



# Technical Assistance Consultant's Report

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## Malaysia: Updating and Improving the Social Protection Index (Cofinanced by the Republic of Korea e-Asia and Knowledge Partnership Fund)

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For Asian Development Bank

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Asian Development Bank



## **ABBREVIATIONS AND ACRONYMS**

ADB	–	Asian Development Bank
DMC	–	developing member countries
EPF	–	Employees Provident Fund
GTR	–	gender targeting rate
PTR	–	poverty targeting ate
PLI	–	poverty line income
SPI	–	Social Protection Index
TFR	–	total fertility rate

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## I. INTRODUCTION

### A. Background

1. Asian Development Bank's (ADB) development of the social protection index contributed to the strengthening of social protection programs in developing member countries (DMCs). ADB will continue its work on updating and improving the Social Protection Index (SPI). The SPI's update will address and incorporate lessons learned from two technical assistance projects<sup>1</sup> that developed the SPI for 35 countries in Asia and the Pacific and introduce new components and institutional arrangements to sustain the effective use of social protection indicators in policy analysis and formulation in the DMCs.

2. These initiatives will be implemented under the ADB commissioned regional technical assistance project<sup>2</sup> that seeks to (i) improve the methodology in defining social protection for each DMC in order to ensure comparability among DMCs; (ii) improve data gathering for statistical analysis on social protection; and (iii) develop capacity of DMCs in monitoring the SPI and allow comparisons between countries and over time on implementation performance.

3. This country study provides updated information and data on social protection arrangements, legislation, and institutions and calculates the SPI for Malaysia in view of the revised SPI methodology. The SPI can be updated periodically to assess progress in social protection arrangements in the country and analyse deeper aspects of targeting, coverage and expenditures on various social protection programs; for example, on the breadth (coverage) of social insurance versus social assistance or labour market programs, or on the depth (size of benefit) of various categories of social protection. The revised SPI methodology also provides scope to measure the gender responsiveness of programs, and poverty targeting of programs.<sup>3</sup>

4. The primary objective of the Malaysia Country Report is to present the results of the research on social protection programs and policies in Malaysia from all related ministries; summarizing quantitative information on these activities to enable the formulation of a national Social Protection Index (SPI).

### B. Definition of Social Protection

5. Social protection is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income.

6. This definition categorizes all programs under the traditional components of social protection as social insurance, social assistance, and labour market programs. Microfinance as a form of social protection is excluded from the calculation of SPI since it does not involve a transfer in cash or kind and beneficiaries incur loans or debt instead of transfers. Thus, by eliminating microfinance from the coverage of social protection programs, three major programs are left: (i) social insurance (i.e., the categories of old-age insurance, programs for the disabled,

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<sup>1</sup> ADB. 2003. *Technical Assistance for Social Protection Index for Committed Poverty Reduction*. Manila (TA 6120-REG); ADB. 2006. *Technical Assistance for Scaling Up of the Social Protection Index for Committed Poverty Reduction*. Manila (TA 6308-REG).

<sup>2</sup> ADB. 2010. *Technical Assistance for Updating and Improving the Social Protection Index*. Manila (TA 7601-REG).

<sup>3</sup> To be able to calculate with relative accuracy the poverty-targeting rate of programs, household surveys need to contain a social protection data. However, the data of the survey was not available at the time of writing this report.

and health expenditure on insurance and pensions; (ii) social assistance (i.e., the categories of non-contributory health insurance, conditional cash transfers, child protection, and unconditional cash transfers; and (iii) labour market programs as shown in Table 1.

**Table 1: Social Protection Categories and Types of Programs**

<b>Social Protection Category</b>	<b>Type of Program</b>
Social Insurance Programs	Pensions Unemployment Benefits Health Insurance - but not universal health insurance Other social insurance (maternity, disability benefits)
Social Assistance	Assistance for the elderly (e.g., non-contributory basic allowances for the elderly, old-age allowances) Health assistance (e.g., reduced medical fees for vulnerable groups) Child protection (school feeding, scholarships, fee waivers, allowances for orphans, street children initiatives) Family allowances (e.g., in-kind or cash transfers to assist families with young children to meet part of their basic needs) – excluding any transfers through the tax system Welfare and social services targeted at the sick, the poor, the disabled, and other vulnerable groups Disaster relief and assistance Cash/in-kind transfer (e.g., food stamps, food aid) Temporary subsidies for utilities and staple foods - only if imposed in times of crisis and if targeted at particular vulnerable groups. General subsidies are excluded even if their rationale is to assist the poor Land tax exemptions
Labor Market Programs	Direct employment generation through public works programs – including food for work programs Direct employment generation through loan-based programs – included if loans are subsidized and/or job creation is an explicit objective of the program Labor exchanges and other employment services – if distinct from social insurance and including retrenchment programs Unemployment benefits – if distinct from social insurance and including retrenchment programs Skills development and training – included if targeted at particular groups (e.g., the unemployed or disadvantaged children. General vocational training is excluded).

Source: ADB. 2011. *The Revised Social Protection Index: Methodology and Handbook*. Manila.

7. The term “social protection” is not frequently used in Malaysia; the more commonly used terms are social security and social welfare. Social protection in Malaysia is largely considered as a responsibility of the Government, which is provided through a number of public programs that are universal and other programs that cover specific target groups.

8. The foundation of social protection in Malaysia is provided by the social security system. The employed Malaysian citizens are protected through public sector schemes. A mixture of schemes provides social protection against various contingency needs for those in the private formal sector. In addition, programs which act as safety nets to cover the rest of the population and vulnerable groups are provided by the Social Welfare Department as public assistance. Such schemes are largely designed for needy people to help them manage economic or social

risks. Hence, the public assistance programs are largely short-term in nature and do not feature long-term welfare support systems.

9. The formal system of social protection is supplemented by religious based schemes, for example, the Muslim *Zakat* system covering all the Muslims and providing protection to the poor, destitute and those affected by natural disasters. The Government also provides free education to all Malaysian children with the objective of ensuring an educated and literate population. Malaysian citizens also receive virtually free health services through health centers in the rural and urban areas, district hospitals and specialist and teaching hospitals.

### **C. Report Structure**

10. The Malaysia Country Report is structured as follows:

- Chapter II contains a brief overview of the social and economic development in Malaysia.
- Chapter III describes current social protection activities and programs in the country using ADB's typology.
- Chapter IV provides an overview of the derivation of SPI and its disaggregation.
- Chapter V presents the analysis of the country results.
- Chapter VI discusses the conclusion and recommendations.

## **II. COUNTRY OVERVIEW**

11. This chapter presents a brief overview of the socio-economic characteristics of Malaysia, main features of the country's current developmental situation and recent trends.

### **A. Geography**

12. Malaysia is located in Southeast Asia. It is a peninsula south of Thailand and a third of the north-east island of Borneo. The country borders Thailand, Indonesia and Brunei. The country is rich in natural resources such as tin, rubber, oil palm, petroleum, natural gas, timber, iron ore and bauxite. Malaysia has a total land area of 329,847 square kilometers (127,355 sq miles).

### **B. Demographic Profile**

13. In mid-2010, the total population was 28.25 million with an annual population growth rate of 1.7%. In terms of ethnic distribution, Malays comprise about 53.3% of the total population; Chinese about 26%, while indigenous peoples (11.8%), Indians (7.7%), and others (1.2%) constitute the rest of the population. The major languages of the country include Malay, which is the official language, English, Chinese and its various dialects, Tamil, Telugu, and Malayalam. About 60.4% of the population is followers of Islam, followed by Buddhism (19.2%), and Christianity (9.1%), with the rest constituting Taoism, Hinduism, and other religious beliefs.



