be limited to workers in formal employment. Provisions for informal workers remain largely inadequate and with limited reach, while the rest of the working-age population outside the labour force, such as unpaid care-givers and homemakers, are left almost wholly unprotected.

Yet many of these population groups unprotected by social insurance schemes may also receive little to no aid from tax-funded social assistance schemes, as they may be deemed ineligible. At the moment, social assistance schemes in Malaysia continue to heavily target those considered most in need of aid, particularly those defined as poor, low income or vulnerable. Such practices are bound to exclude a large share of the population deprived of decent living. It has also led to the fragmentation of social protection from a proliferation of various small-scale schemes, placing undue administrative burden and undermining the efficacy of government social spending, all while yet providing inadequate assistance.

These issues of social protection call for greater inclusiveness and coherence in providing a minimum level of income security in Malaysia. This requires a paradigm shift towards universality beyond seeing social protection strictly as relief for the poor. Moving forward, social protection policy in Malaysia should adopt a life cycle approach by targeting and pre-empting against key risks faced throughout life in a forward-looking manner, rather than only targeting those who have already fallen into dire straits. These key risks include disability, sickness, unemployment as well as vulnerabilities during childhood and old age—risks which can adversely impact anyone's wellbeing regardless of income status.

Our five key policy recommendations are summarised as follows:

1) Investing in a universal basic income for children so that no child is left behind during this important stage of cognitive, physical and social development.
2) Expanding the mandatory coverage of existing social insurance schemes for the working-age population especially for the self-employed, informal workers and those outside the official labour force.
3) Establishing a social insurance pension for old age to provide basic income security for elders, amidst coverage and adequacy challenges of old age savings.
4) Progressive realisation of proposed policies to build institutional capacity, introduce or amend the relevant legislations, and broadening revenue base.
5) Building a national social security institution and a unified registry by expanding the role of existing institution to administer and implement both extended and new social security schemes.

Our recommendations are built on, and not devoid of, existing social services, namely public healthcare, social housing and the education system. Our proposals are designed to complement, instead of replacing, the current tax-funded universal provision of social services. While the report has made the case that these recommendations are necessary to protect individuals from income insecurity throughout their lives, the schemes would not be sufficient on their own. True to the social protection floor principle, our proposals seek to instil a solid foundation for income security against well-documented risks. Cognisant of implementation and fiscal challenges, this report strives to offer practical, equitable and sustainable policy proposals in the context of Malaysian social protection.

This report aims to ultimately put forward a renewed social protection paradigm, moving from a charity-based model to a more universal rights-based approach. Building on principles of risk sharing, collective funding and solidary, the report advocates for an inclusive lifecycle social protection system with a forward-looking approach in preventing poverty and addressing vulnerability, thus ensuring the entire population could overcome socioeconomic shocks and risks throughout their lifetime. It calls for a greater government involvement under the social security tripartite arrangement as a strategy in extending protection floor to all. Inclusive social protection will induce a virtuous cycle of strengthening the social contract, fostering trust in government and enhancing government revenue. Institutionalising this aspiration is of paramount importance to ensure that the materialisation of these visions is not contingent on goodwill and shifting priorities. With existing social security institutions, Malaysia has achieved so much but can also do so much more.

APPENDICES & REFERENCES

APPENDIX A

INTERNATIONAL COMPARISON OF CHILD BENEFITS

Table A.1: Share of programme cost from total GDP, selected country

	Country	Year	Description of Programme	Cost as a % of GDP
1	Argentina	2017	- The Universal Child Benefit (Asignación Universal por Hijo - AUH) Source: UNICEF (2019c)	0.60%
2	Austria	2017	- Child benefit (tax system): Tax credits for children (since 1994) - Child benefit (Sozialleistungen der Länder) - Family support (egalitarian benefits) - Family allowance (Länder) (non means-tested) Source: OECD (2019a)	1.61
3	Belgium	2017	- Family allowance: National office for employees' family allowances Source: OECD (2019a)	1.41
4	Canada	2017	- Canada Child Benefit 16 Source: OECD (2019a)	1.18
5	Czech Republic	2017	- All residents: children's allowance - Payable tax credits (Vyplacené danové dobropisy/kredity) Source: OECD (2019a)	0.74
6	Denmark	2017	- Family allowances Source: OECD (2019a)	0.77
7	Estonia	2017	- Family allowance (non means tested) (Social Insurance Board) Source: OECD (2019a)	0.71
8	Finland	2017	- Child allowance Source: OECD (2019a)	0.61
9	France	2017	- Allocations familiales, sans conditions de ressources - Régime général de la Sécurité sociale (Family allowances, without means test - General social security scheme) Source: OECD (2019a)	0.63
10	Germany	2017	- Family allowance (Child benefit) - Public transfers to support families with children - Family allowance (UV) Source: OECD (2019a)	0.58
11	Hungary	2017	- Family or child allowance (non means-tested) Source: OECD (2019a)	0.79
12	Iceland	2017	- Family allowance Source: OECD (2019a)	0.38
13	Japan	2017	- Child allowance Source: OECD (2019a)	0.39
14	Latvia	2017	- Family or child allowance (non means tested): State social benefits to the families with children (Valsts socialie pabalsti gimenem ar berniem (VSPGB)) Source: OECD (2019a)	0.33
15	Lithuania	2017	- Assistance for Families (Parama šeimai): non means-tested - Assistance for Families (Parama šeimai) Source: OECD (2019a)	0.06
16	Luxembourg	2017	- Family allowance Source: OECD (2019a)	1.65
17	Mongolia	2019	- Child Money Programme Source: UNICEF (2019d)	0.62
18	Netherlands	2017	- All residents: child allowance Source: OECD (2019a)	0.45
19	Norway	2017	- Family or child allowance (non means tested) Source: OECD (2019a)	0.46
20	Poland	2017	- Family allowances for children Source: OECD (2019a)	0.65
21	Portugal	2017	- Family or child allowance (means tested) Source: OECD (2019a)	0.36
22	Romania	2013	- Universal child allowance Source: European Commission (2015)	0.43
23	South Africa	2018	- Child Support Grant Source: UNICEF (2019e)	1.30
24	Sweden	2017	- Family or child allowance Source: OECD (2019a)	0.51
25	United Kingdom	2017	- All residents: child benefit Source: OECD (2019a)	0.56

Note: Data from OECD Social Expenditure Database are given in local currency. The programme cost as a percentage of GDP is calculated using GDP from IMF's World Economic Outlook Database, April 2021 version. The programme description for countries sourced from the OECD database are as described in the database, thus it may not reflect the actual name of the programme
Source: IMF (2021c), OECD (2019a), UNICEF (2019c), UNICEF (2019d), UNICEF (2019e), European Commission (2015), KRI calculations

Table A.2: Design of child benefit programmes, by country

	Country	Description	Design of child benefit
1	Argentina	Means-tested, <18 years, no limit if child is disabled.	Benefit is targeted to vulnerable residents of Argentina (e.g. informal workers with income below the legal monthly minimum wage, unemployed persons without coverage, seasonal workers, persons who are incarcerated, domestic workers, and certain categories of self-employed workers). Child benefit amount varies by region, around 2,652 pesos per month (3,448 pesos in some provinces). Only up to five children are covered. Child benefit for children with disability is 8,642 pesos per month (11,235 pesos in some provinces).
2	Austria	Universal, <18 years, 24 if in training, unlimited if unable to work	Child benefit level is adjusted based on: (1) age of child, (2) number of children, and (3) children with disability. General family allowance: €114 per month Over 3 years: €121.90 per month Over 10 years: €141.50 per month Over 19 years: €165.10 per month Additional supplement is given based on the number of children according to a sibling supplement scale. Children with severe disabilities also eligible for additional benefit of €155.9.
3	Belgium	Universal, but benefit is income-adjusted, <18 years, depending on region, in training or studies, and infirmity.	Child benefit differs by: (1) region, (2) birth order of child, and (3) age of child. Additional supplement is given if child is an orphan, disabled, or raised by a single parent (supplements are means-tested). For example, for the child benefit for the Bilingual Brussels-Capital Region:€ 150 per child, with an additional of €10.40 for children aged 12 to 17 years, and additional of € 20.80 for child above 18 years that is still in higher education.
4	Canada	Universal, but benefit is income-adjusted, < 18 years	Child benefit level is adjusted based on: (1) the number of children under care, (2), age of child, (3) parents' marital status, and (4) adjusted family net income. Benefit level based on age of child: Up to 6 years: C$569.41 per month 6 to 17 years: C$480.41 per month Benefit is reduced if family's net annual income is above CAD32,028. Additional supplement for children with disability (income-tested).
5	Czech Republic	Means-tested, <27 years	Benefit eligibility is income-tested, for families with income under the threshold of 2.7 times the living minimum (defined separately for each member of a shared household). Child benefit is adjusted based on age of child: Under 6 years: CZK 500 per month Aged 6 to 15 years: CZK 610 per month 15 to 26 years: CZK 700 per month Benefit is increased if one of the family members has income from work amounting to at least the individual living minimum level, or receives specific social benefits (e.g. sickness insurance benefits, unemployment benefits, care allowance related to person under 18 years).
6	Denmark	Universal, but benefit is income-adjusted, <18 years	Child benefit level is adjusted based on age of child: 0 to 2 years: DKK 4,596 per quarter. 3 to 6 years: DKK 3,639 per quarter. 7 to 14 years: DKK 2,862 per quarter. 15 to 17 years: DKK 954 per month.
7	Estonia	Universal, <17 years, 19 if in education	Child benefit level is adjusted based on birth order of child: 1st and 2nd child: €60 per month 3rd and next child: €100 per month Additional supplement is given for families with many children: €300 per month for families raising three to six children. €400 per month for families raising seven or more children.
8	Finland	Universal	Child benefit level is adjusted based on number of children eligible for benefit: First child: €94.88 per month Second child: €104.84 per month Third child: €133.79 per month Fourth child: €163.24 per month Fifth and subsequent child: € 178.69 per month Additional supplement of €63.30 is given for single parents.
9	France	Universal, but benefit is income-adjusted, 20 years for all children who do not work, or whose remuneration does not exceed €943.44 per month;	Child benefit is given to families with at least two children. Child benefit level is adjusted based on: (1) the number of children and (2) household income. 2 children: €131.95 per month 3 children: €301.00 per month 4 children: €470.07 per month Each subsequent child: €169.07 per month For families with annual financial means (year N-2) above the amounts stated below, the family

Country	Description	Design of child benefit
	actual family allowances are paid as from the second dependent child.	benefits are divided by 2 or 4 according to the income bracket. €69,309 for a family with 2 children; €75,084 for a family with 3 children; €80,859 for a family with 4 children; +€5,776 for each additional child for a family with more than 4 children.
10 Germany	Universal, <18 years, 21 if unemployed or job-seeking, 25 if in vocational training, no limit if disabled	Child benefit level is adjusted based on birth order of children. 1st child: €204 per month 2nd child: €204 per month 3rd child: €210 per month ≥ 4th child: €235 per month
11 Hungary	Universal, <18 years, 20 if in education, 23 if has special educational needs.	Child benefit level is adjusted based on: (1) the number of children under care, (2) parents' marital status. (3) children with disability, and (4) if children is under foster care. Benefit per month: 1 child in family: HUF12,200 (€34); 1 child, single parent: HUF13,700 (€38); 2 children in family: HUF13,300 (€37) per child; 2 children single parent: HUF14,800 (€41) per child; 3 or more children in family: HUF16,000 (€45) per child; 3 or more children, single parent: HUF17,000 (€48) per child; disabled child in family: HUF23,300 (€65); disabled child, single parent: HUF25,900 (€73); disabled child above 18 years of age: HUF20,300 (€57); child in foster home/at foster parent: HUF14,800 (€41).
12 Iceland	Universal, but benefit is income-adjusted, <17 years	Child benefit level is adjusted based on: (1) birth order of child, (2) parents' marital status, and (3) annual income. For married parents or cohabiting parents: First child: 234,500 ISK annually Second and subsequent child: 279,200 ISK annually For single parents: First child: 390,700 ISK annually Second and subsequent child: 400,800 ISK annually An additional 140,000 ISK is given for children under the age of 7. Benefit is reduced if income exceeds 8,424,000 ISK or couples and 4,212,000 ISK for single parents. The number of children in a household also affects the percentage of decrease.
13 Japan	Means-tested, Graduation of junior high school (~ 10 years)	Child benefit level is adjusted based on age and child's level of education: Under 3 years: 15,000 yen per month Each of the first two children aged 3 up to graduation from elementary school (~6 years old): 10,000 yen per month (15,000 yen for each subsequent child) Junior high school (~7 to 9 years): 10,000 yen a month. For persons who do not meet an income test, 5,000 yen a month is paid for each child up to graduation from junior high school.
14 Latvia	Universal, <16 years, 20 if continuing education in secondary or vocational school,18 if a child with disabilities	Child benefit level is adjusted based on order of child: First child: €11.38 per month Second child: twice as much Third child: thrice as much Fourth and subsequent child: 4.4 times the amount Additional supplement is given two families with two or more children and children with disability.
15 Lithuania	Universal, <18 years, 21 if studying under the general curriculum.	Child benefit is 1.54 BSB per month. An additional supplement is given for: low-income families raising and/or fostering one or two children whose income per person is less than 2 times the State supported income (EUR 250) families raising and/or fostering three or more children or disabled children
16 Luxembourg	Universal, <18 years, 25 if in education	Child benefit level is adjusted based on age of child: Under 6 years: €265 per month 6 to 11 years: €285 per month 12 years and above: €315 per month
17 Mongolia	Means-tested, <18 years	Benefit is means-tested, household must be in PMT Household Database and have a PMT livelihood score of below MNT 650. Child benefit is 20,000 MNT per month.
18 Netherlands	Universal, <18 years	Child benefit level is adjusted based on age of child: Up to 5 years: €224.87 per quarter 6 to 11 years: €273.05 per quarter 12 to 17 years: €321.24 per quarter Double benefit can be given to children not living at home due to studying or illness. Double benefit

Country	Description	Design of child benefit
		can also be given for children who needs intensive care. An additional supplement to the benefit is given based on parents' income and means, number of children and age of child.
19 Norway	Universal, <18 years	Child benefit is NOK 1,054 per month. Single parents and parents with small children (under 3 years) are eligible for additional supplements.
20 Poland	Means-tested UCT for first child, with lower eligibility threshold if child with disability. Universal for every second and subsequent child, <18 years	Benefit eligibility for first child depends on household income criteria (PLN 800 net). A benefit of PLN500 per month for every second and next child is given without additional conditions.
21 Portugal	Means-tested, <17 years. 18, 21 or 24 years if the child continues their studies or engages in vocational training. Extension of 3 years in case of sickness or accident certified by a medical professional. For children with disabilities, the limit is 24 years. 3 year extension for those in higher education.	Benefit is means-tested, for families reference income not exceeding 2.5 times the Social Support Index, IAS (*indexante dos apoios sociais*). There are five levels of reference income: First level: 0.5 times the IAS Second level: Between 0.5 and 1.0 times the IAS Third level: Between 1.0 and 1.5 times the IAS Fourth level: Between 1.5 and 2.5 times the IAS Fifth level: Over 2.5 times Child benefit is adjusted based on: (1) level of household reference income, (2) age of child, and (3) number of children. For example, the child benefit for a household with a reference income that is 1.0 times the IAS are as follows: Up to 3 years: € 97.31 3 to 6 years: € 32.44 Over 6 years: € 28.00 Additional supplement is given for second and subsequent child.
22 Romania	Universal, but benefit is income-adjusted <18 years	Child benefit level is adjusted based on: (1) age of child, (2) children with disability, and (3) family's average net income. Benefit level based on age of child: Below 2 years (3 years for child with disabilities): RON 311 (€64) per month 2 to 18 years (or until graduation age in case of secondary or post-secondary education): RON 156 (€32) per month 3 to 18 years for child with disabilities: RON 311 (€64) per month Benefit is further adjusted according to income thresholds using the Reference Social Indicator (RSI).
23 South Africa	Means-tested, <18 years	Benefit is income-tested, an annual income must be under 49,200 rand (for a single person) or 98,400 rand (for a couple). Child benefit is 410 rand per month.
24 Sweden	Universal, <17 years	Child benefit is SEK 1,250 per month for each child. Additional supplement is given for large families: Second child: SEK 150 Third child: SEK 730 Fourth child: SEK 1,740 Fifth child: SEK 2,990 Sixth child: SEK 4,240
25 UK	Universal, but benefit is income-adjusted, <17 years, 20 if still in education or training	Child benefit level is adjusted based on order of child: First child: £21.15 a week Second and subsequent child: £14.00 a week Families earning £50,000 or more before tax each year can claim the benefit, but will have to pay a 'Child Benefit tax charge'.