14. Table 2 shows population and vital statistics of the country from 2008 to 2010. In 2010, at the national level, life expectancy at birth is 71.7 years for males and 76.6 years for females. The crude birth rate in 2010 is 18.8 per 1,000 population and the crude death rate is 4.9 per 1,000 population. The infant mortality rate in 2010 is estimated at 6.3 per 1,000 live births.

**Table 2: Malaysia Population and Vital Statistics, 2008-2010**

	2008	2009	2010
<b>Population</b> (million)	27.54	27.90	28.25
<b>Vital Statistics</b>			
Crude Birth Rate (per 1,000 population)	18.4	17.9	18.8
Crude Death Rate (per 1,000 population)	4.7	4.8	4.9
Infant Mortality Rate (per 1,000 live births)	6.2	7	6.3
<b>Life Expectancy at birth</b> (number of years)			
Male	71.6	71.7	71.7
Female	76.4	76.5	76.6

Source: Social Statistics Bulletin Malaysia, Department of Statistics, Malaysia (various years)

15. While the population is relatively young, with only 2.14 million (7.6%) of the population aged 60 and over, the proportion of those aged 60 and over is projected to increase to 15% by 2035<sup>5</sup>. Malaysia's ageing population is unique with its multiethnic composition, exhibiting varying socio-demographic patterns and ages at different rates. For instance, the total fertility rate (TFR) in 2000 is higher for the Malays and Bhumiputera as well as Indians at 3.4. In contrast, TFR is low among Chinese at 2.5 children per women. The dynamics of fertility and mortality rates among the population have contributed to different variants in population ageing leading to varying rates of life expectancies among various ethnic groups.

### C. Economy

16. The major export items are electronic equipment, petroleum and liquefied natural gas, chemicals, palm oil, wood and wood products, rubber and textiles. Based on the World Bank estimates, in 2010, per capita GNI is about US \$7,760.

17. Over the last three decades or so, Malaysia has exhibited significant economic success as one of Southeast Asia's most vibrant economies, considered to be the outcome of decades of industrial growth and a reasonable political stability. Its multi-ethnic, multi-religious society encompasses a majority Muslim population in most of its states and an economically powerful Chinese community.

18. Consisting of two regions separated by some 640 miles of the South China Sea, Malaysia is a federation of 13 states and three federal territories. It is one of the region's key tourist destinations, offering excellent beaches and scenery. Dense rainforests in the eastern states of Sarawak and Sabah, on the island of Borneo, are a refuge for wildlife and tribal traditions.

### D. Poverty and Inequality

19. Officially, poverty in Malaysia is measured in absolute terms, which is defined by a threshold level, the Poverty Line Income (PLI). The PLI is defined as "an income that is

<sup>5</sup> Kinsella and He Wang, 2009.

necessary to buy a group of foods that would meet the nutritional needs of the members of a household. The income also meets other basic necessities of households such as clothing, rent, fuel and utilities, transport and communications, medical expenses, education and recreation<sup>4</sup>. Based on this definition, the Poverty Line Income (PLI) is based on seven components of household expenditure – clothing, rent, fuel and utilities, transport and communications, medical expenses, education and recreation. The level of expenditure required to determine the PLI is based on the Household Expenditure Survey. The Poverty line is then determined for the geographical areas of Peninsular Malaysia, Sabah and Sarawak.

20. Although the Government calculates different Poverty Line Incomes (PLIs) for Malaysia's three regions, the average PLI for the country is estimated as RM800 per month for 2009. Based on this poverty line, out of 6.2 million households in the country, the Government estimates that only 228,400 households (3.8% of total households) can be classified as poor<sup>5</sup>. While disaggregating the household poverty rate across rural and urban divide, poverty seems to be more prominent in rural areas (8.4%) compared to urban areas (1.7%). Given that the Government considered a household as comprising 4.4 members in 2009, these estimates suggest that out of the total population of 28.25 million, roughly 1.07 million Malaysian people can be classified as poor.

21. The incidence of poverty among households is reduced from 49.7% in Peninsular Malaysia in 1970; 58.3% in Sabah state in 1976; and 56.5% in Sarawak state in 1976; to 15%, 34.3% and 21% per cent, respectively, for the three localities; and 17.1% for the whole country in 1990. By 1999, the poverty incidence for Malaysia further reduced to 7.5% and 5.5% in 2004. Similar reductions occurred in both rural and urban poverty. According to the Government's most recent Poverty Line Income (PLI) estimates for 2009, PLIs for Peninsula, Sabah, Sarawak, and Malaysia are RM763, RM1048, RM912, and RM800, respectively<sup>6</sup>.

22. These reductions in poverty are achieved over the last 30 years through implementation of the Government's New Economic Policy and its successor, the New Development Policy that aims to achieve strong economic growth. In an effort to achieve the objective of poverty reduction, the primary strategies selected are those that could provide opportunities to the poor such as gainful employment in higher-paying jobs or self-supporting activities that help increase incomes. Less emphasis is paid to welfare handouts as a means of dealing with poverty except for segments of the poor unable to find gainful employment, such as the elderly and persons with disabilities.

23. The poor in Malaysia has been historically concentrated in the Malay region and indigenous minorities who geographically reside in the poorer regions. However, development in these areas, especially with the increase in productivity in agriculture, has entailed a substantial reduction in the incidence of poverty. However, pockets of poverty still remain in some remote, poorly served communities. In recent times, there is an emergence of urban poverty among vulnerable groups such as the destitute, the disabled, the terminally ill, and the elderly living on their own without family support. The rapid rates of urbanization and development in Malaysia over the last three decades have seemingly contributed to a growing urban poverty issue<sup>7</sup>.

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<sup>4</sup> Government of Malaysia. 2010. Statistics and Data from the 10th Malaysian Plan: New Economic Model

<sup>5</sup> Footnote 6

<sup>6</sup> Footnote 6

<sup>7</sup> Nair, 2009.

Consequently, additional strategies to address this phenomenon are being implemented, and also considered a priority under the current 10<sup>th</sup> plan.

## E. Employment and Labor Force

24. The labor force refers to those in the 15 – 64 years age group who are either employed or unemployed. The employed number includes all persons who worked for pay, profit, or family gain. Included in this group are persons not working due to illness, injury, labor dispute, or for any other reason. The summary of principal statistics on employment and unemployment for 2008-2010 is in Table 3.

**Table 3: Employment and Labor, 2008-2010**

	2008	2009	2010
<b>Labour Force</b> (000)	11,967.50	12,061.10	12,216.80
<b>Employment</b> (000)	11,576.50	11,620.50	11,129.40
<b>Unemployment Rate</b> (%)	3.3	3.7	3.6
<b>Labor Force Participation Rate</b> (%)			
Total	62.7	63.1	63.5
Male	79	79.5	79.8
Female	45.7	46	46.5
<b>Employment by Sector</b> ('000)*			
Agriculture	1,390.90	1,390.80	1,389.70
Mining and Quarrying	42.8	42.5	43.3
Manufacturing	3338.3	3209.9	3267.6
Construction	758.4	762.4	765.4
Finance, Insurance, Real Estate and Business	811.9	817	832
Government Services	1122.7	1247.9	1249.5

Source: Social Statistics Bulletin Malaysia, Department of Statistics, Malaysia; 2010 Census, Department of Statistics, Malaysia; Labor Force Statistics Malaysia, Department of Statistics, Malaysia

\*Other employment sectors are omitted here, including sectors such as transport, storage and communication, utilities, wholesale and retail trade, accommodation and restaurant, as well as other services.

25. As shown in Table 3, the size of the labor force in Malaysia is a little above 12 million while the total number of employed population is slightly over 11 million in 2010. Among the employed, the distribution by occupation and economic sector indicates that the majority is engaged in manufacturing, agriculture, and government services sectors. The rest are employed in mining and quarrying, construction and finance, insurance, real estate, business, and other sectors. The unemployment rate remained reasonably low, at 3.6% in 2010<sup>8</sup>.