Source: ECB (2021), IMF (2021c), MISSOC (2021), SSA (n.d.-c), various national governments' websites, KRI calculations

APPENDIX B

ILO CONVENTIONS FOR UNEMPLOYMENT, INJURY PROTECTION AND MATERNITY PROTECTION

Table B.1: Main requirements in ILO social security standards on unemployment protection

	Minimum standards in Convention No. 102	Higher standards in Convention No. 168 and Recommendation No. 176	Basic protection in Recommendation No. 202
Issue covered	Suspension of earning due to unemployment, for capable and available person.	Loss of earning due to inability to find suitable employment for capable and available person actively seeking work. Should be extended to partial unemployment, suspension of work, and part-time workers. Include provision of guidance to assess suitability of potential job.	Basic income security for those unable to earn sufficient income in case of unemployment.
Beneficiaries	At least 50% employees or all residents with means under prescribed threshold.	At least 85% employees, including public sector and all apprentices; all residents under prescribed threshold. Coverage should be extended to persons seeking for work, but unrecognised or uncovered by unemployment protection scheme. Coverage extended to all employees and persons experiencing hardships during waiting period.	At least all residents of active age, subject to country's existing international obligations.
Type of benefit	Periodic payment, at least 45% of reference wage.	At least 50% of reference wage, or benefits level that guarantee healthy and reasonable living conditions for beneficiaries. For partial employment, benefit and sum of income from part-time work should reach the sum of previous full-time earning and amount of full unemployment benefit.	Benefits (cash and in-kind) that ensures are least basic income security, to secure access to necessary goods and services; prevents/alleviates poverty, vulnerability, and social exclusion, and allows a life in dignity.
Duration of benefit	Employee schemes, at least 13 weeks within 12 months. Means-tested (non-contributory) schemes, 26 weeks within 12 months. Possible waiting period of maximum 7 days.	Throughout unemployment period, possibility to limit initial duration of payment to 26 weeks in case of unemployment, or 39 weeks over any period of 24 months, possible waiting period of 7 days. Benefit duration should be extended until pensionable age for unemployed persons who have reached prescribed age.	As long as incapacity to earn sufficient income remains.
Conditions	May be prescribed to prevent abuse.	May be prescribed to prevent abuse, should be adapted, or waived for new jobseekers.	Should be defined at national level and prescribed by law, applying non-discrimination, responsiveness to special needs and social inclusion. Must ensure the rights and dignity of people.

Note: Convention No. 168 refers to Employment Promotion and Protection against Unemployment Convention, 1988. Recommendation No. 172 refers to Employment Promotion and Protection against Unemployment Recommendation, 1988.
Source: Adapted from ILO (2019), Table AIII.3

Table B.2: Main requirements in ILO social security standards on employment injury protection

	Minimum standards in Convention No. 102	Higher standards in Convention No. 121 and Recommendation No. 121	Basic protection in Recommendation No. 202
Issue covered	Ill health, incapacity to work due to work-related accident or disease leading to suspension of earnings, total loss of earning due to partial loss (prescribed degree), likely to be permanent, or corresponding loss of faculty, loss of support for family, in case of death of breadwinner.	Same as Convention No. 102.	At least basic income security for those who are unable to earn a sufficient income due to employment injury.
Beneficiaries	At least 50% of all employees and their wives and children.	All public and private sector employees, including members of cooperatives and apprentices. In case of death, spouse, children, and other dependents as prescribed. Recommend that coverage should be extended progressively to all categories of employees and other dependent family members.	At least all residents of active age, subject to country's existing international obligations.
Type of benefit	Medical benefits & allied benefits, with the view of maintaining, restoring, or improving health and ability to work and attend personal needs. Cash benefits, periodic payment of at least 50% of reference wag in cases of incapacity to work to work or invalidity, at least 40% of reference wage in case of death of breadwinners. Long-term benefits adjusted following general level of earnings and/or cost of living. Lump sum if incapacity is slight.	Same as Convention No. 102, including emergency and follow-up treatment. Cash payment is 60% of reference wages in case of incapacity to work, and 50% of reference wages in case of death of breadwinner. Lump sum payment is the same as Convention No. 102, with additional requirement of consent of injured persons. Recommend that cost of help or attendance is included, cash benefits not less than 66.7% of previous earning and adjustment to general level or earnings of cost of living. lump sum for incapacity degree less than 25% should bear an equitable relationship to periodic payments and not be less than periodic payments for three years.	Benefits (cash or in-kind) ensures a basic level of income security to secure effective access to necessary goods & services, prevents or alleviates poverty, poverty and social exclusion, and allow life in dignity. Levels should be regularly reviewed.
Duration of benefit	As long as person in need of health care or remains incapacitated. No waiting period except for temporary incapacity to work for maximum of three days.	As long as the person is in need of health or remains in capitated. Recommend cash benefits to be paid from first day in each case of suspension of earnings.	As long as incapacity to earn sufficient income remains.
Conditions	No qualifying period allowed. For dependents, benefit may be conditional on spice being presumed incapable of self-support and children remaining under prescribed age.	Same as Convention No. 102.	Should be defined at national level and prescribed by law, applying non-discrimination, responsiveness to special needs and social inclusion. Must ensure the rights and dignity of people.

Note: Convention No. 121 refers to Employment Injury Benefits Convention, 1964. Recommendation No. 121 refers to Employment Injury Benefits Recommendation, 1964.
Source: Adapted from ILO (2019), Table AIII.5

Table B.3: Main requirements in ILO social security standards on maternity protection

	Minimum standards in Convention No. 102	Higher standards in Convention No. 183 and Recommendation No. 191	Basic protection in Recommendation No. 202
Issue covered	Medical care required by pregnancy, confinement, and their consequences, resulting lost wages.	Medical care required by pregnancy, child birth and their consequences, resulting lost wages. Recommendation is the same as Convention No. 102.	Goods and services constituting essential maternity health care. At least basic income security for those unable to earn a sufficient income due to maternity.
Beneficiaries	At least 50% of women employees, or all women in active population (forming not less than 20% of all residents) or all women with means under prescribed threshold.	Include all employed women, including those with atypical dependent work. Recommendation is the same as Convention No. 102.	At least all women who are residents, subject to country's existing international obligations.
Type of benefit	Medical benefits (at least prenatal, confinement and post-natal care, hospitalization if necessary), cash benefits (periodic payment at least 45% of reference wage).	Medical benefits similar to Convention No. 102, with daily remunerated breaks or reduced hours for breastfeeding. Cash benefits at least 66.7% of previous earnings, should maintain mother and child in proper health condition and suitable standard of living. Recommended cash benefits to be raised to full amount of the woman's previous earnings.	Medical benefits should meet criteria of availability, accessibility, acceptability and quality, free prenatal and post-natal medical care should be considered for the most vulnerable. Benefits (cash or in-kind) ensures a basic level of income security to secure effective access to necessary goods & services, prevents or alleviates poverty, poverty, and social exclusion, and allow life in dignity. Levels should be regularly reviewed.
Duration of benefit	At least 12 weeks for cash benefits.	14 weeks maternity leave, including 6 weeks compulsory leave after childbirth, additional leave before and after maternity leave in case of illness, complications or risk of complications arising from pregnancy or childbirth. Recommend 18 weeks of paid maternity leave and extension in case of multiple births.	As long as the incapacity to earn a sufficient income remains.
Conditions	As considered necessary to preclude abuse.	Condition must be met by a large majority of women, those who do not meet conditions are entitled to social assistance.	Should be defined at national level and prescribed by law, applying non-discrimination, responsiveness to special needs and social inclusion. Must ensure the rights and dignity of people.

Note: Convention No. 183 refers to Maternity Protection Convention, 2000. Recommendation No. 191 refers to Maternity Protection Recommendation, 2000.
Source: Adapted from ILO (2019), Table AIII.7

APPENDIX C

SOCIAL INSURANCE SCHEMES FOR WORKING-AGE POPULATION IN MALAYSIA

Table C.1: Details of social insurance schemes in Malaysia

Risk	Injury (Act 4 & Act 789)	Invalidity (Act 4)	Unemployment (Act 800)
Scheme	Injury	Invalidity and survivors' pension	Employment insurance
Employment type	Employee (include part-time and apprentices) & self-employed	Employee (include part-time and apprentices)	Employee
Benefits	• Medical benefit. • Temporary disablement benefit, for medical leave not less than 4 days, 80% of employee daily wage (RM30-RM105.33 per day). • Permanent disablement benefit, 90% of employee daily wage (RM30-RM118.50 per day). If disability assessment is less than 20%, pay lump sum; otherwise get 1/5 of benefit in lump sum and the balance is paid monthly. • Constant attendance allowance, RM500 per month. • Rehabilitation facilities including physiotherapy, occupational therapy, reconstruction therapy, supply of prosthetics, orthotics and orthopaedics apparatus. Also include vocational rehabilitation facilities. • Dependent benefits in case of death. Widow gets 3/5 of the 90% daily wage of insured person who passed away (RM30 -RM118.50/day) for life, and child gets the remaining 2/5. • Funeral benefits if insured person pass away, up to RM2,000. • Education loan for dependent child of an insured person who passed away, at 2%.	• Invalidity pension, if fulfil full qualifying condition, 50% to 65% of average monthly wage (minimum RM475); if fulfil reduced qualifying condition, 50% of monthly wage (minimum RM475). • Invalidity grant if not eligible for invalidity pension, one-time lump sum payment equivalent to contribution paid by employee and employer, with interest. • Constant attendance allowance, RM500 per month. • Rehabilitation facilities (similar to Employment Injury and Disability scheme) and dialysis facilities from chronic renal failure. • Funeral benefits if insured person pass away, up to RM2,000. • Education loan for dependent child of a pension recipient person who passed away, at 2%.	• Job search allowance (JSA) as a replacement income for losing sole income source, for 3 to 6 months, based on last income (paid at staggered rates) and duration of contribution. • Reduced income allowance (RIA) as replacement income for losing multiple or all income source, 3 to 6 months, based on last income (paid lump sum). • Early re-employment allowance (ERA), incentive for JSA recipients to return to work, wroth 25% of JSA and paid lump sum. • Training fees coverage up to RM4,000 and training allowance of RM10-20 per day, depending on last income. • Various employment support services such as career counselling, one-on-one support, job search and matching and employability programmes.
Qualifying conditions	Injury caused by accident while doing one's job, commuting accident, accident during emergency and occupational disease.	Not attained 60 years when becomes invalid. If exceed 60 years old, need to provide additional evidence. Invalidity is certified by Medical Board of Appellate Medical Board. Full qualifying condition: Monthly contribution paid at least 24 months within 40 consecutive months prior to the month of the Invalidity notice, OR monthly contribution paid for not less than 2/3 of complete months between date when contribution first become payable and Invalidity notice. Reduced qualifying condition: Monthly contribution paid for not less than 1/3 of complete months between date when contribution first become payable and Invalidity notice, OR total number of monthly contributions must be at least 24 months.	Contribute 12 to 15 out of the 24 consecutive months prior to LOE, to access at least 3 months benefits. Must fulfil definition of LOE: • Normal retrenchment. • Voluntary/Mutual separation schemes. • Closure of workplace due to natural disasters. • Bankruptcy or closure of the business. • Constructive dismissal. • Resignation due to sexual harassment or threats made in the workplace. • Resignation after being ordered to perform dangerous duties that are not within the job scope. Does not cover: • Dismissal due to employee misconduct. • Voluntary resignation. • Retirement. • Expiry of a fixed-term contract or completion of a project.

Source: SOCSO (n.d.-b), SOCSO (n.d.-c), SOCSO (n.d.-e),

APPENDIX D

ESTIMATED INVESTMENT TO EXPAND SOCIAL INSURANCE SCHEMES

Currently, the employment injury scheme does not cover public sector employees and self-employed workers could participate in the employment injury scheme on a voluntarily basis. The employment insurance scheme does not cover both. The report recommends the expansion of both schemes to cover these workers. The estimated total increase of contributors and contributions are calculated in the table below.

Table D.1: Estimated investment to expand social insurance schemes, 2019

Risk	Employment-related injury & disability		Unemployment
Legislation	**Act 4 & Act 789**	**Act 4**	**Act 800**
Scheme	**Injury**	**Invalidity & survivors' pension**	**Employment insurance**
Extension to public sector			
Additional contributors	1,263,335 (based on 2019)		
Assumptions	Minimum: 1.25% of minimum wage, RM1,200 = RM15 per month Maximum: 1.25% of SOCSO wage limit RM4,000 = RM50 per month	Minimum: 1% of minimum wage, RM1,200 = RM12 per month Maximum: 1% of SOCSO wage limit RM4,000 = RM40 per month	Minimum: 0.4% of minimum wage, RM1,200 = RM4.80 per month Maximum: 0.4% of SOCSO wage limit RM4,000 = RM16 per month
Range of additional annual contribution (Additional contributor x monthly contribution x 12)	RM227 – RM758 million	RM182 – RM606 million	RM73 – RM243 million
Extension to all non-standard employment (including own account and unpaid family workers)			
Additional contributors	5,878,200 (based on 2019 estimate)		
Assumptions	Minimum: Minimum annual contribution of the Self-Employed Injury scheme, RM157.50 per year Maximum: Maximum annual contribution of the Self-Employed Injury scheme, RM592.50 per year	Minimum: 1% of minimum monthly insurable earning, RM1,050 = RM10.50 per month Maximum: 1% of maximum monthly insurable earning, RM3,950 = RM39.50 per month	Minimum: 0.4% of minimum monthly insurable earning, RM1,050 = RM4.20 per month Maximum: 0.4% of maximum monthly insurable earning, RM3,950 = RM15.80 per month
Range of additional annual contribution (Additional contributor x monthly contribution x 12)	RM926– RM3,483 million	RM741– RM2,787 million	RM296– RM1,115 million

Source: KRI calculations

APPENDIX E

INTERNATIONAL COMPARISON OF YOUTH JOB SEARCH ALLOWANCE

Table E.1: Youth job search allowance, selected country

Country	Target group	Details of the programme	Allowance rate
South Korea	Jobseekers under the age 34 years old. Implemented by local government in 2016 and central government in 2017.	Part of the Employment Success package. There are three stages to the programme: Individual action plan, vocational training, and actual job search.	USD270 per month, for three months. Minimum wage is estimated to be USD1,200 per month in South Korea (USD7.50 per hour x 40 hours x 4 weeks), so the allowance is **22.5% of monthly minimum wage.**
France	16 to 25 years olds who are not in education, employment or training (NEET).	Jobseekers sign a one-year contract to engage in activities like personal interviews, job-related group activities and training.	USD492.57 per month, for 12 months. Minimum wage is estimated to be USD1,773 per month or USD1,604 per month ($11.46 per hour x 35 hours x 4 weeks), so the allowance is between **27.8% and 30.7% of monthly minimum wage.**
United Kingdom	Part of the Jobseekers allowance programme that covers youth and adults. Allowance could be based on contribution into the National Insurance (for two years) and/or universal credit.	Recipient must consult Jobcentre Plus. Allowance rate is based on whether recipient receives contribution-based allowance or universal credit allowance and can last for up to for six months. The rate also depends on individual circumstances (age, marital status, if recipient have dependents, income, etc.).	Jobseekers under 24 years old can get up to USD336 per month ($84 per week x 4 weeks). Minimum wage is estimated to range between USD960 per month ($6 per hour x 40 hours x 4 weeks) and USD1,920 per month (($12 per hour x 40 hours x 4 weeks), so the allowance for young jobseekers is between **34% and 43% of monthly minimum wage.**
Australia	Jobseekers between 16 and 21, if they are looking for work or temporarily unable to work.	Recipient must meet all job-seeking obligations. Rate depends on individual situation (family income, if recipient have dependents, etc.).	Single and no-child job seeker can get USD966 per month (USD483 per fortnight x 2 fortnights). This is the minimum rate. Minimum wage in Australia varies, but for workers not covered by award and age 21 and older, it is USD2,140 per month ($535 per week x 4 weeks) or USD2,335 per month ($15.36 per hour x 38 hours x 4 weeks), so the job search allowance is at minimum **45% and 62% of monthly minimum wage.**

Source: Adapted from Cho and Lee (2020)

APPENDIX F

INTERNATIONAL COMPARISON OF MATERNITY GRANTS

The following describes maternity grants in selected countries, obtained from the notes provided in Table B.5: Key features of main social security programmes for mothers and newborns, in the ILO World Social Protection Report, published in 2019. Maternity grant might be complementary to maternity benefits provided by social insurance scheme or targeted to non-insured mothers. To assess the maternity grant, we compare them with monthly minimum wages for the country (lowest value, if there are multiple values), based on ILOSTAT. All values are in country's local currency.