26. The labor force is expected to continue having a young age profile with more educated and better trained citizens. The labor force participation (LFP) rate currently stands at 63.5 (79.8 among males and 46.5 among females). There is no clear increase in labor force participation rates for both males and females seen in recent years. However, with improved levels of education, expanding employment opportunities, institutionalization of more flexible working arrangements, more women in the future are expected to participate actively in the economy. An increase in the female LFP rate will increase the supply of local labor. Thus, it is expected to reduce the need for foreign workers and professionals, especially teachers and nurses.

<sup>8</sup> Department of Statistics Malaysia, 2011.

### **III. CURRENT SOCIAL PROTECTION PROGRAMS AND ACTIVITIES**

27. This chapter presents an overview of the data collection process, objectives, and current social protection activities in Malaysia including challenges and difficulties encountered. The two-fold objective of this chapter is to present the main features of the social protection programs in the country and provide quantitative information that will serve as the basis for the formulation of the Social Protection Index.

#### **A. Data Collection**

28. In terms of data collection, most of the information has been obtained from published reports and websites of government and public organizations. Additional data were obtained through interviews with representatives of implementing agencies and experts working on social security and social welfare issues in Malaysia.

#### **B. Social Assistance Programs**

29. The Government's social assistance and welfare programs include assistance to needy families; assistance to aborigines; assistance to the elderly; allowances to persons with disabilities; provision of artificial aids; educational assistance and disaster relief.

30. In an effort to achieve the objective of poverty reduction, the Government of Malaysia's primary strategies are designed to provide opportunities to the poor and disadvantaged to help them engage in gainful employment, preferably with higher-paying jobs or activities to enable self-support and sufficiency. Less emphasis has been given to welfare support as a response to poverty except for certain groups of poor unable to find gainful employment, such as the elderly, persons with severe disabilities, single mothers, and others.

31. The general public who do not have any coverage under formal sector schemes are entitled to social assistance from the welfare department under certain criteria. Malaysians with no other coverage, receiving low benefits from other institutions, or fall below the poverty line, are eligible to apply for welfare assistance. The amount received by each family ranges from RM90 a month to RM150. Assistance is also provided for the repair of depleted homes, disaster relief due to floods, or other natural calamities.

##### **1. Assistance to Needy Families**

32. Welfare assistance in Malaysia is provided to those in need of assistance through the State Welfare Financial Assistance Scheme and the Federal Welfare Assistance scheme. The state schemes do not provide uniform protection, and differ both in terms of the scope of coverage and the level of financial assistance provided. The Federal scheme covers only Peninsular Malaysia, eleven states, and the Federal Territories of Kuala Lumpur, Putrajaya, and Labuan. The states of Sabah and Sarawak are not covered under the Federal scheme. The type of benefits available, the entitlement conditions for receipt of the benefits, and the rate of the benefits are determined by the Federal Government and approved by the Ministry of Finance.

33. The provision of these welfare benefits to citizens is short-term assistance. The principal objective of the Financial Assistance provided by the welfare department is to assist the

individual or family in financial distress for a limited period of time or for the period required to help them gain financial self-sufficiency. The main objectives of the financial assistance scheme are provision of (i) income maintenance to enable families to access basic necessities; (ii) allowance to encourage target groups such as the handicapped to work or continue work; and (iii) assistance to specific groups to improve living standards especially among the elderly, children, and single mothers.

34. Eligibility requirements for the scheme include fulfillment of the criteria such as being a Malaysian Citizen or Permanent Resident, having a monthly family income below a threshold level, belonging to a target group that is in need of financially incapable. Other factors that are considered include the number of children, dependents, dwelling conditions, age of applicant, and incapacity or disability caused by disease.

## **2. Assistance to the Elderly**

35. The objective of Assistance to the Elderly scheme is to enable an elderly person to live in the community and enjoy a normal life with respect and dignity, receiving family and community acceptance. The benefit is paid under to the following conditions: (i) aged 60 years and above; (ii) with no means of income for daily living; and (iii) no family or with family incapable of providing financial support.

## **3. Allowance to Persons with Disabilities**

36. Under this scheme, financial assistance is provided to enhance the income of the person with disability, enabling the fulfillment of the normal needs of a disabled person. The program instills and encourages the disabled person to work, gaining self-sufficiency and independence from other family members. The assistance is expected to improve the living standards of the disabled person in the community.

37. The conditions for entitlement are as follows: (i) registered as a person with disability with the welfare department; (ii) self employed or employed with an employer; (iii) with a monthly income in the range of RM200 and RM 400 or RM500, if employed; and (iv) does not stay in an institution for the disabled.

## **4. Provision of Artificial Aids**

38. The Department also provides artificial aids to the elderly and disabled persons to improve their mobility as well as quality of life. This includes the provision of wheelchairs, walking aids, spectacles, and other forms of artificial aids.

## **5. Disaster Relief**

39. Financial assistance is provided to families or individuals in the event of man-made or natural disasters such as floods, fire or wind damage, including damage to crops. The amount of benefit paid is dependent on an assessment of the damage. For emergency relief, the amount can be slightly higher.

## C. Social Insurance Programs

40. The social insurance programs include (i) public sector pensions; (ii) Employees Provident Fund (EPF); (iii) Work Injury Scheme; (iv) Death and Disability Pension Scheme; (v) Sickness, Maternity and Retrenchment Benefits; and (vi) Healthcare Insurance.

41. The Social Security system in Malaysia consists of a number of schemes designed to provide a comprehensive level of social protection to public sector and private sector employees. The schemes differ principally with the public sector employees receiving pensions upon retirement, while employees in the private sector receive only compulsory savings in the employee's provident fund. Employees in the private sector are covered for employment injury and invalidity based on social insurance. They are also covered for sickness, maternity and retrenchment as an employer liability scheme. The principal schemes under this category include the Public Sector Pension Scheme, the Social Security Schemes, the Employees' Provident Fund, Workman's Compensation Scheme and Employer Liability Schemes.

### 1. Public Sector Pensions

42. The public sector is the largest employer in Malaysia. The sector, which consists of the federal, state, statutory bodies and municipal authorities, currently employs 1.3 million employees.<sup>9</sup> All public servants are covered by a number of legislations passed by Parliament providing them with social security protection. The provision of an employment pension at the time of retirement is the only retirement benefit available until 1991.

43. Since 1991, all newly recruited public sector employees were given the option at the end of their probationary period to opt for a retirement pension or continue contributions to the Employees Provident Fund. The laws designed to provide such benefits mainly include the Pension Act 1980, Pension Act Statutory Authorities 1980, Pension Adjustment Act 1980 and since 1991, the provision of the option to choose Pension or Provident Fund.

44. Under the existing system, pension is paid to a public sector employee when the employee retires from public service due to: (i) attainment of Retirement Age (58 years)<sup>10</sup>; (ii) medical reasons; (iii) abolishment of service; (iv) reorganization of department; (v) public interest or interest of statutory body; (vi) acquired citizenship in another country; (vii) provision of false information upon appointment; and (viii) optional retirement.

45. A public servant upon retirement is entitled to a range of benefits including service pension, gratuities, and other allowances. There is no means testing for eligibility of pension. The dependents are the spouse of the civil servant and pension is paid for life. Even if the dependent remarries, the children are entitled to a share of the pension until 18 years of age.

<sup>9</sup> Given that Malaysia currently has more than 1.3 million civil servants, the country is considered to have one of the highest civil servants-to-population ratio in the world by the Organisation for Economic Cooperation and Development (OECD) standards (source: [www.oecd.org](http://www.oecd.org))

<sup>10</sup> Pension experts believe that the current retirement age of 58 years is too low considering the life expectancy at 60, which are 17.2 years for males and 19.6 years for females (Asher, 2011).

## **2. Employees Provident Fund**

46. The Employees Provident Fund (EPF) is a compulsory savings scheme covering the private sector employees, the self-employed and certain employees in the public sector. All employees in the private sector who are employed under a contract of service must compulsorily contribute a certain percentage of their monthly wage according to wage categories to the Employees Provident Fund. The public sector employees who have not been confirmed and do not qualify for the pension scheme are also required to contribute to the Employee Provident Fund. The self-employed person can contribute any sum in excess of a minimal amount.

47. For contribution rates under the EPF system, the rates for an insured person are 11% of monthly earnings for members up to age 54, and 5.5% of monthly earnings for members aged 55 to 75. The maximum monthly earnings used to calculate contributions are RM3,000. Similarly, the employer is required to contribute 12% of monthly earnings for members up to age 54, and 6% of monthly earnings for members aged 55 to 75.

48. The benefits provided by the EPF include lump sum payment of savings with all dividends paid after reaching 58 years of age; withdrawal provision upon reaching 55 years of age; withdrawal for housing, education and mortgage repayments; withdrawal for medical purpose; death benefit in the event of death before 60 years of age, provided that the employee has not withdrawn the savings<sup>11</sup>; and disability benefit, similar to death benefit, if an employee is declared to be permanently disabled due to disease or injury by a medical board<sup>12</sup>.

## **3. Work Injury Scheme**

49. The Work Injury Scheme provides protection against accidents, which occur during the course of employment. The scheme also provides coverage for occupational diseases and commuting accidents related to work. Commuting accident coverage was introduced since 1992. The uniform rate of contribution applicable to all industries for the work injury scheme is 1.25% of monthly payroll according to 24 wage categories paid by the employer only. The scheme provides compulsory coverage to employees earning up to RM3,000 a month.

50. Benefits paid under the work injury include both benefits in cash and kind. The cash benefits are paid to the employee directly, while benefits in kind are in the form of medical costs and rehabilitation. The payments for benefits in kind are in the form of reimbursements or payments made directly to the providers of the service. Benefits under the scheme include necessary medical treatment, hospitalization, medicine, artificial limbs and other prosthetic appliances, and physical and vocational rehabilitation. Medical care is provided in government hospitals and physicians under contract with the Social Security Organization<sup>13</sup>.

51. In the event the accident results in temporary disability, the employee is paid a temporary disability benefit equal to 80% of the insured person's average daily wage in the 6 months before the disability began. The insured must be certified by a medical doctor to be unfit for work for at least 4 days. The benefit is paid for the period the employee is on medical leave. The benefit amount can range from RM10 to RM78.70 on a daily basis.

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<sup>11</sup> This benefit is in addition to the total savings of the employee.

<sup>12</sup> The condition is that the disability occurs before withdrawal and the age of the member is 60 years and less.

<sup>13</sup> SSPTW Malaysia: Asia and the Pacific, 2010.

52. In all cases, benefits paid are based on the assessment of the loss of earnings by a medical or appellate medical board. An employee who is assessed to be 100% permanently disabled and needs constant attendance of another person is paid an additional 40% of his daily rate of pension, subject to a maximum of RM 500 per month as Constant Attendance Allowance. Rehabilitation in the form of prosthetics and artificial aids is provided, while vocational training is also given to recipients of periodic payments. In the event of death, a funeral grant equivalent to RM 1,500 is paid to the family of the employee.

53. Dependents of the deceased are also entitled to Survivor Benefit, which is 90% of the assumed daily wage. The benefit is paid monthly to the dependants of a deceased employee. The dependants are listed according to priority beginning with the widow/widower, children, parents, and siblings below the age of 21 years old.

#### **4. Invalidity / Disability Pension Scheme**

54. The Invalidity Pension Scheme provides protection for any morbid condition that is incurable or not likely to be cured, with the morbid condition reducing the ability to earn by two-thirds. The rate of contribution is 1% of wages shared equally by employer and employee according to the wage categories. The monthly earning used to calculate benefits is RM 2,950.

55. The benefits under the scheme are (i) full pension rate from 50% to 65% of the insured person's average monthly earnings in the 24 months before the start of disability, depending on the number of contribution paid; (ii) reduced disability pension at the rate of 50% of the insured's average monthly earnings in the 24 months before the start of disability; (iii) Constant Attendance Allowance of 40% of the monthly pension subject to a maximum of RM 500; (iv) rehabilitation under the Employment Injury Scheme; (v) funeral grant up to RM1,500, paid in the event of death to the insured's dependent or next of kin; (vi) Invalidity Grant of a lump sum paid if an employee does not qualify for pension, equal to the total contributions paid plus a 6% rate of interest; (vii) Survivors Pension, introduced in 1985, at a rate equal to the rate of full or reduced pension paid monthly (i.e., share and duration similar to Dependants Benefit under the Employment Injury Scheme); (viii) educational assistance at full cost of education and a living allowance given to successful recipients which must be repaid with an interest rate of 4% per annum if the recipient does not get a first class honors degree.

#### **5. Sickness, Maternity and Retrenchment Benefits**

56. The principal labor legislation in Malaysia is the Employment Act 1955. The Employment Act entrusts the responsibility on the employer to pay for the Sickness Benefit, Maternity Benefit, Retrenchment Benefit and wages and allowances to workers. The Sickness Benefit is equal to 8 days of fully paid leave certified by a doctor if the employee has less than 2 years of service, 12 days for 2 years and more but less than 5 years, and 16 days for service exceeding 5 years. The Maternity Benefit is equal to 60 days of wages to qualified female employees. The qualifications for entitlement to benefit is the employee having five children or less, having been in employment for at least 3 months preceding the confinement, and worked for at least a day in the four months immediately preceding the confinement. The birth, live or still, should be after a gestation period of 28 weeks. The Retrenchment Benefit is paid by the employer to the employee upon retrenchment and the amount depends on the length of the employee's service. The sum paid is 10 days of wages per year of service for service less than 2 years, 15 days per year for service exceeding 2 years but less than 5 years, and 20 days per year for service exceeding 5 years. The Human Resource Department ensures employers comply with the



requirement to pay wages and other allowances to workers. This is an indirect form of protection accorded to employees with the objective of preventing exploitation.

57. The Workman's Compensation Act 1952 applies to all Malaysian Citizens not covered under the Employee's Social Security Act 1969 as well as all foreign workers. A special scheme, enacted under the Foreign Workers Compensation Scheme (Insurance) Regulation 1996, provides coverage to all foreign workers against the risk of work accidents and death or permanent disability of any cause. The employer pays for the insurance coverage provided by private insurance companies.

## **6. Health Care Insurance**

58. In Malaysia, the general public is provided medical treatment through government hospitals and rural health clinics at a low fee, which makes the service virtually free. This medical service, which includes both out and inpatient treatment, is available to all citizens. Foreigners, however, are required to pay a higher rate for the service. The Ministry of Health has a free immunization scheme for all children accessed through hospitals, health clinics, and primary schools. Dental treatment is also provided through the hospitals.

59. Supplementing the government hospital system is the emergence of private hospitals, which provide specialist services as well as regular medical services. The rate charged by the hospitals are not controlled but mutually agreed through consultations by the parties involved. A number of private insurance companies provide schemes to cover individuals and families with coverage for medical expenses. Those who can economically afford the coverage, purchase the type of cover suitable for their needs.

60. The Government has established a Medical Assistance Fund with the development of private medical services and specialists providing medical treatment not available in government hospitals. This Fund was designed to provide full or partial payment for medical costs, facilities and medication, which are needed by the individual and not available in government hospitals. Malaysian Citizens, who are poor or registered as disabled with the Department of Welfare, or persons referred by hospitals and certified by the Department of Welfare, are entitled to receive the benefits.