Table F.1: Rate of maternity grants, by selected country

Country	Currency	Grant (local currency)	Minimum wage (local currency)	Grant per minimum wage (%)	Contribution to social security requirement	Other notes
Albania	ALL	13,000	26,000	50.0	Either parent with at least one year of contribution	Paid lump sum
Argentina	ARS	975	16,875	5.8	Information n.a.	Means-tested and paid lump sum
Armenia	AMD	126,665	55,000	230.3	Non-contributory	For unemployed mothers
Azerbaijan	AZN	99	250	39.6	Non-contributory	Paid lump sum
Bahamas	BSD	465	840	55.4	Information n.a.	Paid lump sum
Barbados	BBD	1,150	1,000	115.0	No information on contribution requirement, but applicable for women ineligible for maternity benefits	Paid lump sum. Minimum wages calculated from weekly minimum wages times 4
Belarus	BYN	283	400	70.8	Non-contributory, for students and unemployed women	For students (based on education grant when on leave from employment) and unemployed mothers (based on unemployment benefit, between 27 BYN and 54 BYN). Additional prenatal care grant worth the average subsistence income level (BYN 256 in 2020). Minimum wage based on Wage Indicator
Belize	BZD	300	594	50.5	Contribution to social insurance or partner is a contributor	Minimum wage is estimated from hourly rate
Bulgaria	BGN	400	560	71.4	Non-contributory birth grant for all residents, means-tested pregnancy grant for uninsured women	
Cyprus	Euro	544.80	870	62.5	Contributory maternity grant paid in lump-sum for insured women or non-working wife of an insured man	
Germany	Euro	210	1,557	13.5	For women who are not fund members, paid by federal states	

Country	Currency	Grant (local currency)	Minimum wage (local currency)	Grant per minimum wage (%)	Contribution to social security requirement	Other notes
India	INR	600	17	340.9	Based on area, to needy women aged 19 or older and give birth in government facility	The rate is between INR600 and INR1,400
Isle of Man	IMP	500	1,544	34.4	Information n.a.	
Jersey	JEP	599.97	1,224.71	49.0	Information n.a.	
Libya	LYD	25	450	5.6	Social insurance programme (for employees and self-employed)	Birth grant paid in addition to maternity benefits
Liechtenstein	CHF	500	No minimum wage	n.a.	Women who are ineligible for maternity benefit receive maternity allowance	Maternity allowance is between CHF500 and 4,500, depending on taxable income
Lithuania	EUR	250.77	555	45	Pregnancy grant for unemployed women who are not entitled to maternity benefits.	
Nepal	NPR	7,500	13,450	56	Workers covered by the provident fund	
Norway	NOK	44,190	No minimum wage	n.a.	Maternity grant if insured person does not receive maternity benefits	**Minimum wage is set to by industry
Russia	RUB	15,512	11,163	139	Information n.a.	
Thailand	THB	13,000	9,390	138	Childbirth grant to formal sector workers	
Turkmenistan	TMT	341.6	790	40	Information n.a.	Grant is between TMT314.6 and TMT1,210
UK	GBP	500	1,221	41	For first time mothers	
Vietnam	VND	5,840,000	2,920,000	200	Information n.a.	Lowest minimum wage

Source: Adapted from ILO (2019)

APPENDIX G

ESTIMATED INVESTMENT TO EXPAND SOCIAL PROTECTION FOR THE WORKING-AGE POPULATION

Inclusion of non-standard workers and caretakers in existing social security scheme

The total contribution rates for social insurance scheme are 2.65%; 1.25% for the employment injury scheme, 1% for the invalidity pension scheme and 0.4% for the employment insurance scheme. Following the insured monthly earnings in the self-employed injury scheme, the annual contribution of each scheme is as follows:

Table G.1: Annual contribution of social insurance schemes, by insurable earning and scheme

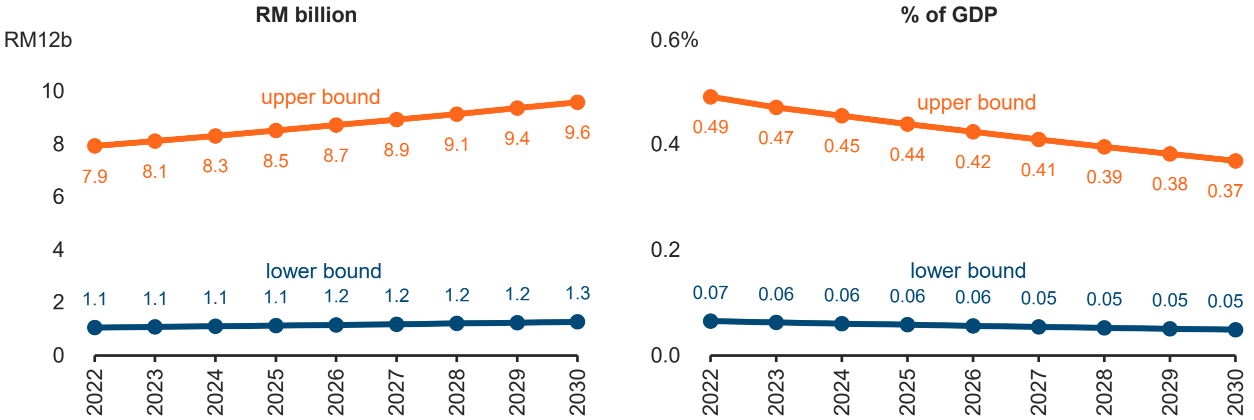
Insurable earnings, RM	Annual contribution (monthly contribution x 12), RM			
	Injury, 1.25%	Invalidity & survivors' pension, 1%	Employment insurance, 0.4%	Total, 2.65%
RM1,050	RM157.50	126.00	50.40	**333.90**
1,550	232.50	186.00	74.40	**492.90**
2,950	442.50	354.00	141.60	**938.10**
3,950	592.50	474.00	189.60	**1,256.10**

Source: SOCSO (n.d.-f), KRI calculations

The proposal includes partial or full coverage of the total annual contribution by the government for non-standard workers. The growth of non-standard workers is assumed to be 2.4% per year, based on their annual growth rates between 2010 and 2019. Level of premium and contribution is assumed to remain the same.

The lower bound is partial coverage of the lowest insurable earning (RM167 per person) while the higher bound is the full coverage of the highest insurable earning (RM1,256 per person). Workers choose the different contribution levels (based on their actual earnings). There might be and incentive to misreport earnings, so the social security system should ideally implement better ways to monitor income of contributors. The estimated investment between 2022 and 2030 is as follows:

Figure G.1: Estimated investment to cover non-standard workers in all social insurance schemes, by bound, 2022 – 2030

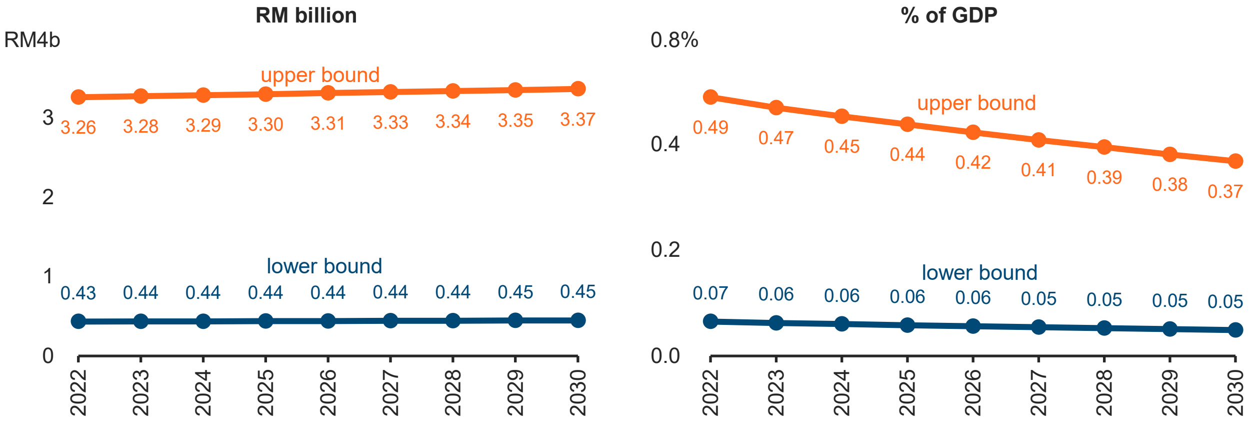


Note: GDP estimates in nominal terms, as reported by the IMF and based on KRI calculations
Source: IMF (2021) and KRI calculations

The proposal also included partial or full coverage of the total annual contribution by the government for caretakers, defined as individuals outside the workforce due to care responsibilities. Total caretakes are assumed to grow 0.4% per year, based on their annual growth rate between 2010 and 2019.

A key challenge is the absence of wages for their unpaid care work and an appropriate contribution and eventual benefits level should be set. As they are not earning monetary income, inclusion into the employment insurance scheme might be challenging because the scheme requires affected individuals to show loss of income. Nonetheless, they could still be covered by the injury and invalidity scheme because care work could be a risky economic activity and the scheme could at least provide income replacement and other benefits if the caretaker is injured or becomes invalid. For convenience, we also assume the same rage of assumed wages in the self-employment injury scheme. The estimated investment between 2022 and 2030 is as follows:

Figure G.2: Estimated investment to cover persons outside the workforce due to care responsibilities in injury and invalidity schemes, by bound, 2022 – 2030



Note: GDP estimates in nominal terms, as reported by the IMF and based on KRI calculations
Source: IMF (2021), KRI calculations

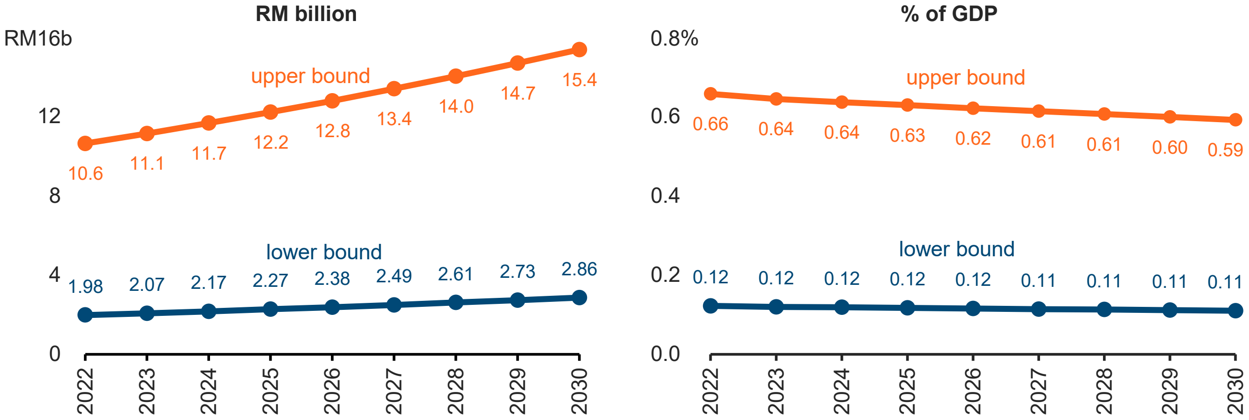
Job search allowance for jobseekers

JSA is available for insured persons in the employment insurance scheme who experience LOE. Not all unemployed persons are qualified to receive the scheme's benefits, either because they are non-contributors yet (especially young jobseekers) or if they do not report their LOEs or do not meet LOE criteria (e.g. voluntary unemployment). Similar to the provision of allowance under the insurance scheme, benefits of the proposed tax-funded JSA last up to six months. The programme could also consider staggered payment to incentivise workers to take jobs (e.g. 100% benefits in first month, 80% of benefits in second month, ...) but we worry that this might reduce the level of benefit to a level that might not even cover poverty line. The calculations made in this chapter is based on PLI per capita of RM600 per month, minimum wages of RM1,200 per month and average wages of RM3,224 per month. Benefits are indexed to inflation, to consider rising living costs.

We assume that total labour force grows by 2.7% year, based on their annual growth rate between 2010 and 2019. Assuming an unemployment rate of 3.5%, as projected by the World Bank for 2022 onwards[318], we are able to estimate total unemployed persons. Between 2010 and 2019, reported retrenchment averaged 6.8% of estimated unemployment, and these individuals could receive the benefits from the scheme. Residual unemployed persons (93% of estimated unemployment) are the beneficiaries of the tax-funded job search allowance. The estimated range of investments between 2022 and 2030 are as follows in Figure G.3.

[318] World Bank (2021b)

Figure G.3: Estimated investment for tax-funded JSA, by bound, 2022-2030



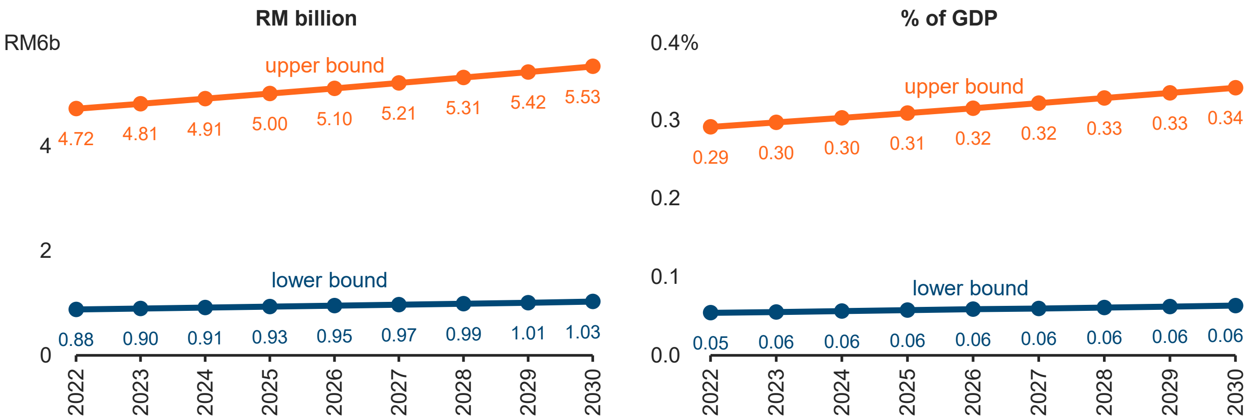
Note: GDP estimates in nominal terms, as reported by the IMF and based on KRI calculations
Source: IMF (2021) and KRI calculations

Maternity cash grant for all mothers of newborn

Social security insurance to guarantee basic income for expecting mothers would still exclude women who are unemployed or not economically active (outside the workforce) as they are not earning income. Some women might also be working for non-complying employers.