## **D. Labor Market Programs**

61. In Malaysia, most of the support schemes that are relevant are provided through the social security system. Consequently, not many programs can be categorized clearly as labor market programs. The principal exceptions are vocational training programs, training and education programs for retired or retiring servicemen, retrenchment benefits, and workmen's compensation benefits. The Ministry of Human Resources has established Vocational Training Institutes to provide training to youths who are unable to continue formal education in higher education.

62. The Ministry of Human Resources has established Vocational Training Institutes to provide training to many youths who are unable to continue formal education in higher education. These youths are provided with skills training in 21 technical institutes, making them employable. The Ministry succeeded in ensuring that 80% of the successful trainees receive employment. This process has reduced the unemployment rate in the country. The youth receive certificates in the various skills required by industries. The Ministry also conducts short courses to re-skill many youths in line with the requirements of industry.

#### IV. THE SOCIAL PROTECTION INDEX AND ITS DISAGGREGATION

63. The revised Social Protection Index (SPI) has a unitary indicator that can be disaggregated for analytical purposes. The revised SPI is calculated by **Total Social Protection Expenditures per Total Potential Beneficiaries by 25% of the GDP per capita (representing average poverty line expenditures)**. In other words, the total social-protection expenditures spread across all potential beneficiaries are compared to poverty-line expenditures in each country.

64. The revised SPI is calculated by **Total Social Protection Expenditures per Total Potential Beneficiaries by 25% of the GDP per capita (representing average poverty line expenditures)**. In other words, the total social-protection expenditures spread across all potential beneficiaries are compared to poverty-line expenditures in each country.

65. The revised SPI index can be disaggregated into two components, one for the 'depth' of coverage and the other for the 'breadth' of coverage of social protection programs. The first indicator is the **Total Social Protection Expenditures divided by the Total Actual Beneficiaries** (i.e., the average size of benefits actually received or 'depth'). The second indicator is the **Total Actual Beneficiaries divided by the Total Potential Beneficiaries** (i.e., the proportion of potential beneficiaries actually reached or 'breadth').

66. The revised SPI can also be disaggregated by the major categories of social protection programs: social insurance, social assistance and labor market programs. When the total expenditures per total potential beneficiaries for each major program are weighted in population terms, the program SPIs add up to the total SPI.

67. Furthermore, the revised SPI can also be disaggregated by expenditures per potential poor and non-poor beneficiaries. Finally, gender-wise data allows the disaggregation of expenditure by gender.

68. The derivation of SPI poor/non-poor and SPI women/men used poverty and gender targeting rates. The said rates are based on the results of household surveys, administrative reports of social protection implementing agencies and in some instances, on the professional judgment of the compilers.

##### A. Data Collection

69. This section synthesizes the information obtained from the preceding review of Malaysia's current social protection activities plus additional quantitative information on expenditure and beneficiaries of SP programs in order to derive summary indicators. The summary indicators are then used in the formulation of a Social Protection Index (SPI) for Malaysia in accordance with the methodology proposed by the SPI Handbook provided in July 2011.

70. First, the data and information collected on SP expenditure and SP beneficiaries have been aggregated to produce the SPI for Malaysia on each of the three broad categories of SP programs – Social Insurance, Social Assistance and Labor Market Programs. Subsequently, the figures are disaggregated to produce SPI (i) by depth and breadth, (ii) by poverty status and (iii) by gender.

## B. Basic Statistics

1. The calculation of the SPI values for Malaysia corresponds with the division of available data on social protection program expenditure as well as program beneficiaries by key statistical variables. These variables are presented in Table 4.

**Table 4: Basic Statistics for Malaysia, 2009**

<b>Statistic</b>	<b>Unit*</b>	<b>2009 Value</b>	<b>Source of Data</b>	<b>Notes</b>
GDP (current prices)	Millions	679,938	Bank Negara Malaysia Annual Report, 2009	calendar year (same as fiscal year beginning January 1 and ending on 31 December)
GDP per capita (current prices)	Units	24,370.54	Bank Negara Malaysia Annual Report, 2009	
GNI (current prices)	Billions	711.27	World Development Indicators 2009	
Total Population	Millions	27.90	Social Statistics Bulletin Malaysia, Department of Statistics, Malaysia	mid-year population estimate
Number of unemployed/ under-employed**	Millions	2.91	Labor Force Statistics Malaysia (www.statistics.gov.my)	unemployed *
Population aged 60 years and over	Millions	2.08	Department of Statistics, Malaysia, 2009	mid-year population estimate
Employed Population	Millions	11.62	Department of Statistics Malaysia 2009 (www.statistics.gov.my)	
Population living below national poverty line	Millions	1.07	Poverty Assessment as reported in the 10th Malaysian Plan Document, Government of Malaysia	Estimate of population below poverty line is based on 3.8% of household poverty rate and average number of household size
Disabled population	Millions	0.28	World Development Indicators 2009	
Children aged 0 to 14 years	Millions	8.59	Social Statistics Bulletin, Department of Statistics, Malaysia	mid-year population estimate
Disaster affected population	Millions	0.01	Department of Social Welfare	
Per capita poverty line income (annual)***	Units	9,600	Poverty Assessment as reported in 10th Malaysian Plan Document, Government of Malaysia, 2009	Government estimate of official PLI for Malaysia is 800RM based on which annual figure estimated
Average household size	persons	4.40	2010 Census, Department of Statistics, Malaysia	mid-year population estimate
Exchange rate****	US\$1=	3.52	Bank Negara Malaysia Annual Report, 2009	2009 average value

Source: Country Sources, 2011

\*All values expressed in local currency (Malaysian Ringgit (RM))

\*\* The reported figure includes the total number of unemployed (0.3879) and the number of unpaid family workers (0.5002)

\*\*\* Official poverty line income for Malaysia is RM800 per month, which is translated into the annual PLI estimate for the present purpose

\*\*\*\* Average for fiscal year

### C. Social Protection Expenditure

71. Expenditure on social protection programs is presented in Table 5. Most of the information is obtained from published reports of the respective websites of government and public organizations. Additional data are obtained through interviews with representatives from the implementing agencies and experts working on social security and social welfare issues in Malaysia.

**Table 5: Expenditure on Social Protection Programs**

SP No.	SP Programs (as identified for Malaysia)	2008 Annual Expenditure (RM millions)	2009 Annual Expenditure (RM millions)	2010 Annual Expenditure (RM millions)	Source of Data	Comments (where applicable)
1	Government Pension Scheme	10022.00	10146.00	11515.00	Bank Negara Malaysia (This is actually from CEIC database. It says the source is BNM.)	Includes the total annual pensions, retirement allowances and gratuities
2	Death and Disablement Benefit Scheme - Death Benefit	3.80	3.50	4.10	LTAT ((Lembaga Tabung Angkatan Tentera (Armed Forces Trust Fund)) Annual Report, 2008, 2009, 2010	Death benefit is paid to the dependents of a contributor, who passes away while in service with the Malaysian Armed forces
3	Death and Disablement Benefit Scheme - disablement benefit	0.70	1.00	1.40	LTAT (Lembaga Tabung Angkatan Tentera) Annual Reports	Disablement benefit is paid to servicemen discharged due to mental or physical handicap caused by work related injury
4	Training and education programs for	27.70	26.00	26.00	LTAT (Lembaga Tabung	

	retired / retiring servicemen				Angkatan Tentera) Annual Report, 2008, 2009, 2010	
5	Employees Provident Fund - Withdrawal as part of 55 year Scheme	6691.77	8343.37	8516.38	EPF(Employ ees Provident Fund) Annual Report, 2008, 2009, 2010	Compulsory savings scheme covering private sector, self-employed and some public sector. Pension fund inc. those who can withdraw dividends aged 55 and 50 and monthly withdrawals, including those by public sector employees.
6	Employees Provident Fund - Withdrawal under Death benefits and fund	540.84	610.89	660.86	EPF(Employ ees Provident Fund) Annual Report, 2008, 2009, 2010	Amount of withdrawal under Death benefits and fund scheme
7	Employees Provident Fund - Withdrawal under Incapacitation fund and benefits	259.02	313.67	289.98	EPF(Employ ees Provident Fund) Annual Report, 2008, 2009, 2010	Amount withdrawn under Incapacitation fund and benefits scheme
8	Employees Provident Fund - Withdrawal under Health Scheme	48.48	39.70	35.34	EPF(Employ ees Provident Fund) Annual Report, 2008, 2009, 2010	Amount of withdrawal under Health scheme
9	Employees Provident Fund - Withdrawal under Pensionable Employee/Opti on Scheme	1574.51	3290.66	4009.78	EPF(Employ ees Provident Fund) Annual Report, 2008, 2009, 2010	Amount of withdrawal under Pensionable employee/Opti on scheme