The maternity cash grant targets to provide a universal and basic income security entitled to all women in the population who gives birth. This could complement the provision of UCB proposed in Chapter 3. The grant is set to be at minimum RM1,800 (PLI per capita, RM600 x 3 months) and at maximum RM9,672 (average wages, RM3,224 x 3 months). Benefits are indexed to inflation, to consider rising living costs. As we envisioned the grant to be distributed via SOCSO, women are also within the reach of policymakers to distribute other support (for example, upskilling initiatives). Total live births are expected to decline at 0.07%, based on the annual growth rate of live births between 2010 and 2019. The estimated range of investment for maternity cash grants between 2022 and 2030 is as follows:

Figure G.4: Estimated investment for maternity grant, by bound, 2022-2030



Note: GDP estimates in nominal terms, as reported by the IMF and based on KRI calculations
Source: IMF (2021) and KRI calculations

APPENDIX H

INTERNATIONAL CONVENTIONS FOR OLD-AGE INCOME SECURITY

Except for the Universal Declaration of Human Rights, Malaysia is neither a signatory of the International Covenant on Economic, Social and Cultural Rights (ICESCR) nor has it ratified key International Labour Organisation's old-age conventions listed below. While ratifications signal a stronger commitment internationally, non-ratification of ILO's Convention No. 102 and No. 128 has not stopped countries including Malaysia from providing relevant schemes. Other examples include Singapore, New Zealand, Brunei and Thailand[319].

Table H.1: International frameworks advocating old-age income security

Document	Description
Universal Declaration of Human Rights, 1948	Article 22: "Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality." Article 25: (1) "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control."
International Covenant on Economic, Social and Cultural Rights (ICESCR), 1966	Article 9: "The States Parties to the present Covenant recognize the right of everyone to social security, including social insurance."
ILO's Social Security (Minimum Standards) Convention, 1952 (No. 102)	Minimum standards for benefits for old age, disability, survivor, sickness, maternity, medical care, unemployment, employment injury, and family.
ILO's Invalidity, Old-Age, and Survivors' Benefits Convention, 1967 (No. 128)	Requirement for country members to provide income security protection through the provision of invalidity benefit, old-age benefit, and survivor's benefit.
ILO's Social Protection Floors Recommendation, 2012 (No. 202)	Introduced post the 2008 financial crisis, it includes guidance in providing all members of society a basic level of social protection throughout their lives to mitigate the adverse impact of unanticipated crises and anticipated risks.

Source: KRI compilation

[319] For a full and updated list, visit ILO's NORMLEX

APPENDIX I

INCOME SECURITY PROGRAMMES IN MALAYSIA

Table I.1: Key features of main income security programmes in Malaysia

Agency & legislation	Coverage	No. of members & beneficiaries	Contribution rates[320]	Incentives
Risk: Old age				
Scheme: Retirement savings plan				
EPF Employees Provident Fund Act 1991[321]	Mandatory Private sector employees Non-pensionable public sector employees Voluntary i-Saraan: non-employees i-Suri: housewives Employees (additional self-contribution)	Total members[322] 14,587,811 (2019) Total active members[323] 7,626,262 (2019) Total employers 522,297 Total registered i-Suri 81,511 (2019) Total registered i-Saraan 120,738 (2019)	Mandatory Employee 9% for below the age of 60 0% for above 60 Employer 13% for a monthly salary below RM5,000 12% for a monthly salary above RM5,000 Voluntary Min: No limit Max: RM60,000 annually	Contributions are tax deductible (up to RM4,000 per year) i-Saraan (self-employed) 15% government contribution (a maximum of RM250 per annum) for members aged below 55 years old. Effective 2018 until 2022 i-Suri (housewives) Receive government contribution of RM480 per annum
LTAT Tabung Angkatan Tentera Act 1973	Mandatory: The serving members of the other ranks in the Armed Forces Voluntary: Officers in the Armed Forces including commissioned officers and mobilized members of the volunteer forces	Information not publicly available but total armed forces can be a proxy for LTAT contributors, reported to be 152,957 (2019)[324] 136,000 (2018)[325]	Mandatory Employee: 10% Employer (the government): 15% Voluntary Min: RM25 (at a multiple of RM5) Max: RM2,000	Contributions are tax-deductible (up to RM4,000 per year)
PRS Capital Markets and Services Act 2007	Open to all	Number of accounts 455 thousand (2019)[326]	Varies based on the scheme	Individual: tax relief of up to RM3,000 until the assessment year 2025 Employers: tax exemption for contributions for up to 19% of an employee's base salary

320 All presented rates apply to Malaysian citizen. EPF and SOCSO have different rates for non-citizens.

321 The EPF was founded in 1949, eight years before the independence, and became a statutory body under the Employees Provident Fund Ordinance in 1951. This EPF Ordinance 1951 later replaced by the EPF Act 1951 in 1982 and finally the EPF Act 1991.

322 Includes private sector employees, non-pensionable public sector employees and voluntary contributors

323 Refers to those who made at least one contribution in the reported year

324 NST (2019)

325 World Bank via CEIC (n.d.)

326 SC (2019)

Agency & legislation	Coverage	No. of members & beneficiaries	Contribution rates[320]	Incentives
Scheme: Public pension plan				
KWAP Retirement Fund Act 2007(Act 662)	Pensionable employees of statutory bodies (SB), local authorities (LA), and agencies (AG)	Total contributing members[327] 178,797 (2020) 187,684 (2019)	Employee: Nil Employer: 17.5%	
JPA Article 147 of the Constitution	Pensionable government staff	Information not publicly available but civil service (including armed forces) can be used as a proxy Total number of posts[328] 1.711 million (2019) 1.715 million (2018) Total individuals filling those posts: 1.582 million (2019) 1.589 million (2018)	Nil Tax-funded	
	Pensioners	Total pensioners[329] 493,898 (2017) Total pension & gratuities expenditure[330] RM22.80 billion (2017) RM28.0 billion (2020)		
Scheme: Monetary assistance for older individuals				
JKM National Policy for Older Persons, 2011	Older persons aged 60 living below the poverty line, not working with no family	Total recipients[331] 134, 461 (2018) Total expenditure RM 554.2 million (2018)	Nil Tax-funded	

[327] KWAP (n.d.) KWAP (n.d.)
[328] Data requested from JPA (2020) on total civil servants as of December 2019
[329]Rabi et al. (2019). Total pensioners and derivative pensioners reported to be 834,000 in 2019. Source: The Edge (2019b)
[330] BNM via CEIC. Total pension and gratuities expenditure reported to reach RM 28 billion in 2020.
[331] JKM (various years) JKM (various years)

Agency & legislation	Coverage	No. of members & beneficiaries	Contribution rates[320]	Incentives
Risk: Disability				
Scheme: Employment Injury Scheme (EIS) and Invalidity Scheme (IS)				
SOCSO Employee's Social Security Act 1969 (Act 4)	Employees	Total registered members[332] 17,580,000 (2020) Total active contributors 7,114,690 (2020)	Mandatory Employee: 0.00% (EIS) + 0.5% (IS) Employer: 1.25% (EIS) + 0.5% (IS)	Contributions are tax-deductible (up to RM250 per year)
	Benefit recipients	Total benefit recipients[333] Temporary disablement benefit 61,377 (2020) Permanent disablement benefit 41,731 (2020) Invalidity pension and grant 74,725 (2020) Total expenditure Temporary disablement benefit RM217.7 million (2020) Permanent disablement benefit RM518.4 million (2020) Invalidity pension and grant RM925.1 million (2020)		
Scheme: Ex-Gratia Bencana Kerja				
MOF	Federal and judicial civil officers		Nil (Tax-funded)	
Scheme: Disablement Benefits Scheme				
LTAT See above		Total beneficiaries[334] 60 (2018) Total expenditure RM3.0 million (2018)	No additional contribution	
Scheme: Monetary assistance for persons with disabilities				
JKM Persons with Disabilities Act 2008 (Act 685)	Person with disabilities (PWD)	Total registered PWD 581,265 (2020)[335]	Nil (Tax-funded)	

[332] Data requested from SOSCO on total recipients and budget for pension-related schemes
[333] Data requested from SOSCO on total recipients and budget for pension-related schemes
[334] LTAT (2019)
[335] PMO (2020)

Agency & legislation	Coverage	No. of members & beneficiaries	Contribution rates[320]	Incentives
Risk: Loss of breadwinner				
Scheme: Survivors' Pension				
SOCSO See above	Eligible dependents of insured persons	Total benefit recipients[336] Dependants' benefit 46,490 (2020) Survivors' pension 320,520 (2020) Total expenditure Dependants' benefit RM344.0 million (2020) Survivors' pension RM1,630.9 million (2018)	No additional contribution	
Scheme: Derivative Pension				
JPA/KWAP See above	Eligible dependents of pensioners or the civil servants	Total derivate pensioners 178,049 (2017)[337] Total pension & gratuities expenditure[338] RM22.80 billion (2017)	Nil Tax-funded	
Scheme: Death Benefits Scheme				
LTAT See above	Eligible dependents of contributors	Total beneficiaries[339] 115 (2018) Total expenditure RM3.8 million (2018)	No additional contribution	

Note: EPF (Employees Provident Fund); LTAT(*Lembaga Tabung Angkatan Tentera* is a government statutory body providing retirement savings scheme for officers and members of other ranks of the Malaysian Armed Forces and the volunteer forces); PRS (Private Retirement Scheme); JPA (Jabatan Perkhidmatan Awam is the Public Service Department); KWAP (*Kumpulan Wang Persaraan* is Malaysia's civil service pension fund); JKM (*Jabatan Kebajikan Masyarakat* is the Department of Social Welfare); MOF (Ministry of Finance) and SOCSO (Social Security Organisation)
Source: KRI compilation based on multiple sources

[336] Data requested from SOSCO on total recipients and budget for pension-related schemes
[337] Rabi et al. (2019)
[338] Total pension and gratuities expenditure reported to reach RM28 billion in 2020. Source: BNM via CEIC (n.d.)
[339] LTAT (2019)

APPENDIX J

STIMULATED HYPOTHETICAL EPF RETIREMENT SAVINGS

In the absence of longitudinal data, we stimulate hypothetical members to calculate the expected accumulated EPF savings of individuals with different characteristics and circumstances[340]. 576 hypothetical members were created from 192 profiles[341] with three life trajectories (steady employment income; steady employment income with pre-retirement withdrawals; and disrupted employment income with pre-retirement withdrawals). Key features of the profiles are outlined in Table J.1.

For simplicity, we only use the Third Contribution Schedule, released for January 2019 to March 2020, to calculate monthly contributions. Following the Schedule, different contribution rates are applied for different wages (above and below RM5,000) and age (below and above the age of 60). All account holders are citizens, entering the labour force for the first time in 2018. They are assumed to experience a linear wage growth of 5% per the compounded annual growth rate of salaries and wages for 2010 to 2019. Pay rise and bonus considerations are excluded. A constant 5% dividend rate was applied, informed by the most commonly reported EPF dividend rate (mode).

These 576 hypothetical accounts are then placed in four different scenarios: the first to simulate the status quo; the second to deepen employers' contribution for low wage earners (progressive contribution); the third to apply a higher dividend rate to members with lower savings (progressive dividend); and the fourth to forecast the savings impact for a longer working period (higher minimum retirement age). For progressive dividends, simple tiered dividends were used (Table J.2). The savings thresholds and the tiered dividend rates were modified based on the reported savings distribution, the total dividend payout, and the flat dividend rate.

Individual accumulated savings from each account is then benchmarked against the (inflation adjusted) EPF Savings Target, the ILO's pension floor and the ILO's minimum replacement ratio of the last drawn salary. The individuals' results are finally aggregated for each policy scenario for ease of comparison. The final aggregated results are as captured in Figure 5.9.

[340] See Mazlynda Md Yusuf (2012)

[341] This is a sum of 12 variations of lifetime employment; 72 variations of career transition from an employee to a self-employed; 72 variations of career transition from a self-employed to an employee; and 36 variations of self-employment. Variations are based on frequency of EPF contributions (monthly, annually, or dormant) and gender differences in EPF contributions (e.g., women leaving the labour force because of care work).

Table J.1: Key characteristics of hypothetical members, by scenario

Skill level	Fourth	Third	Second	First
Highest qualification *Based on the Malaysia Standard Classification of Occupations*	Honours/ professional degree	Degree	Diploma	SPM
Starting salary (RM) *Based on the 2018 average salaries and wages by occupation in the Salaries & Wages Survey Report by the DOS.*	3,500	2,000	1,500	1,000
Birth year	1995	1996	1997	2000
Start working year	2018	2018	2018	2018
Retirement year (men)	2058	2058	2058	2058
Retirement year (women) *Women are assumed to retire five years earlier than men. This is based on the general pattern of women's labour participation rates reported in the Labour Force Survey Report by the DOS*	2053	2053	2053	2053
Graduated age *Graduated ages for diploma and above are based on the Graduate Tracer Report by the MOHR*	22	21	20	17
Started working age	23	22	21	18
Total working period *Source: Piggott and Sane (2009)*	40	40	40	40
Retirement age (men) *The retirement age for both men and women differs based on the starting working age.*	63	62	61	58
Retirement age (women)	58	57	56	53
Retirement period (men) *The retirement period for both men and women is calculated by deducting the total life expectancy of individuals aged 20 (sourced from the Abridged Life Tables produced by the DOS) with the estimated retirement age.*	14	14	14	14
Retirement period (women)	23	23	23	23

Source: KRI estimates

Table J.2: Tiered dividend rates, by savings range

Savings range (RM)	Tiered dividend rate (%)
RM1 – 200,000	**6.0%**
2000,001 – 300,000	**5.5**
300,001 – 500,000	**5.0**
500,001 – 800,000	**4.5**
800,001 – 1,000,000	**4.0**
>1,000,000	**3.0**

Source: KRI estimates

APPENDIX K

FORECASTED NOMINAL GROSS DOMESTIC PRODUCT

Forecasted nominal GDPs used in this section are as follow:

- The GDP forecasted figures for 2020 to 2023 are computed based on forecasted GDP growth from World Bank (2021).
- From 2024 to 2039 GDP figures are based on a 6% nominal GDP growth, following the 6.8% forecasted nominal growth (assuming 2% inflation rate) by the World Bank for 2023.
- From 2030 onwards, GDP figures are estimated using forecasted population data and averages of historical annual growth of labour productivity and inflation rate (1960 – 2020).

The framework used is based on a simple growth model where the GDP is proportional to the size of its working-age population (WAP) and its workers' productivity (LP). Note that this simple framework does not capture all considerations and risks related to future growth.

The GDP projections here only serve to illustrate the projected required investment as a share of GDP given the expected shrinking working-age population. It assumes that the labour productivity growth rate (p) and inflation rate to remain constant over the projection period. For a summary of the limitations to this simple growth model, see Hubbard and Sharma (2016).

The GDP growth rate forecasts (g) are simplified based on the following logic:

If:

$$GDP = Labour\ producity\ \times\ working\ age\ population \text{ or}$$

$$GDP = \frac{GDP}{WAP} \times WAP$$

at $n + 1$

$$\begin{aligned} GDP_n * GDP\ growth_{n+1} &\approx (Labour\ productivity_n * LP\ growth_{n+1}) \\ &\times (Working\ age\ population_n * WAP\ growth_{n+1}) \end{aligned}$$

$$\text{GDP}* (1 + g) \approx LP\ (1 + p) \times WAP\ (1 + l)$$

Therefore

$$(1 + g) \approx LP\ (1 + p) * WAP\ (1 + l)$$

where:

g GDP growth

p Labour productivity growth

l Working age population growth

APPENDIX L

PREMIUM CALCULATIONS FOR LIFE ANNUITY

This appendix includes principal elements of actuarial mathematics used for premium calculations. Unless otherwise stated, all formulas are derived from Jordan (1991).

A life annuity provides a regular income after a certain age until a person dies. It disburses periodic benefit payouts as long as an individual or annuitant is alive. Individuals secure this life annuity by paying premiums. Two key pieces of information are required to calculate the premium. One, what is the present value of pre-determined future benefits? Two, what are the expected survival rates of the individual?

The next step is to apply an actuarial formula as different types of life annuity require different actuarial formulas. The formula is therefore selected based on the key features captured in Table L.1. These features are prioritised to minimise the cost of the premium as much as possible. Note that a unisex rate is computed by averaging the q_x or the mortality rate of male and female from M9903.