10	Retrenchment benefits	0.13	1.21	7.97	Annual Report Ministry of Human Resources, 2008, 2009, 2010	Paid by employer to an employee upon retrenchment (termination and lay-off benefits only); amount dependent on the length of employee's service
11	Workmen's compensation benefit	0.15	0.06	2.38	Annual Report Ministry of Human Resources, 2008, 2009, 2010	Under the Workman's Compensation Act 1952, covers all MAL citizens not covered under Employees Social Security Act 1969 plus all foreign workers; provides coverage against risk of work accident and death or permanent disability during employed period; and/or paid to widows of deceased workers
12	Vocational training	28.05	44.67	41.79	Annual Reports, Ministry of Human Resources	training for youths that are unable to move into higher education
13	Assistance for the Aged	78.09	228.18	422.46	Department of Social Welfare Statistical Report, 2008, 2009, 2010	Recipient must be >60 & have no means of income
14	Allowance for Disabled workers	58.69	103.73	146.07	Department of Social Welfare Statistical Report, 2008,	income enhancement

					2009, 2010	
15	Launching Grant	1.22	1.49	1.57	Department of Social Welfare Statistical Report, 2008, 2009, 2010	Onetime payment provided to recipients welfare benefits
16	Provision of Artificial Aids	2.32	2.50	2.32	Department of Social Welfare Statistical Report, 2008, 2009, 2010	
17	General Welfare Assistance	130.45	200.86	223.76	Department of Social Welfare Statistical Report, 2008, 2009, 2010	annual expenditure
18	Natural Disaster	2.41	5.97	4.68	Department of Social Welfare Statistical Report, 2008, 2009, 2010	annual expenditure
19	Foster Child Benefit	0.29	0.44	0.53	Department of Social Welfare Statistical Report, 2008, 2009, 2010	annual expenditure
20	School Assistance (for needy children)	91.85	167.98	290.06	Department of Social Welfare Statistical Report, 2008, 2009, 2010	paid for examinations fees, transport, books
21	Supplementary Food Plan (RMT) & school milk program	263.90	297.80	-	Ministry of Education School Aid Handbook, 2008, 2009, 2010	Milk and food program combined
22	One-off' assistance and tuition grants	242.40	245.70	-	Ministry of Education School Aid Handbook, 2008, 2009, 2010	One off assistance paid to needy children
23	Poor students Trust Fund	0.00	158.22	-	Ministry of Education School Aid Handbook, 2008, 2009, 2010	Includes aid to 'drop-out' students; uniform and other aid

					2010	
24	Social Assistance to aborigines	146.81	150.84	244.96	Department of Social Welfare Statistical Report, 2008, 2009, 2010	Allocated to Social development programs and fixed payments and grants
25	Medical Assistance Fund	37.37	39.68	81.19	Department of Social Welfare Statistical Report, 2008, 2009, 2010	Initiated through a government fund of 25 million RM
26	Employees Social Security - Disability	497.40	552.13	645.77	Social Security Organization of Malaysia Annual Report, 2008, 2009, 2010	Employees Social Security Act 1969 covers all industries, for contingencies of employment injury, invalidity and death, employing one or more under a contract of service; all government industries and mobile vendors exempted; protects through 2 SS schemes: Employment Injury Scheme & Invalidity Pension Scheme
27	Employees Social Security - Social Assistance	142.06	151.52	160.21	Social Security Organization of Malaysia Annual Report, 2008, 2009, 2010	Under Employees Social Security Act 1969, Paid to family of deceased; Dependents' benefits are 90% of daily wage



28	Employees Social Security - Medical Assistance	4.90	4.94	4.92	Social Security Organization of Malaysia Annual Report, 2008, 2009, 2010	As part of the Employees Social Security Act 1969, medical assistance provided
<b>Total</b>			<b>25,133</b>	<b>27,339</b>		
<b>Social Protection Expenditures</b>						

Source: Country Sources, 2011

72. The information on expenditure of various social protection programs is summarized in Table 6. Social protection expenditure in Malaysia is dominated by the expenditure on social insurance, which accounts for about 93.3%. Other categories account for less than 7% of social protection expenditure. Total expenditure on social protection in 2009 is a little over RM25 billion, which constituted 3.7% of Malaysia's GDP. Based on this information, the Social Protection Expenditure Indicator for 2009 is estimated at 3.7.

**Table 6: Social Protection Expenditure by Category**

SP Category	2009 Annual Expenditure (RM millions)	Percentage of Social Protection Expenditures
<i>Pensions</i>	13,437	53.5%
<i>Health Insurance</i>	358	1.4%
<i>Unemployment Benefit</i>	0	0.0%
<i>Other Social Insurance (e.g. maternity, disability benefits)</i>	9,662	38.4%
<b>ALL Social Insurance</b>	<b>23,457</b>	<b>93.3%</b>
<i>Assistance for Elderly</i>	228	0.9%
<i>Health Assistance</i>	40	0.2%
<i>Child Protection</i>	870	3.5%
<i>Disaster Assistance and Relief</i>	6	0.0%
<i>Other Social Assistance</i>	458	1.8%
<b>ALL Social Assistance</b>	<b>1,602</b>	<b>6.4%</b>
<b>Labour Market Programs</b>	<b>73</b>	<b>0.3%</b>
<b>TOTAL SP EXPENDITURE</b>	<b>25,133</b>	<b>100%</b>
<b>GDP</b>	<b>679,938</b>	
<b>SP Expenditure Indicator</b>	<b>3.7%</b>	

Source: Consultant's Estimates, 2011

#### D. Social Protection Beneficiaries

73. The second component required to calculate the Social Protection Index is the coverage of social protection programs. Table 7 presents information on the number of beneficiaries of the social protection programs. Each program is categorized into the broad social protection category (i.e., social insurance, social assistance and labor market programs).

**Table 7: Beneficiaries of Social Protection**

Prog No.	Program Name	2008 (000s)	2009 (000s)	2010 (000s)	LMP	SI	SA
1	Government Pension Scheme	511.88	528.58	542.00	0	528.583	0

2	Death and Disablement Benefit Scheme - Death Benefit	16.20	16.00	17.50	0	16	0
3	Death and Disablement Benefit Scheme - disablement benefit	0.05	0.05	0.06	0	0.053	0
4	Training and education programs for retired / retiring servicemen	1178.00	915.00	1234.00	915	0	0
5	Employees Provident Fund - Withdrawal as part of 55 year Scheme	154.53	209.09	235.93	0	209.086	0
6	Employees Provident Fund - Withdrawal under Death benefits and fund	33.91	37.98	41.03	0	37.984	0
7	Employees Provident Fund - Withdrawal under Incapacitation fund and benefits	6.49	7.13	6.46	0	7.128	0
8	Employees Provident Fund - Withdrawal under Health Scheme	5.08	4.88	4.31	0	4.876	0
9	Employees Provident Fund - Withdrawal under Pensionable Employee/Option Scheme	59.85	79.57	92.18	0	79.574	0
10	Retrenchment benefits	0.145	0.180	8.581	0.18	0	0
11	Workmen compensation benefit	0.15	2.99	4.91	2.989	0	0
12	Vocational training	38.78	53.43	53.88	53.428	0	0
13	Assistance for the Aged	31.04	99.40	120.50	0	0	99.399
14	Allowance for Disabled workers	24.76	35.08	44.68	0	0	35.084
15	Launching Grant	0.48	0.60	0.64	0.598	0	0
16	Provision of Artificial Aids	1.13	1.27	1.53	0	0	1.271
17	General Welfare Assistance	107.98	105.23	113.06	0	0	105.228
18	Natural Disaster	6.44	14.23	9.82	0	0	14.232
19	Foster Child Benefit	0.22	0.14	0.18	0	0	0.14
20	School Assistance (for needy children)	37.24	66.91	92.64	0	0	66.912

21	Supplementary Food Plan (RMT) and school milk program		698.92		0	0	698.923
22	One-off assistance and tuition grants		478.78		0	0	478.778
23	Poor students Trust Fund		197.77		0	0	197.772
24	Social Assistance to aborigines	21.95	82.66	77.79	0	0	82.66
25	Medical Assistance Fund	3.59	17.30	24.33	0	0	17.297
26	Employees Social Security - Disability	102.88	102.38	109.79	0	102.381	0
27	Employees Social Security - Social Assistance	34.67	35.01	37.03	0	35.012	0
28	Employees Social Security - Medical Assistance	1.71	1.77	1.86	0	1.774	0
<b>Total Beneficiaries</b>		<b>2379.157</b>	<b>3,792.3</b>	<b>2,875</b>	<b>972.195</b>	<b>1022.45</b>	<b>1797.7</b>

Source: Country Sources, 2011

Notes:

i) Pension beneficiaries for 2010 are not available publicly and the reported figure is the best estimate available; the figures will be replaced by an official figure when available.

ii) LMP= Labour Market Programs; SI=Social Insurance; SA= Social Assistance

## E. Poverty Focus of Social Protection Expenditure

74. Based on the available data and information on Malaysia's basic statistics and expenditures on social protection, the revised SPI also presents the poverty focus social protection indicator. The key data to be used for this purpose are the Poverty Targeting Rates (PTR), which indicate the percentages of social protection expenditures that are spent on poor people.

75. The official poverty line for Malaysia is RM800 per month (based on 2009 estimates). The monthly poverty line has been converted to an annual poverty line of about RM9,600. Based on the official (household) poverty rate of 3.8%, about 1.07 million people in Malaysia are estimated to be living below the poverty line. Consequently, the poverty focus of Malaysia relies on these estimates.

76. The social protection programs in Malaysia do not usually disaggregate data by poverty status and therefore, estimates had to be made. Given the fact that poverty disaggregated data on social insurance programs such as pension, Employees Provident Fund (EPF) and other social security schemes are not available; the national poverty rate of 4% has been used as a proxy for the PTR for such programs.

77. On the other hand, most of the social assistance schemes such as Foster Child Benefit, Tuition Grants, Poor Students' Trust Fund and similar others have been assigned much higher PTR estimates based on insights and information available through academic literature and

meetings and interviews with experts working on Malaysia's social security issues. In the remaining cases, professional judgment is applied by the consultant.

## **F. Gender Focus of Social Protection Expenditure**

78. Based on the available data and information on Malaysia's basic statistics and expenditure on social protection programs, gender focus of Malaysia's SPI is also derived. The disaggregation of social protection expenditures by gender is performed in a similar way as poverty status. The key information needed to complete the Gender Targeting Rate (GTR), is the percentage of social protection expenditures paid to females.

79. In Malaysia, the labor force participation rate among women is 46.5% and 79.8% for men, based on publicly available data (e.g., those related to the Employees Provident Fund scheme, and others). However, in most cases, information is not disaggregated by gender. Similar to the PTR, professional judgment is exercised in estimating the GTR values based on related information, interviews, and available data.

## **V. ANALYSIS OF COUNTRY RESULTS**

80. This chapter presents the results of the SPI calculation and its disaggregation into the three categories of social insurance, social assistance, and labour market programs. Further disaggregation by depth and breadth of coverage, by poor or non-poor, and by women or men are also discussed.

### **A. Disaggregation by Social Protection Category**

81. Table 8 presents the SPI for social insurance, social assistance and labor market programs, as well as the overall index. The SPI for Malaysia in 2009 is estimated at 0.155. When disaggregated by the three broad categories, SPI for social insurance programs is 0.145; 0.010 for social assistance; and 0.0005 for labor market programs.

**Table 8: Calculation and Disaggregation by Category**

	<b>Units</b>	<b>Social Insurance</b>	<b>Social Assistance</b>	<b>Labor Market Programs</b>	<b>All SP Programs</b>
Total SP Expenditure	Millions	23,457	1,602	73	25,133
Beneficiaries	000s	1022.451	1,798	972.195	3792.342
Reference Pop	Millions	13.700	9.958	2.905	26.563
25% of GDP per capita	units	6092.635	6092.635	6092.635	6092.635
SPI		0.145	0.010	0.0005	0.155

Source: Consultant's estimates, 2011

82. The 2009 SPI indicates that in Malaysia, the average per capita expenditures is about 15.5% of the poverty line expenditures; while for social insurance, it is 14.5%, and 1% in social assistance. The expenditure for labor market programs is small at less than 1.0%.

## B. Disaggregation by 'Depth' and 'Breadth'

83. Table 9 disaggregates the SPI into a measure of 'depth' of benefits and a measure of 'breadth' of coverage. The measure of 'depth', which can be interpreted as the average expenditure per actual beneficiary as a percentage of poverty line expenditure, is calculated at 1.088. The measure of 'breadth', which is expressed as the total beneficiaries divided by the total reference population, is a non-monetary unit. Therefore, it can be expressed as a simple percentage.

84. As shown in Table 9, the measure of 'breadth' of SPI is estimated at 0.159. This means that the social protection expenditures benefited about 15.9% of the target beneficiaries of social protection. The overall SPI is the multiplication of the two measures, 'depth' and 'breadth'.

**Table 9: Disaggregation by Depth and Breadth**

	<b>Social Insurance</b>	<b>Social Assistance</b>	<b>Labour Market Programs</b>	<b>All SP Programs</b>
Depth	3.766	0.146	0.012	1.088
Breadth	0.038	0.068	0.037	0.143
SPI	0.145	0.010	0.0005	0.155

Source: Consultant's estimates, 2011

85. Based on Table 9, it can be seen that the estimate of the measure of 'depth' of 1.088 is quite high. The depth index indicates that the per capita social protection benefits in 2009 are about 108% of the poverty line expenditures. However, Malaysia appears to perform rather poorly in terms of the measure of 'breadth' of coverage, indicating a much smaller proportion (about 14.3%) of the beneficiaries actually reached.

## C. Disaggregation by Poverty Focus

86. Table 10 disaggregates the SPI by the poverty status. Since poverty figures are not survey-based, the information on these tables should be taken as indicative. As shown in Table 10, the SPI value for poor in Malaysia is estimated as 0.015 compared to 0.140 for non-poor. This implies that the social protection expenditure in Malaysia is not pro-poor. When the country embarked on the goal of achieving a rapid economic growth about three decades ago, the focus was more on increasing economic growth rate rather than its distribution.

**Table 10: Disaggregation by Poverty Status**

	<b>Poor</b>	<b>Non-Poor</b>
SP Expenditure	2,450	22,682
Reference Population (000s)	27	27
25% of GDP per capita	6,093	6,093
SPI	0.015	0.140

Source: Consultant estimates, 2011

## D. Disaggregation by Gender

87. As shown on Table 11, the SPI estimate for women is 0.065, while for men, it is 0.090. The figures imply that social protection expenditures on women is about 6.5% of the poverty line expenditures while for men, it is a bit higher at 9%.