Table L.1: Key features of the proposed annuity

Feature	Description
Monthly payout	Annuity (benefit payout) is received monthly.
Unisex rate	Annuity and premium are the same for both men and women.
Annuity due	Annuity is received at the beginning of each month.
Deferred annuity	Annuity starts after a specified period.
Lifetime annuity	Annuity continues for an entire life. It ends when the annuitant dies.
Single life annuity	Annuity is not transferable to dependent or nominee.
Increasing annuity	Annuity increases at a fixed rate annually to account for inflation.
No return of purchased premium	No money is given when the annuitant dies.

Note: Annuity = benefit payout
Source: KRI illustration

Considering the above, the formula to compute the premium for the increasing deferred life annuity is:

$$_{n}|(I\ddot{a})_x^{(m)} = \left[\left[\left[\ddot{a}_{x+n} - \left(\frac{m-1}{2m}\right)\right] + (I\ddot{a})_{x+n}\right] \cdot {}_{n}E_{\,x}\right] \times \left[\frac{1}{12(x+n)}\right]$$

where:

- $\ddot{a}_x$ Net single premium for whole life annuity due (beginning of each year) with annual benefit of RM 1 per year, upon survival of (x)
- $I\ddot{a}_x$ Increasing whole life annuity (regularly increasing whole life annuity with no terminating age).
- m Frequency of annuity received per year.
- x Starting age of the first premium payment.
- $_{n|}$ Deferred year, where series of annuity (benefit payout) is received after n years.
- $({}_nE_x)$ Present value of benefit to be made at $x+n$ only in event that (x) survives to receive it.

Survival data e.g. N_x or D_x needed for the formula is derived from a life table.

Life table

A life table (or a mortality table or an actuarial table) computes survival data needed to price the premium. For our purposes, information from the life table encapsulates two things. One, the potential years of premium payments made by individuals. Two, the potential years of the annuity (benefit payouts) received by individuals. The information is therefore critical to ensure the collection of premium payments will be able to sustain annuity disbursement.

For Malaysia, the latest available mortality rates from M9903 are used. This is published by the Life Insurance Association Malaysia in 2007. M9903 consists of mortality experiences of insured lives data from 1999 to 2003. From the mortality rates, the rest of the life table is constructed to compute the survival data using the following formulas.

Table L.2: Definition and formula of life table functions

Symbol	Definition	Formula
q_x	The probability that a person dying between ages x and $x+n$.	$q_x = \frac{d_x}{l_x}$
p_x	The probability of a person surviving between ages x and $x+n$.	$p_x = \frac{l_{x+1}}{l_x}$
l_x	The number of persons surviving at age x.	A hypothetical number. 10,000,000 is used at the age of 5
l_{x+1}	The number of persons surviving relative to an original cohort, at age x.	$l_{x+1} = l_x - d_x$
d_x	The number of deaths between ages x and $x+1$.	$d_x = l_x - l_{x+1}$
i	The assumed annual rate of interest.	Set at 3%, 4% and 5%
v	The present value of an annuity payment of RM1 due in one year.	$v = \frac{1}{1+i}$
D_x	Discounted dollar or amount now to pay for number of survivors at age x.	$D_x = l_x . v_x$
D_{x+n}	Discounted dollar or amount now to pay for number of survivors at age $x+n$.	$D_{x+n} = l_{x+n} . v_{x+n}$
N_x	Summation of discounted number of survivors.	$N_x = \sum D_x$
S_x	Summation of Nx.	$S_x = \sum N_x$
$({}_nE_x)$	Present value of the benefit to be made at $x+n$ only in event that (x) survives to receive it.	$({}_nE_x) = v_n . ({}_nP_x) @ \frac{D_{x+n}}{D_x} @ \frac{v^n . l_{x+n}}{l_x}$

Source: Adapted from SSA (n.d.-a)

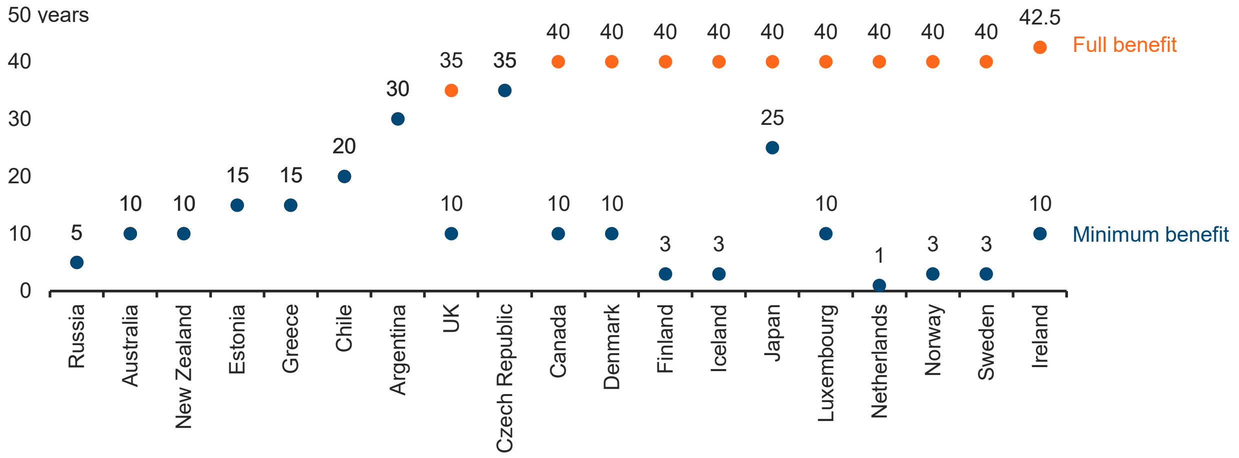
The monthly premium is calculated at various ages by imputing age-specific survival information from the life table into the actuarial formula described in the previous section. Different premiums are also calculated by changing the following variables.

Table L.3: Input variables

Variable	Definition	Range
x	Starting age paying for the premium	Varies based on a minimum premium contribution. The range is selected based on the international minimum pension contribution. (Figure L.1)
n	Length of premium accumulations (years)	Varies based on a starting contributing age and an annuity eligibility age. Selection is informed by international pensionable age for social insurance programmes and increasing life expectancy. (Figure L.2)
i	The assumed annual rate of interest	The range is selected based on the historical annual dividend rate reported by local statuaries bodies. (Table L.4 and Figure L.3)
$I\ddot{a}$	Increasing annuity	The annual increase in annuity depends on when the annuity begins (year). With different eligibility years, premiums for entrants joining in the future are computed for future cost projections. Year premium is first paid: 2020, 2025 and 2030

Source: KRI illustration

Figure L.1: Minimum contribution/residency years required for basic pensions, by type of benefit



Source: OECD (2015)

Figure L.2: Pensionable age for social insurance programmes, selected country

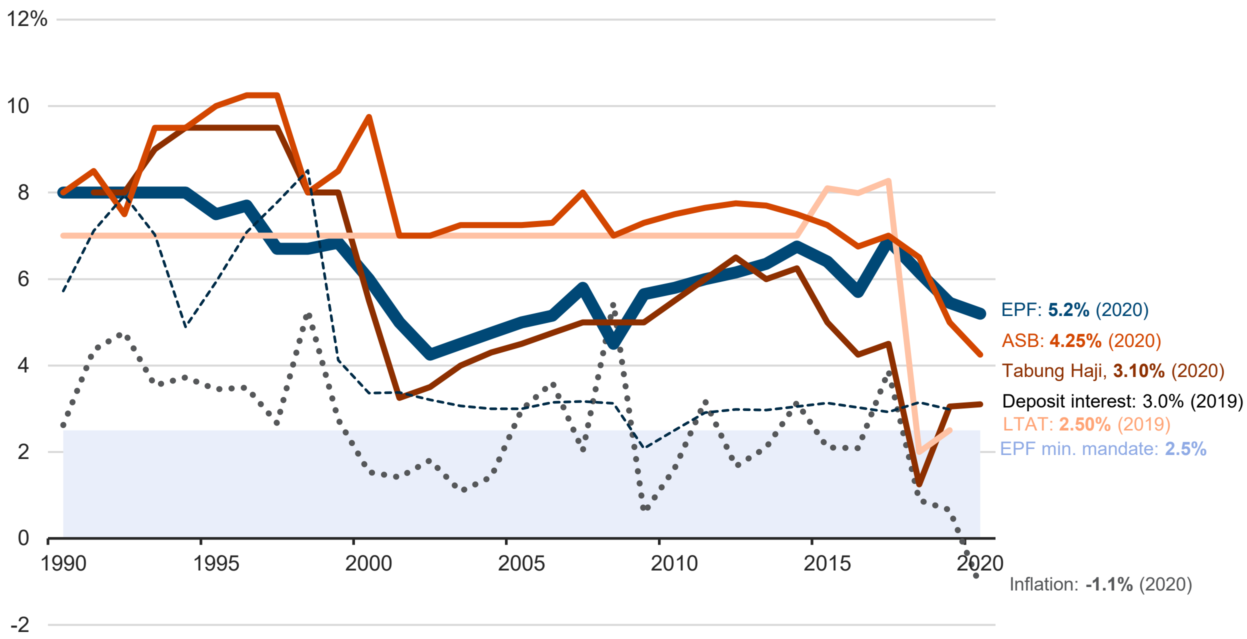
Note: Upper range is taken for countries with age differentiation by gender, occupation, sector or location. Based on countries with available data
Source: ILO (2017b)

Table L.4: Average annual dividend rate by different fund and inflation rate, earliest and latest available year

	Inflation rate (1960 – 2020)	EPF (1960 – 2020)	Tabung Haji (1991 – 2020)	LTAT (1973 – 2019)	ASB (1990 – 2020)	Deposit (1966 – 2019)
Mean	2.9%	6.4	5.8	7.1	7.7	5.0
Median	2.6	6.2	5.3	7.0	7.5	5.0

Source: KRI calculations based on various sources

Figure L.3: Annual dividend rate, by different fund and inflation rate, 1990 - 2020



Note: Annual rate displayed for EPF except for 1990 to 1994 (average of 1988 to 1994) and 1997 to 1998 (average of 1997 to 1998)
Source: KRI data compilation from various sources

The outcomes of these different scenarios are illustrated below. A "low" scenario of low expected investment return (interest rates), early eligibility age (benefits start at 60) and shorter contribution period (age group of 20 to 59, whereby those aged 59 contribute only for a year) increase the monthly premium that needs to be paid. In reverse, a "strong" scenario of high investment return, later eligibility age (benefits start at 65) and longer contribution period would lower the premium cost.

Table L.5: Monthly premium for different scenarios (RM), by launch year, eligibility age, interest rate and age group

Launch year	2020							
Eligibility age	60				65			
Interest rate		3%	4%	5%		3%	4%	5%
Age group	20 to 24	83	52	33	20 to 24	52	31	19
	20 to 29	96	62	40	20 to 29	60	37	23
	20 to 34	113	75	50	20 to 34	69	44	29
	20 to 39	136	93	65	20 to 39	82	54	36
	20 to 44	169	120	87	20 to 44	99	68	47
	20 to 49	222	165	124	20 to 49	124	88	64
	20 to 54	324	254	201	20 to 54	163	122	92
	20 to 59	781	661	567	20 to 59	241	190	152

Launch year	2025							
Eligibility age	60				65			
Interest rate		3%	4%	5%		3%	4%	5%
Age group	20 to 24	84	53	33	20 to 24	53	32	20
	20 to 29	98	63	41	20 to 29	61	38	24
	20 to 34	115	76	51	20 to 34	71	45	29
	20 to 39	138	95	66	20 to 39	83	55	37
	20 to 44	172	122	88	20 to 44	101	69	48
	20 to 49	225	167	126	20 to 49	126	90	65
	20 to 54	329	257	204	20 to 54	166	124	94
	20 to 59	790	669	574	20 to 59	244	192	154

Launch year	2030							
Eligibility age	60				65			
Interest rate		3%	4%	5%		3%	4%	5%
Age group	20 to 24	86	54	34	20 to 24	55	33	20
	20 to 29	100	64	42	20 to 29	62	39	24
	20 to 34	117	78	52	20 to 34	72	46	30
	20 to 39	141	97	67	20 to 39	85	56	38
	20 to 44	175	125	90	20 to 44	103	70	49
	20 to 49	229	170	128	20 to 49	128	91	66
	20 to 54	334	261	207	20 to 54	169	126	95
	20 to 59	801	678	581	20 to 59	248	195	156

Source: KRI calculations

Based on a "moderate" scenario, a monthly premium of about RM55 is sufficient for individuals born from 2000 up to the present day (Generation Z) to secure the lifetime annuity upon reaching the age of 60. The lifetime annuity will provide them with a minimum social protection floor, where they are afforded a monthly annuity equivalent to a poverty line per capita.

REFERENCES

ABC News. 2021. "Uber Drivers Are Not Employees, Fair Work Ombudsman Finds." *ABC News*, 2021. https://www.abc.net.au/news/2019-06-07/uber-fair-work-ombudsman-investigation-contractor-employee/11189828.

Abdul Rahman Abdul Aziz. 2014. *Pembangunan 1960-an: Daripada Kata-Kata Tun Abdul Razak Hussein*. Kuala Lumpur: Institut Terjemahan & Buku Malaysia Berhad.

Abdul Razak, Abd Manaf, Othman Siti Zubaidah, Mohd Isa Mohd Faizal, Mohd Noor Wan Shakizah, and Azizan Norizan. 2019. "Employment Challenges among Persons with Disabilities in Malaysia." *International Journal of Academic Research in Business and Social Sciences* 9 (10).

Abraham Lincoln. 1854. "Abraham Lincoln, Fragment on Government, circa July 1, 1854." House Divided: The Civil War Research Engine at Dickinson College. 1854. https://hd.housedivided.dickinson.edu/node/40487.

Adams, Charles, Benno Ferrarini, and Donghyun Park. 2010. "Fiscal Sustainability in Developing Asia." *Asian Developement Bank*.

ADB. 2001. *Social Protection Strategy*. Asian Development Bank.

———. 2012. "Pension Systems in East and Southeast Asia." Manila: Asian Development Bank.

———. n.d. "SPI Database." ADB Social Protection Indicator. n.d. https://spi.adb.org/spidmz/.

Aishah, Bidin, Khan Shereen, and Olivia Tan. 2012. "Protection of Employees' Entitlements in Cases of Employer Insolvency in Malaysia." *International Journal of Business and Society* 13 (2): 209.

AKPK. 2018. "Financial Behavior and State of Financial Well-Being of Malaysian Working Adults 2018." Kuala Lumpur: Bank Negara Malaysia.

Allianz Research. 2021. "Allianz Pension Report Asia Special 2021." Munich: Allianz and Euler Hermes.

Arranz Muñoz, José María, and Juan Muro. 2004. "An Extra Time Duration Model with Application to Unemployment Duration under Benefits in Spain."

Astro Awani. 2021a. "'Hanya Tinggalkan RM100' - 30 Peratus Ahli KWSP Keluarkan Hampir Semua Simpanan Akaun 1." *Astro Awani*, 2021. https://www.astroawani.com/berita-malaysia/hanya-tinggalkan-rm100-30-peratus-ahli-kwsp-keluarkan-hampir-semua-simpanan-akaun-1-285071.

———. 2021b. "Perkeso Bakal Lindungi Suri Rumah Mulai 2022." *Astro Awani*, 2021. https://krinstituteorg.sharepoint.com/:x:/s/SocialProtectionPolicyProposal/EV6BMakmECROopPYU1rj3UYBbID VHAKtO78PVnHSJJevdA?e=Stxsc3.

Barrientos, A., and D. Hulme, eds. 2008. *Social Protection for the Poor and Poorest: Concepts, Policies and Politics*. Palgrave Studies in Development. Palgrave Macmillan UK. https://doi.org/10.1057/978-0-230-58309-2.

Bastagli, Francesca, Jessica Hagen-Zanker, Luke Harman, Valentina Barca, Georgina Sturge, Tanja Schmidt, and Luca Pellerano. 2016. "Cash Transfers: What Does the Evidence Say? A Rigorous Review of Impacts and the Role of Design and Implementation Features." London: Overseas Development Institute. https://cdn.odi.org/media/documents/11316.pdf.

Bernama. 2020. "Govt Revenue to Fall 14 Pct in 2020 as Tax Collection Slips." BERNAMA. November 6, 2020. https://www.bernama.com/en/business/news_penjana.php?id=1897849.

———. 2021a. "Govt to Establish Poverty Circle to Address Issue, Says Mustapa." *The Edge Markets*, 2021. https://www.theedgemarkets.com/article/govt-establish-poverty-circle-address-issue-says-mustapa.

———. 2021b. "Malaysia's 2021 Fiscal Deficit to Hover between 6.5 and 7pct of GDP." Malaysiakini. 2021. https://www.malaysiakini.com/news/583668.

BH. 2021. "RM78 Bilion Dikeluarkan Dari I-Lestari, i-Sinar." *Berita Harian*, 2021. https://www.bharian.com.my/berita/nasional/2021/05/816308/rm78-bilion-dikeluarkan-dari-i-lestari-i-sinar.

Bloom, David E., and Jeffrey G. Williamson. 1997. "Demographic Transitions and Economic Miracles in Emerging Asia." NBER Working Paper Series. National Bureau of Economic Research.

BNM. 2021a. "A Vision for Social Protection in Malaysia." Kuala Lumpur: Bank Negara Malaysia.

———. 2021b. "Bank Negara Malaysia Annual Report 2020." Kuala Lumpur: Bank Negara Malaysia.

Bodnár, Katalin, and Carolin Nerlich. 2020. "Drivers of Rising Labour Force Participation – the Role of Pension Reforms."

Bradshaw, Jonathan, and Naomi Finch. 2002. "A Comparison of Child Benefit Packages in 22 Countries."

Carone, Giuseppe, Per Eckefeldt, Luigi Giamboni, Veli Laine, and Stéphanie Pamies Sumner. 2016. "Pension Reforms in the EU since the Early 2000's: Achievements and Challenges Ahead." Luxembourg: European Comission.

CEIC. n.d. "CEIC Database." n.d.

Chee, Lee Kum. 1997. "The Malaysian Government Pension Scheme: Whither Its Future Direction?" *Jurnal Ekonomi Malaysia*.

Choong, Christopher and Adam Firouz. 2020. "Social Protection and Fiscal Policy in Malaysia." Kuala Lumpur: Khazanah Research Institute.

Cichon, Michael, Wolfgang Scholz, Arthur Van de Meerendonk, Krzysztof Hagemejer, Fabio Bertranou, and Pierre Plamondon. 2004. *Financing Social Protection*. Vol. 5. Geneva: International Labour Organization.

CNBC. 2021. "Uber Employment Rights Setback Is a 'Gut Punch' to Its Prospects in the UK." *CNBC*, 2021. https://www.cnbc.com/2021/03/18/uber-is-reclassifying-uk-drivers-as-workers-heres-what-happens-next.html.

Cutler, David M., and Richard Johnson. 2004. “The Birth and Growth of the Social Insurance State: Explaining Old Age and Medical Insurance across Countries.” *Public Choice* 120. https://scholar.harvard.edu/files/cutler/files/the_birth_and_growth_of_the_social_insurance_state.pdf.

Darmaraj, Sheila Rose, and Suresh Narayanan. 2019. “The Long-Term Financial Sustainability of the Civil Service Pension Scheme in Malaysia.” *Asian Economic Papers* 18 (1): 155–78.

Development Pathways. 2020. “Understanding Social Protection: Definitions, Approaches and Underpinning Ideologies.”

Devereux, Stephen, and Rachel Sabates-Wheeler. 2004. “Transformative Social Protection.” *Institute of Development Studies*, 1–27.

Disabled World. 2020. “Invisible Disabilities: List and General Information.” Malaysian Information Network on Disabilities. 2020. https://www.disabled-world.com/disability/types/invisible/.

DOS. 2016a. “Economic Census 2016 - Profile of Small and Medium Enterprises.” Putrajaya: Department of Statistics.

———. 2016b. “Population Projections (Revised) Malaysia 2010 - 2040.” Putrajaya: Department of Statistics.

———. 2019. “Annual Employment Statistics 2018.” Putrajaya: Department of Statistics.

———. 2020a. “Household Income and Basic Amenities Survey Report 2019.” Putrajaya: Department of Statistics Malaysia.

———. 2020b. “Labour Force Survey Report 2019.” Putrajaya: Department of Statistics.

———. 2020c. “Malaysia Economics Statistics - Time Series 2019 (Population).” Putrajaya: Department of Statistics.

———. 2020d. “Report of Special Survey on Effects of COVID-19 on Economy & Individual - Round 1.” Putrajaya: Department of Statistics.

———. 2020e. “Vital Statistics 2019.” Putrajaya: Department of Statistics.

———. 2021a. “Current Population Estimates.” Putrajaya: Department of Statistics.

———. 2021b. “Data Requested from the Department of Statistics on Household Income and Basic Amenities Survey 2016.” Putrajaya: Department of Statistics.

———. 2021c. “Labour Force Survey Report 2020.” Putrajaya: Department of Statistics.

———. 2021d. “Malaysia Informative Data Centre.” Putrajaya: Department of Statistics. mysidc.statistics.gov.my/.

———. 2021e. “Quarterly Labour Force Survey Report 2021 (Second Quarter).” Putrajaya: Department of Statistics.

———. 2021f. “Salaries and Wages Report 2020.” Putrajaya: Department of Statistics.

———. various years-a. “Labour Force Survey Report.” Department of Statistics.

———. n.d. “Malaysia Population Projection 2010-2040.” n.d. https://www.dosm.gov.my/v1/index.php?r=column/cdatavisualization&menu_id=WjJMQ1F0N3RXclNGNWpIODBDRmh2UT09&bul_id=aDNJSnBKRTNYSGhvcU5wamlLUFB5UT09.

———. various years-b. “Salaries and Wages Report.” Department of Statistics.

ECB. 2021. “Euro Foreign Exchange Reference Rates.” European Central Bank. 2021. https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/index.en.html.

EPF. 2016a. “Annual Report, 2015.” Kuala Lumpur: Employees Provident Fund.

———. 2016b. “Social Protection Insight Vol. 1.” Kuala Lumpur: Employees Provident Fund.

———. 2018. “Social Protection Insight Vol. 3.” Kuala Lumpur: Employees Provident Fund.

———. 2020. “Annual Report 2019.” Kuala Lumpur: Employees Provident Fund.

———. 2021. “Data Requested from EPF on the Impact of Covid-19 Pre-Withdrawal Schemes.” Kuala Lumpur: Employees Provident Fund.

———. various years. “Annual Report.” Kuala Lumpur: Employees Provident Fund.

———. n.d.-a. “EPF.” Employees Provident Fund. n.d.-. https://www.kwsp.gov.my/.

———. n.d.-b. “No Change To Age 55 Withdrawal And Introducing Akaun Emas For Age 60 Withdrawal.” Employees Provident Fund. n.d.-. https://www.kwsp.gov.my/-/epf-no-change-to-age-55-withdrawal-and-introducing-akaun-emas-for-age-60-withdrawal.

ESCAP. 2018. “Policy Guide: How to Implement Inclusive Social Protection Schemes.” United Nations Economic and Social Commission for Asia and the Pacific.

European Commission. 2015. “ESPN Thematic Report on Social Investment - Romania.” Brussels, European Union: European Commission.

FMT. 2018. “Can You Afford to Have a Baby?” *Free Malaysia Today*, 2018. https://www.freemalaysiatoday.com/category/leisure/2018/11/05/can-you-afford-to-have-a-baby/.

Goh, Edwin and Nelleita Omar. 2020. “Gig Work: Side Hustle or Main Job? Part 1. The Reality of Hours Worked in the Gig World.” The Center. 2020.

———. 2021. “The Case for A Fair Work Act, Part 1: Responding to Malaysia’s Changing Employment Landscape.” The Center. 2021.

GOM. 1955. *Employment Act 1955 (Act 265)*.

———. 1966. *Children and Young Persons (Employment) Act 1966 (Act 350)*. Malaysia.

———. 2013. *Minimum Retirement Age Act 2012 (Act 753)*.

———. n.d.-a. *Skim Bayaran Pampasan (Ex-Gratia) Bagi Pegawai Kerajaan Di Bawah Skim Kumpulan Wang Simpanan Pekerja Dan Pegawai Berpencen Yang Ditimpa Kemalangan Atau Kecederaan Termasuk Yang Teraniaya Anasir-Anasir Jahat Semasa Menjalankan Tugas Rasmi (WP 6.2)*.

———. n.d.-b. *Skim Ex-Gratia Bencana Kerja Bagi Pegawai Perkhidmatan Awam Persekutuan (WP 6.3)*.

Grab. 2020. "Grab Social Impact Report 2019/2020." GrabTaxi Holdings Pte. Ltd.

Hawati Abdul Hamid, Gregory Wai Son Ho, and Suraya Ismail. 2019. "Demarcating Households: An Integrated Income and Consumption Analysis." Kuala Lumpur: Khazanah Research Institute.

Hawati Abdul Hamid and Nur Thuraya Sazali. 2020. "Shrinking 'Salariat' and Growing 'Precariat'? Estimating Informal and Non-Standard Employment in Malaysia." Kuala Lumpur: Khazanah Research Institute.

Headey, Bruce, Robert E. Goodin, Ruud Muffels, and Henk-Jan Dirven. 1999. "Is There a Trade-Off between Economic Efficiency and a Generous Welfare State? A Comparison of Best Cases of 'The Three Worlds of Welfare Capitalism'." SSRN Scholarly Paper ID 1988250. Rochester, NY: Social Science Research Network.

HelpAge. n.d. "Social Pensions Database." http://www.pension-watch.net/social-pensions-database/social-pensions-database--/.

Hinz, Richard, Robert Holzmann, David Tuesta, and Noriyuki Takayama. 2013. "Matching Contributions for Pensions : A Review of International Experience." Washington, DC: The World Bank.

Holzmann, Robert. 2014. "Old-Age Financial Protection in Malaysia: Challenges and Options." Washington, DC: The World Bank.

Hubbard, Paul, and Dhruv Sharma. 2016. "Understanding and Applying Long-Term GDP Projections." *EABER Working Paper Series*.

ILO. 1952. "Social Security (Minimum Standards) Convention, 1952 (No. 102)." 1952. https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C102.

———.1964. "Employment Injury Benefits Convention, 1964 (No. 121)." 1964. https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C121.

———.1988a. "Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168)." 1988. https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:::NO:12100:P12100_ILO_CODE:C168:NO.

———. 1988b. "Employment Promotion and Protection against Unemployment Recommendation, 1988 (No. 176)." 1988. ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R176.

———. 2000a. "Maternity Protection Convention, 2000 (No. 183)." 2000. https://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_ILO_CODE:C183.

———. 2000b. "Maternity Protection Recommendation, 2000 (No. 191)." 2000. https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312529.

———. 2002. *Resolution Concerning Decent Work and the Informal Economy*. Geneva: International Labor Organization.

———. 2003a. "A Life Cycle Continuum Investment for Social Justice, Poverty Reduction and Sustainable Development." *Social Protection*, 64.

———. 2003b. *Social Protection Matters: Prevention and Protection*. Geneva: International Labor Organization.

———. 2003c. "Committee on Employment and Social Policy: Governing Body." ILO. https://www.ilo.org/public/english/standards/relm/gb/docs/gb288/pdf/esp-2.pdf.

———. 2012. "Social Protection Floors Recommendation, 2012 (No. 202)." 2012. https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:3065524.

———. 2014a. "Maternity and Paternity at Work: Law and Practice across the World." International Labour Organization.

———. 2014b. "R202 - Social Protection Floors Recommendation, 2012 (No. 202)." Geneva, 101st ILC session (14 Jun 2012): International Labour Organization. https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:3065524.

———. 2015a. "Social Protection Assessment-Based National Dialogue: A Global Guide. Joint United Nations Response to Implement Social Protection Floors and Achieve the Sustainable Development Goals." Geneva: International Labour Office.

———. 2015b. "The State of Social Protection in ASEAN at the Dawn of Integration." Geneva: International Labour Organization.

———. 2016. "Non-Standard Employment Around the World: Understanding Challenges, Shaping Prospects." Geneva: International Labor Organization.

———. 2017a. "Malaysia – Report to the Social Security Organization Tenth Actuarial Valuation as of 31 December 2014." Geneva: International Labour Organization.

———. 2017b. *World Social Protection Report 2017-19: Universal Social Protection to Achieve the Sustainable Development Goals*. World Social Protection Report 2017/19. Geneva: International Labour Office.

———. 2017c. *World Social Protection Report 2017-19: Universal Social Protection to Achieve the Sustainable Development Goals*. World Social Protection Report 2017/19. Geneva: International Labour Office.

———. 2017d. "World Social Protection Report 2017–19: Universal Social Protection to Achieve the Sustainable Development Goals." Report. Geneva: International Labour Organization.

———. 2018a. "Developmental Impacts of Expanding Social Protection." Publication. Geneva: International Labor Organization.

———. 2018b. “Report II Statistics on Work Relationships.” Geneva: International Labor Organization.
———. 2019a. “Extending Social Security to Workers in the Informal Economy: Lessons from International Experience.” Geneva: International Labor Organization.
———. 2019b. *Fiscal Space for Social Protection. A Handbook for Assessing Financing Options*. Geneva: International Labor Organization.
———. 2020. “The Socioeconomic Impacts of COVID-19 in Malaysia: Policy Review and Guidance for Protecting the Most Vulnerable and Supporting Enterprises.” Geneva: International Laboure Organization.
———. 2021. “World Employment Social Outlook 2021: The Role of Digital Labour Platforms in Transforming the World of Work (InfoStories).” 2021. https://ilo.org/infostories/en-GB/Campaigns/WESO/World-Employment-Social-Outlook-2021.
———. n.d.-a. “Decent Work.” https://www.ilo.org/global/topics/decent-work/lang--en/index.htm.
———.n.d.-b. “Facts on Social Security.” ILO. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_067588.pdf.
———.n.d.-c “Indicator Description: Informality.” ILOSTAT. https://ilostat.ilo.org/resources/concepts-and-definitions/description-informality/.
———.n.d.-d “Non-Standard Forms of Employment.” ILO. https://www.ilo.org/global/topics/non-standard-employment/lang--en/index.htm.
———. n.d.-e. “Statistics on the Working-Age Population and Labour Force.” https://ilostat.ilo.org/topics/population-and-labour-force/.
———.n.d.-f. “World Social Protection Data Dashboards.” Social-Protection.Org. https://www.social-protection.org/gimi/WSPDB.action?id=19.
ILOSTAT. n.d. “ILO Database.” https://ilostat.ilo.org/.
IMF. 2017. “Asia: At Risk of Growing Old before Becoming Rich?” Washington, DC: International Monetary Fund.
———. 2021a. “Global Price of Brent Crude.” FRED, Federal Reserve Bank of St. Louis. FRED, Federal Reserve Bank of St. Louis. 2021. https://fred.stlouisfed.org/series/POILBREUSDM.
———. 2021b. “Government Finance Statistics.” IMF Data. 2021. https://data.imf.org/?sk=a0867067-d23c-4ebc-ad23-d3b015045405&sId=1435697914186.
———. 2021c. “World Economic Outlook Database: April 2021 Edition.” Washington: International Monetary Fund.
———.n.d. “IMF Data.” https://www.imf.org/en/Data.
IPH. 2020. “National Health and Morbidity Survey 2019: Non-Communicable Diseases: Risk Factors and Other Health Problems.” Shah Alam: Institute for Public Health, Ministry of Health.
ISSA. n.d.-. “Country Profiles: Contribution Rates.” n.d.-. https://ww1.issa.int/country-profiles/contribution-rates.
Jackson, Richard, and Evan Inglis. 2021. “Asian Provident Funds : Meeting Tomorrow’s Challenges.” Washington, DC: The World Bank.
Jarud Romadan Khalidi and Tan Zhai Gen. 2020. “Understanding School Feeding in Malaysia.” KRI Discussion Papers. Khazanah Research Institute.
JKM. n.d.-a. “Bantuan Kanak-Kanak.” Jabatan Kebajikan Masyarakat. https://www.jkm.gov.my/jkm/index.php?r=portal/left&id=QW15ZEo2UnZIMnJXSHdEQTdXZGE3dz09.
———. n.d.-b. “Disability (Unable to Work) Allowance.” https://www.jkm.gov.my/jkm/index.php?r=portal/left&id=akVMUTlrSU5mT0dCZys3bzFCendNdz09.
———. n.d.-c. “Disabled Person Care Allowance.” https://www.jkm.gov.my/jkm/index.php?r=portal/left&id=UzhQSWdqWnJSZ2xIUUNFT2Z0WG9tQT09.
———. n.d.-d. “Disabled Worker Allowance.” https://www.jkm.gov.my/jkm/index.php?r=portal/left&id=akVMUTlrSU5mT0dCZys3bzFCendNdz09.
———. various years. “Statistical Report.” Putrajaya: Department of Social Welfare.
Jordan, Chester Wallace. 1991. *Society of Actuaries’ Textbook on Life Contingencies*. Chicago: The Society of Actuaries.
JPA. 2013. “Annual Report 2012.” Putrajaya: Public Service Department.
———. 2020. “Data Requested from the Public Service Department.” Putrajaya: Jabatan Perkhidmatan Awam.
———. n.d.-a. “Improvement of Pension Benefits (1968 - 2004).” Public Service Department. http://www.jpapencen.gov.my/english/improvement_pension.html.
———.n.d.-b. “The Protection of Pension Right.” Public Service Department. http://www.jpapencen.gov.my/English/pension_right.html.
JTK. 2021. “Data Requested from JTK on Total Complaints, 2010 - 2020.” Putrajaya: Jabatan Tenaga Kerja Semenanjung Malaysia.
Karto, Dom, and Kok Peng Teh. 1986. “Social Security in Malaysia.” *ASEAN Economic Buletin*.
Kela. n.d. “Kela.” Kela.En. https://www.kela.fi/web/en.
Kidd, Stephen., T. Abu-el-Haj, B. Khondker, C. Watson, and S. Ramkissoon. 2016. “Social Assistance in Viet Nam: A Review and Proposals for Reform.”
Kidd, Stephen. 2015. “The Political Economy of ‘Targeting’ of Social Security Schemes.” London: Development Pathways.

Kidd, Stephen, Gunnel Axelsson Nycander, Anh Tran, and Madeleine Cretney. 2020. "The Social Contract and the Role of Universal Social Security in Building Trust in Government." *Development Pathways and Act Church of Sweden*.

Kidd, Stephen, Louise Moreira Daniels, Bjorn Gelders, Diloá Athias, and Madeleine Cretney. 2020. "Investing in the Future: A Universal Benefit for Sri Lanka's Children." Sri Lanka: United Nations Children's Fund.

Kinsella, Kevin, and Victoria A. Velkoff. 2001. "An Ageing World: 2001, International Population Reports." Washington, DC: U.S. Department of Commerce. https://www.census.gov/prod/2001pubs/p95-01-1.pdf.

Kirk, Dudley. 1996. "Demographic Transition Theory." *Population Studies* 50 (3).

Knox-Vydmanov, Charles. 2021. "Social Protection for Older Persons."

KPWKM. 2019. "Statistics on Women, Family and Community 2018." Ministry of Women, Family and Community Development.

———. 2020. "Statistics on Women, Family and Community 2019." Putrajaya: Kementerian Pembangunan Wanita, Keluarga dan Masyarakat.

KRI. 2015. "Making Housing Affordable." Kuala Lumpur: Khazanah Research Institute.

———. 2016. "The State of Households II." Kuala Lumpur: Khazanah Research Institute.

———. 2018. "The State of Households 2018: Different Realities." Kuala Lumpur: Khazanah Research Institute.

———. 2019. "Time to Care: Gender Inequality, Unpaid Care Work and Time Use Survey." Kuala Lumpur: Khazanah Research Institute.

———. 2020a. "Social Inequalities and Health in Malaysia: The State of Households 2020 Part III." Khazanah Research Institute.

———. 2020b. "Work in an Evolving Malaysia: The State of Households 2020 Part II." Kuala Lumpur: Khazanah Research Institute.

KWAP. n.d. "Contributing Members." Kumpulan Wang Persaraan. https://www.kwap.gov.my/EN/Contributions/Pages/Contributing-Members.aspx.

LHDN. 2021a. "Brochure BPR 2021 Selected." Putrajaya: Lembaga Hasil Dalam Negeri. 2021. https://bpr.hasil.gov.my/Download/book/Brochure%20BPR.pdf.

———. 2021b. "Statistik Taburan Cukai Pendapatan Kumpulan Individu (Penggajian Dan Perniagaan) Bagi Tahun Taksiran 2019 Dan 2020 Bagi Kegunaan Kajian Sistem Perlindungan Sosial Negara Oleh Khazanah Research Institute (KRI)." Putrajaya: Lembaga Hasil Dalam Negeri.

———.n.d.-a. "Income Tax Rates." Inland Revenue Board of Malaysia (LDHN). Inland Revenue Board of Malaysia. http://www.hasil.gov.my/bt_goindex.php?bt_kump=5&bt_skum=1&bt_posi=2&bt_unit=5000&bt_sequ=11&bt_lgv=2.

———.n.d.-b. "Tax Chargeablity." Putrajaya: Lembaga Hasil Dalam Negeri. http://www.hasil.gov.my/bt_goindex.php?bt_kump=5&bt_skum=1&bt_posi=2&bt_unit=5000&bt_sequ=2.

———.n.d.-c. "Tax Relief for Resident Individual." Putrajaya: Lembaga Hasil Dalam Negeri. http://www.hasil.gov.my/bt_goindex.php?bt_kump=5&bt_skum=1&bt_posi=3&bt_unit=1&bt_sequ=1&bt_lgv=2.

LTAT. 2019. "Annual Report, 2018." Kuala Lumpur: Lembaga Tabung Angkatan Tentera.

Malay Mail. 2020. "Govt to Introduce New Legislation to Regulate Gig Workers, Dewan Rakyat Told." *Malay Mail*, 2020. https://www.malaymail.com/news/malaysia/2020/07/29/govt-to-introduce-new-legislation-to-regulate-gig-workers-dewan-rakyat-told/1889319.

Malaysiakini. 2019. "Budget 2020 Sees 90-Day Maternity Leave, Higher Overtime Cap." *Malaysiakini*, 2019. https://www.malaysiakini.com/news/495401.

———. 2020. "EPF Chief Vows Not to Make Reckless Decision over Account 1 Withdrawal." *Malaysia Kini*, 2020. https://www.malaysiakini.com/news/550637.

Mazlynda Md Yusuf. 2012. "Women and Pensions in Malaysia: Assessing the Impacts of Disruptions in Working Life." *Faculty of Social and Human Sciences*. University of Southampton.

Menegatti, Elisa. 2016. "Migrant Domestic Workers: Promoting Occupational Safety and Health." International Labor Organization.

Michael, Samson, Van Niekerk Ingrid, and Mac Quene Kenneth. 2006. "Designing and Implementing Social Transfer Programmes." *Economic Policy Research Institute (EPRI). Cape Town*.

MIND. n.d. "Invisible Disabilities 101." Malaysian Information Network on Disabilities. n.d. https://mind.org.my/article/invisible-disabilities-101/.

MISSOC. 2021. "European Union Mutual Information System on Social Protection - Comparative Tables." Brussels, European Union: Mutual Information System on Social Protection. https://www.missoc.org/missoc-database/comparative-tables/.

Mitra, Sophie, Michael Palmer, Hoolda Kim, Daniel Mont, and Nora Groce. 2017. "Extra Costs of Living with a Disability: A Review and Agenda for Research." *Disability and Health Journal* 10 (4): 475–84.

Mkandawire, Thandika. 2005. "Targeting and Universalism in Poverty Reduction." *Social Policy and Development Programme Paper* Number 23.

MOE. 2013. "Malaysia Education Blueprint 2013-2025 (Preschool to Post-Secondary Education)." Putrajaya: Ministry of Education.

MOF. 2018. "Fiscal Outlook and Federal Government Revenue Estimates 2019." Putrajaya: Ministry of Finance.

———. 2019. “Fiscal Outlook and Federal Government Revenue Estimates 2020.” Putrajaya: Ministry of Finance.

———. 2020. “Fiscal Outlook and Federal Government Revenue Estimates 2021.” Putrajaya: Ministry of Finance.

———. 2021a. “Data Requested from the Ministry of Finance on Expenditure of Subsidy and Social Assistance Programmes, 2006 – 2020.” Putrajaya: Ministry of Finance.

———. 2021b. “Fiscal & Economic Data.” 2021. https://www.mof.gov.my/en/economy/fiscal-economic-data.

———. 2021c. “Government’s Temporary Debt Increase Due To Helping Rakyat & Businesses: Fiscal Discipline And Consolidation To Follow Once Economy Recovers.” Ministry of Finance. 2021. https://www.mof.gov.my/en/news/press-release/government-s-temporary-debt-increase-due-to-helping-rakyat-businesses-fiscal-discipline-and-consolidation-to-follow-once-economy-recovers.

———. 2021d. “Programme Expenditure, 2015-2020 (Unpublished).”

MOH. 2019. “National Health and Morbidity Survey (NHMS) 2018: Elderly Health. Vol. II: Elderly Health Findings, 2018.” Kuala Lumpur: Institute for Public Health, Ministry of Health. http://www.iku.gov.my/images/IKU/Document/REPORT/NHMS2018/NHMS2018ElderlyHealthVolume2.pdf.

Mohamed Aslam and Raihan Jaafar. 2020. “Budget Deficit and the Federal Government Debt in Malaysia.” In *Perspectives on Economic Development - Public Policy, Culture, and Economic Development*. IntechOpen. https://doi.org/10.5772/intechopen.91457.

Mohd Shazwan Shuhaimen, Nurul Hana Ahmad Ghazali, Kevin Wong Tho Foo, Loke Po Ling, and Sarah Syamimi Mohd Suhaimi. 2021. “Box Article 1: Rethinking Investment Incentives.” In *BNM Quarterly Bulletin 3Q 2017*. BNM Quarterly Bulletin. Bank Negara Malaysia.

MOHE. 2020. “Graduate Tracer Study 2019.” Putrajaya: Ministry of Higher Education.

MOHR. 2012. “Introduction to the Project of Unemployment Insurance Scheme in Malaysia.” https://www.social-protection.org/gimi/RessourcePDF.action;jsessionid=iAZfueWdXvO3R6FMeUdfDzhW50loBsPPeSBvzDniA4xhoE3-DGpM!539423187?id=40144.

Muhammed Abdul Khalid, Hawati Abdul Hamid, Jarud Romadan Khalidi, Gregory Wai Son Ho, and Adam Manaf Mohamed Firouz. 2017. “Climbing the Ladder: Socio-Economic Mobility in Malaysia.” Kuala Lumpur: Khazanah Research Institute.

Munnell, Alicia H., and Steven A. Saas. 2008. *Working Longer: The Solution to the Retirement Income Challenge*. Washington D.C.: Brookings Institution Press.

NAFAS. n.d. “National Farmers Organization.” n.d. http://nafas.com.my/v2/index.php?option=com_content&view=article&id=442&Itemid=408&lang=my.

Nankervis, Alan, Chris Rowley, and Noorziah Mohd Salleh, eds. 2016. “Asia Pacific Human Resource Management and Organisational Effectiveness.” In *Asia Pacific Human Resource Management and Organisational Effectiveness*, xiii–xviii. Chandos Publishing. https://doi.org/10.1016/B978-0-08-100643-6.11001-2.

Narayanan, Suresh. 1996. “Fiscal Reform in Malaysia: Behind a Successful Experience.” *Asian Survey* 36 (9): 869–81. https://doi.org/10.2307/2645536.

———. 2002. “Old Age Support for Private Sector Employees in Malaysia: Can the Employees Provident Fund Do Better?” *Hitotsubashi Journal of Economics* 43.

NASH. n.d. “National Organization of Smallholders.” n.d. http://www.pkpkm.org.my/v2/main.php?lang=en.

Nguyen, Q. A., and N. M. Simoes da Cunha. 2019. “Extension of Social Security to Workers in Informal Employment in the ASEAN Region.” Geneva: International Labor Organization.

NST. 2019. “1.71 Million Civil Servants on Govt Payroll as of March 2019.” *New Straits Times*, 2019. https://www.nst.com.my/news/government-public-policy/2019/04/484308/171-million-civil-servants-govt-payroll-march-2019.

———. 2020. “Finance Ministry: Can Apply for i-Lestari Withdrawal Facility from April 1.” *New Straits Times*, 2020. https://www.nst.com.my/news/nation/2020/03/577441/finance-ministry-can-apply-i-lestari-withdrawal-facility-april-1.

———. 2021. “Grab, Foodpanda Delivery Partners Now Covered by SOCSO.” *New Straits Times*, 2021. https://www.nst.com.my/news/nation/2021/07/709033/grab-foodpanda-delivery-partners-now-covered-socso.

Nur Thuraya Sazali and Siti Aiysyah Tumin. 2020. “Leaving No Worker Behind: Deficit in Decent Work.” Kuala Lumpur: Khazanah Research Institute.

Nur Thuraya Sazali, and Zhai Gen Tan. 2019. “The Demise of Formal Employment? — A Literature Update on Informality.” Kuala Lumpur: Khazanah Research Institute.

Nurin Haniah Asmuni, Sachi Purcal. 2018. “On the Study of Malaysia’s Private Annuity.” *Journal of Quality Measurement and Analysis* 14 (1).

O’Brien, Clare, Rebecca Holmes, Zoë Scott, and V. Barca. 2018. “Shock-Responsive Social Protection Systems Toolkit.” Oxford, UK: OPM.

ODI and UNICEF. 2020. “Universal Child Benefits: Policy Issues and Options.” London: Overseas Development Institute United Nations Children’s Fund.

OECD. 2003. “OECD Glossary of Statistical Terms - Economies of Scale Definition.” OECD. 2003. https://stats.oecd.org/glossary/detail.asp?ID=3203.

———. 2015. “Pensions at a Glance 2015, OECD and G20 Indicators.” Paris: OECD Publishing.

———. 2016. *Life Annuity Products and Their Guarantees*. OECD. https://doi.org/10.1787/9789264265318-en.

———. 2019a. “OECD Social Expenditure Database - Social Expenditure: Detailed Data.” 2019. https://stats.oecd.org/Index.aspx?DataSetCode=SOCX_DET&_ga=2.47677927.1560509674.1621495878-48760098.1614914656.

———. 2019b. “Pensions at a Glance 2019, OECD and G20 Indicators.” Paris: OECD Publishing.

———. 2020. “OECD Pensions Outlook 2020.” Paris: OECD Publishing.

OHCHR. 2019. “Statement by Professor Philip Alston, United Nations Special Rapporteur on Extreme Poverty and Human Rights, on His Visit to Malaysia, 13-23 August 2019.” Kuala Lumpur: Office of the High Commissioner for Human Rights.

———. 2020. “OHCHR High-Level Expert Meeting on Global Fund for Social Protection (Statement by Michelle Bachelet).” 2020. https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=26274&LangID=E.

Ong, Fong Sim and Tengku Aizan Hamid. 2010. “Social Protection in Malaysia - Current State and Challenges Towards Practical and Sustainable Social Protection in East Asia: A Compassionate Community.” In *Social Protection in East Asia - Current State and Challenges*, edited by Mukul Asher. Jakarta: ERIA Research Project Report.

OPHI and UNDP. 2020. “Global Multidimensional Poverty Index 2020 - Charting Pathways out of Multidimensional Poverty: Achieving the SDGs.” Official Poverty & Human Development Initiative United Nations Development Programme.

Ortiz, Isabel, Matthew Cummins, Jeronim Capaldo, and Kalaivani Karunanethy. 2015. “The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries.” *Extension of Social Security Series* No. 53.

P&I. 2020. “List: The World’s Largest Retirement Funds.” New York: Pensions & Investments. 2020. https://www.pionline.com/interactive/list-worlds-largest-retirement-funds.

Piggott, John, and Renuka Sane. 2009. “Indexing Pensions.” Washington, DC: The World Bank.

Piketty, Thomas, and Emmanuel Saez. 2014. “Inequality in the Long Run.” *Science* 344 (6186): 838–43. https://doi.org/10.1126/science.1251936.

PMO. 2011. “2012 Budget Speech.” Putrajaya. https://www.pmo.gov.my/dokumenattached/speech/files/Belanjawan2012.pdf.

———. 2020. “2021 Budget Speech.” Prime Minister’s Office of Malaysia. http://www1.treasury.gov.my/pdf/speech/2021/bs21.pdf.

———. 2021. “PEMERKASA+ (Speech Text).” *Prime Minister’s Office* (blog). 2021. https://www.pmo.gov.my/2021/05/teks-ucapan-program-strategik-memperkasa-rakyat-dan-ekonomi-tambahan-pemerkasa/.

PwC. 2021. “Personal Income Tax (PIT) Rates.” Worldwide Tax Summaries. 2021. https://taxsummaries.pwc.com/quick-charts/personal-income-tax-pit-rates.

Rabi, Amjad, Norma Mansor, Halimah Awang, and Nurul Diyana Kamarulzaman. 2019. “Longevity Risk and Social Old-Age Protection in Malaysia: Situation Analysis and Options for Refor.” Kuala Lumpur: Social Wellbeing Research Centre (SWRC).

Redmond, Gerry, Rodrigo Praine, Noore Siddiquee, and Mohd Zin Mohamed. 2016. “Child Deprivation in Malaysia: Final Report for UNICEF.” Adelaide: School of Social and Policy Studies, Flinders University.

Roll, Kate. 2020. “Gig Work at the Base of the Pyramid: Considering Dependence and Control.” *UCL Institute for Innovation and Public Purpose*.

SAGC. n.d. *Old Age Assistance Scheme Regulations 1982*. The State Attorney-General’s Chambers of Sabah.

Saidatulakmal Mohd, Norma Mansor, Halimah Awang, Shamsulbahriah Ku Ahmad, Norma Mansor, and Halimah Awang. 2015. “Population Ageing, Poverty and Social Pension in Malaysia.” In *Revisiting Malaysia’s Population–Development Nexus*, edited by Cheong Kee Cheok Tey Nai Peng Rajah Rasiah. Kuala Lumpur: Faculty of Economics and Administration (FEA), University of Malaya.

Samson, Michael, Gaspar Fajth, and Daphne François. 2016. “Cognitive Capital, Equity and Child-Sensitive Social Protection in Asia and the Pacific.” *BMJ Global Health* 1 (Suppl 2): i19–26. https://doi.org/10.1136/bmjgh-2016-000191.

Save the Children. n.d. “Investing in Childhood.” Connecticut: Save the Children.

SC. 2019. “Annual Report 2020.” Kuala Lumpur: Securities Commission.

Sergei Scherbov, Warren C. Sanderson. 2020. “New Approaches to the Conceptualization and Measurement of Age and Ageing.” In *Developments in Demographic Forecasting. The Springer Series on Demographic Methods and Population Analysis*, edited by Nico Keilman Stefano Mazzuco. Springer, Cham.

Singh, Paguman. 1991. “Social Security in Malaysia.” In *Safety at Work in Malaysia: An Anthology of Current Research*, edited by Arne Wangel Colin Nicholas. Kuala Lumpur: University of Malaya.

Siti Aiysyah Tumin. 2021. “Labour Market Gaps: More than Just Unemployment.” http://www.krinstitute.org/Views-@-Labour_market_gaps-;_More_than_just_unemployment.aspx.

SOCSO. 2013. “PEKELILING MAJIKAN NO. 2 TAHUN 2013: SKIM PERLINDUNGAN KESELAMATAN SOSIAL KEPADA KAKITANGAN AWAM BERTARAF SEMENTARA DAN KONTRAK.” Social Security Organisation. https://www.perkeso.gov.my/images/arahan/Pekeliling_Majikan_Bil._2_Tahun_2013.pdf.

———. 2019. “Annual Report, 2018.” Kuala Lumpur: Social Security Organisation.

———. 2020a. “Employment Insurance System Interim Report 2020.” Kuala Lumpur: Social Security Organisation.

———. 2020b. “Employment Outlook 2019.” Social Security Organisation.
———. 2021a. “Data Requested from SOCSO on Total Contributors for Social Security Schemes, 2020.” Kuala Lumpur: Social Security Organisation.
———. 2021b. “SOCSO: PEMULIH.” 2021. https://www.perkeso.gov.my/pemulih.html.
———. n.d.-a. “Domestic Workers.” https://www.perkeso.gov.my/en/our-services/protection/employees-social-security-act-1969-act-4/domestic-workers.html.
———. n.d.-b. “Employment Injury Scheme.” https://www.perkeso.gov.my/index.php/en/30-social-security-protection/social-security-protection-scheme/55-employment-injury-scheme.
———. n.d.-c. “Employment Insurance Scheme (Benefits).” https://eiscentre.perkeso.gov.my/eis-benefits/.
———. n.d.-d. “Frequently Asked Questions.” https://www.perkeso.gov.my/en/frequently-asked-question.html#9-q-what-type-of-accidents-are-claimable-under-act-789.
———. n.d.-e. “Invalidity Scheme.” https://www.perkeso.gov.my/en/our-services/protection/employees-social-security-act-1969-act-4/invalidity-scheme.html.
———. n.d.-f. “Social Security Contributions Rate.” n.d.-. https://www.perkeso.gov.my/en/rate-of-contribution.html.
———. n.d.-g. “SOCSO.” n.d.-. https://www.perkeso.gov.my/en/about-us/corporate-information/profile.html.
SSA. n.d.-a. “Definitions of Life Table Functions.” Social Security Administration. n.d.-. https://www.ssa.gov/OACT/HistEst/CohLifeTables/LifeTableDefinitions.pdf.
———. n.d.-b. “Social Security History.” Social Security Administration. https://www.ssa.gov/history/ottob.html.
———.n.d.-c. “Social Security Programs Throughout the World.” SSA. https://www.ssa.gov/policy/docs/progdesc/ssptw/index.html.
Su, T., and V. C. W. Hoe. 2008. “Awareness on Ex-Gratia Compensation Scheme Among Medical Department Staff in a Tertiary Government Hospital in Kuala Lumpur.” *Med J Malaysia* 63 (4).
Suraya Ismail, Christopher Choong, Hawati Abdul Hamid, Fareza Mustapha, Gregory Ho, Tan Theng Theng, Muhammad Nazhan Kamaruzuki, and Adam Manaf Mohamed Firouz. 2019. “Rethinking Housing: Between State, Market and Society: A Special Report for the Formulation of the National Housing Policy (2018–2025), Malaysia.” Kuala Lumpur: Khazanah Research Institute.
Syed, M., and M. Badia. 2018. “Assessing Fiscal Space: An Update and Stocktaking.” *IMF Policy Paper*. http://www.imf.org/external/pp/ppindex.aspx.
Tendler, Judith. 2004. “Why Social Policy Is Condemned to a Residual Category of Safety Nets and What to Do about It.” In *Social Policy in a Development Context*, 119–42. London: Palgrave Macmillan.
Tengku Aizan Hamid. 2019. “Ageing in Malaysia.” In . Bangkok.
The Edge. 2019a. “The State of the Nation: Finding Room to Lighten the Middle-Income Tax Burden.” *The Edge Markets*, July 22, 2019. https://www.theedgemarkets.com/article/state-nation-finding-room-lighten-middleincome-tax-burden.
———. 2019b. “Cover Story: Can the Civil Service Be Downsized?” *The Edge Markets*, October 3, 2019. http://www.theedgemarkets.com/article/cover-story-can-civil-service-be-downsized.
———. 2020. “The State Of The Nation: Tiered Dividend Necessary to Help Low-Income EPF Members.” *The Edge*, 2020. https://www.theedgemarkets.com/article/state-nation-tiered-dividend-necessary-help-lowincome-epf-members.
The Guardian. 2013. “Job Security Is a Thing of the Past - so Millions Need a Better Welfare System.” *The Guardian*, 2013. https://www.theguardian.com/commentisfree/2013/may/21/job-security-welfare-flexible-labour-precariat.
———. 2020. “Prop 22 Explained: How California Voters Could Upend the Gig Economy.” *The Guardian*, 2020. https://www.theguardian.com/us-news/2020/oct/15/proposition-22-california-ballot-measure-explained.
———. 2021. “‘I Can’t Keep Doing This’: Gig Workers Say Pay Has Fallen after California’s Prop 22.” *The Guardian*, 2021. https://www.theguardian.com/us-news/2021/feb/18/uber-lyft-doordash-prop-22-drivers-california.
The Star. 2020a. “Amendment to Increase Maternity Leave and Alow Paternity Leave in Final Stages.” *The Star Online*, 2020. https://www.thestar.com.my/news/nation/2020/11/12/govt039s-bid-to-amend-law-to-increase-maternity-leave-and-provide-for-paternity-leave-in-final-stages-says-deputy-minister.
———. 2020b. “SOCSO Wants Self-Employed M’sians to Sign up.” The Star. January 4, 2020. https://www.thestar.com.my/news/nation/2020/01/04/socso-wants-self-employed-msians-to-sign-up.
———. 2021a. “Many Self-Employed Workers Not Contributing to SOCSO.” The Star. 2021. https://www.thestar.com.my/metro/metro-news/2021/02/23/many-self-employed-workers-not-contributing-to-socso.
———. 2021b. “SOCSO Coverage Extended to Domestic Workers from June 1, Says CEO.” *The Star Online*, 2021. https://www.thestar.com.my/news/nation/2021/06/04/socso-coverage-extended-to-domestic-workers-from-june-1-says-ceo.
———. 2021c. “Tengku Zafrul to Propose Raising Statutory Debt Limit to 65%.” The Star. 2021. https://www.thestar.com.my/business/business-news/2021/09/03/tengku-zafrul-to-propose-raising-statutory-debt-limit-to-65.
Theodore, Nik, Beth Gutelius, and Linda Burnham. 2019. “Workplace Health and Safety Hazards Faced by Informally Employed Domestic Workers in the United States.” *Workplace Health & Safety* 67 (1): 9–17.

Thome, Karen, J. Edward Taylor, Mateusz Filipski, Benjamin Davis, and Sudhanshu Handa. 2016. "The Local Economy Impacts of Social Cash Transfers A Comparative Analysis of Seven Sub-Saharan Countries." Rome: Food and Agriculture Organization of the United Nations.

Tiun, Ling Ta, and Suet Leng Khoo. 2013. "Challenges Faced by Malaysians with Disabilities in the World of Employment." *Disability, CBR & Inclusive Development* 24 (1): 6–21.

TMR. 2020a. "Outstanding GST Refund to Be Paid by Year-End." The Malaysian Reserve. August 4, 2020. https://themalaysianreserve.com/2020/08/04/outstanding-gst-refund-to-be-paid-by-year-end/.

———. 2020b. "Only 10% Grab Drivers Protected by SOCSO." The Malaysian Reserve. December 10, 2020. https://themalaysianreserve.com/2020/12/10/only-10-grab-drivers-protected-by-socso/.

UN. 1982. "Report of the World Assembly on Aging." New York: The United Nations.

———. 2000. "Enhancing Social Protection and Reducing Vulnerability in a Globalizing World." *Report of the Secretary General to the Thirty-Ninth Session E/CN. 5/2001/2*. United Nations Economic and Social Council Washington, DC.

———. 2015. "Transforming Our World: The 2030 Agenda for Sustainable Development." 2015. https://sdgs.un.org/2030agenda.

———. 2019a. "World Population Ageing 2019: Highlights." New York: The United Nations.

———. 2019b. "World Population Prospects 2019." Translated by Population Division Department of Economic and Social Affairs. United Nations.

———. n.d. "Youth." United Nations. n.d. https://www.un.org/en/global-issues/youth.

UN General Assembly. 1989. "Convention on the Rights of the Child." 1989. https://www.refworld.org/docid/3ae6b38f0.html.

UNDESA. 2018. *Promoting Inclusion through Social Protection: Report on the World Social Situation 2018*. Report on the World Social Situation 2018. New York, NY: United Nations Department of Economic and Social Affairs.

UNDP. 2021. "Issue Brief: Unified Social Registry: Towards An Efficient Social Protection System."

UNFA. n.d. "Demographic Dividend." United Nations Population Fund. https://www.unfpa.org/demographic-dividend.

UNICEF. 2019a. *Children Out of School*. Putrajaya: United Nations Children's Fund.

———. 2019b. *The State of the World's Children 2019. Children, Food and Nutrition: Growing Well in a Changing World*. New York, NY: United Nations Children's Fund.

———. 2019c. "Universal Child Benefit Case Studies: The Experience of Argentina." New York: UNICEF.

———. 2019d. "Universal Child Benefit Case Studies: The Experience of Mongolia." New York: UNICEF.

———. 2019e. "Universal Child Benefit Case Studies: The Experience of South Africa." New York: UNICEF. https://www.unicef.org/media/70486/file/ZAF-case-study-2020.pdf.

———. n.d.-a. "Child Poverty." United Nations Children's Fund. n.d.-. https://www.unicef.org/social-policy/child-poverty.

———. n.d.-b. "Frequently Asked Questions on the Convention on the Rights of the Child." UNICEF. https://www.unicef.org/child-rights-convention/frequently-asked-questions.

UNSDG. n.d. "Leave No One Behind." United Nations Sustainable Development Group. https://unsdg.un.org/2030-agenda/universal-values/leave-no-one-behind.

WHO. n.d.-a. "Body Mass Index - BMI." Copenhagen: World Health Organization. https://www.euro.who.int/en/health-topics/disease-prevention/nutrition/a-healthy-lifestyle/body-mass-index-bmi.

———. n.d.-b. "Global Health Observatory Data Repository." World Health Organization.

Woo, Wing Thye. 2009. "Getting Malaysia Out of the Middle-Income Trap." SSRN Scholarly Paper ID 1534454. Rochester, NY: Social Science Research Network. https://doi.org/10.2139/ssrn.1534454.

World Bank. 1999. *Social Risk Management Conceptual Underpinnings for the Social Protection Sector Strategy Paper*. Washington, DC: The World Bank.

———. 2015. "Safety Nets in Africa : Effective Mechanisms to Reach the Poor and Most Vulnerable." Washington, DC: The World Bank.

———. 2018. "Case Study on the Employees Provident Fund of Malaysia." Washington, DC: World Bank.

———. 2020a. "A Silver Lining: Productive and Inclusive Aging for Malaysia." Washington, DC: The World Bank.

———. 2020b. "Malaysia Economic Monitor, June 2020: Surviving the Storm." Washington, DC: World Bank.

———. 2020c. "Surviving the Storm." Washington, DC: The World Bank.

———. 2021a. "Aiming High : Navigating the Next Stage of Malaysia's Development." Washington, DC: The World Bank.

———. 2021b. "June 2021 Global Economic Prospects: A Strong but Uneven Recovery." Washington, DC: The World Bank.

———. 2021c. "Malaysia Economic Monitor, June 2021: Weathering the Surge." Washington, DC: World Bank.

———. n.d.-a. "ASPIRE: The Atlas of Social Protection Indicators of Resilience and Equity." https://www.worldbank.org/en/data/datatopics/aspire.

———. n.d.-b. "World Bank Open Data." https://data.worldbank.org/.

Xiaoqing, Yu. 2016. "Social Protection Tools for the 21st Century." 2016. https://blogs.worldbank.org/voices/social-protection-tools-21st-century.

Zainal Abidin Mohd Kassim. 2003. "The Annuity Malaysia Experience." Kuala Lumpur: MERCER.

KHAZANAH
RESEARCH
INSTITUTE

Level 25 Mercu UEM
Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur
MALAYSIA

Tel: +603 2034 0000

www.KRInstitute.org