**Table 11: Disaggregation by Gender**

	<b>Women</b>	<b>Men</b>
SP Expenditure	10,511	14,622
Reference Pop (000s)	27	27
25% of GDP per capita	6,093	6,093
SPI	0.065	0.090

Source: Consultant estimates, 2011

## **VI. CONCLUSION AND RECOMMENDATIONS**

88. In Malaysia, the current social protection system is largely dominated by social insurance programs, which represent the formal employment sector. Since social insurance schemes are relatively well funded, the recipients such as civil servants receiving pensions and those covered through the Employees' Provident Fund (e.g., employees in the private sector, non-pensionable civil servants, others) receive generous support in terms of financial support and healthcare.

89. A substantial share of the population is engaged in the informal sector<sup>14</sup>. However, informal sector workers cannot share in the benefits of social protection expenditure largely enjoyed by social insurance recipients. The informal sector workers are further disadvantaged since there is no unemployment benefit scheme in Malaysia. These workers constitute largely a heterogeneous group with significant mobility within the sector, mostly arising from shorter-term jobs. Also, self-employed workers are largely excluded. Unemployment insurance schemes do not exist other than the payment of termination benefits required by labor laws while a minimum wage scheme exists only in certain occupations<sup>15</sup>.

90. A diverse group of vulnerable individuals has emerged, which includes the underemployed, low-wage earners, urban poor, elderly population, persons with disability and chronic sickness, and homemakers and elderly females who are not in labor force<sup>18</sup>. Given the dominance of social insurance programs, social assistance programs aimed at poor and vulnerable groups appear largely inadequate.

91. The estimate of 'breadth' of coverage at 14.3, which is quite low, seems consistent with the observation that the coverage rate of social protection programs in Malaysia is significantly low in terms of reaching poor and vulnerable groups. Consequently, a substantial segment of the population appears to be living in hardship to maintain a rising cost of living<sup>19</sup>.

92. This report covers only the social protection programs that are prevalent at the public sector or national level and excludes several other support systems. Examples of other support systems are *Zakat*, a comprehensive support system provided to the Muslim population through Islamic institutions such as the Islamic religious councils; trust funds provided by The National Unit Trust and the Bhumiputera Unit Trust; state support systems provided through the state

<sup>14</sup> One study estimated that in Malaysia, close to 30% of the labor force is engaged in the informal sector (Ong and Tengku, 2009). Given that the labor force is about 12 million in 2009, the informal sector represented almost 3.6 million individuals.

<sup>15</sup> On 12 March 2012, the Malaysian government proposed a nationwide minimum wage rate ranging from RM800 to RM900 per month (Malaysia daily, 14 March 2012). Also, see Soh 2006; Singh and Kandan 2007; and Nair 2009.

<sup>18</sup> Nair, 2009; Ong, et al. 2010; Tengku and Majid, 2009

<sup>19</sup> Nair, 2009; Mahavera, 2010

governments<sup>20</sup>; support from NGOs (e.g., National Council of Senior Citizens Organizations Malaysia, Gerontological Association of Malaysia, The Golden Age Welfare Association of Malaysia, and the Central Welfare Council of Peninsula Malaysia); and informal support through families and friends. These support systems, particularly the *Zakat* system, are likely to contribute significantly to total social protection<sup>21</sup>.

93. Similar to most Asia-Pacific countries, Malaysia faces the adequacy problem of retirement benefit schemes. Similar to other emerging Asian societies, the country confronts the rapid population ageing issue contributed by the twin aspects of demographic transition to fewer infants and longer life expectancies. Since the current social insurance schemes generally covers contributors only until 58 years old, this social protection system appears rather inadequate in ensuring financial sustainability during retirement.

94. In general, the Malaysian social protection system, needs to be assessed in terms of coverage, adequacy, and equity. The dominance of the social insurance schemes covering the formal sector alone has led to the emergence of a large and diverse set of vulnerable groups consisting of informal sector workers as well as individuals who require special assistance due to low income, old age, and disability. Most of the existing social assistance schemes appear inadequate to cater to the needs of these groups. Furthermore, the modest share of the existing social assistance and welfare programs in the total social protection expenditure suggests an anti-poor bias in the social protection system. In light of these observations, it is recommended to (i) restructure social protection expenditure; (ii) extend coverage to informal workers; (iii) extend adequate coverage to the elderly and disabled; (iv) create temporary unemployment support program; (v) strengthen the social insurance scheme and EPF; and (vi) strengthen coordination across social protection institutions.

95. Considering the budgetary pressure largely caused by the large expenditure on social insurance programs, primarily the pension scheme, the Government needs to devise a number of policies to restructure the overall social protection expenditure system. The greater share of social protection expenditure needs to be allocated towards social assistance schemes with the vast number of vulnerable groups involved.

96. Most existing social assistance and welfare schemes are inadequate and somewhat restricted in nature. The Government needs to re-examine social protection programs to include informal sector workers who are not currently covered under any of the available schemes. New strategies need to be devised and existing ones strengthened, such as increasing the amount of support, raising the current monthly wage ceiling of certain schemes, and speeding up the actual time of payment and government top-ups in urgent cases. These activities can be more effectively addressed through a greater mobilization of state and local government bodies, non-government organizations, religious organizations, community organizations, and social entrepreneurs. To ensure an equitable and effective implementation of social assistance schemes, they should be based on strict means-testing methods to ensure that only deserving needy individuals receive the benefits.

97. The existing social protection schemes should also be extended to cover the elderly and persons with disabilities who are currently outside the main social insurance schemes. Since there is no unemployment benefit scheme available, some individuals may fall under the

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<sup>20</sup> For example, each state in Malaysia has its own *Zakat* agency (Ong and Tengku 2009). For more on *Zakat*, see Singh and Kandan, 2007.

<sup>21</sup> Singh and Kandan, 2007

category of persistently unemployed due to individual specific reasons. Therefore, the system should provide support to these individuals to enable them to meet basic necessities and lead a life with self-respect and dignity.

98. In the absence of a formal unemployment insurance scheme, the Government should consider devising unemployment support programs for individuals who are not eligible for the formal social insurance scheme. These programs are more likely to provide a temporary means of support based on genuine needs of individuals in times of hardships, and can be more effectively implemented and monitored with the active participation of state governments and local level organizations.

99. The coverage rate for the social insurance schemes under the EPF system is rather impressive with the system estimated to cover close to 50% of the labor force<sup>22</sup>, but there is scope for improvement. Similar to Singapore, there is a huge concern in adequacy of balances during retirement due to the preferred individual lump sum withdrawals. The Government should reexamine its current policies and maintain a balance between meeting current needs such as healthcare, housing, etc., and ensuring reasonable balances for retirement purposes.

100. In order to ensure financial sustainability among the elderly population, the investment approaches and strategies of the resources under the EPF system and pension fund needs strengthening. There is an urgent need for greater transparency in the investment policies and performance of the civil service system as a whole. Furthermore, pension experts advise that the Government needs to consider introducing pension contribution by employees. Another aspect for government to consider is increasing the current retirement age of 58 years to 60 years or 62 years, similar to neighboring Singapore.

101. Currently, little coordination exists between the support systems provided through the national level public sector, the state, and other sectors. The Government should undertake necessary efforts to lessen the existing fragmentation of various social protection schemes, particularly between the national and state government as well as those between the public and private sector, especially on healthcare services. Some regulations that encourage better coordination among service providers might be required, combined with public support. The Social Security Organization can act as an intermediary to strengthen the link between various implementing agencies.

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<sup>22</sup> Ong and Tengku 2009



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## FORMULATION OF THE SOCIAL PROTECTION INDEX AND ITS MAJOR DISAGGREGATION

### A. Structure of the SPI

1. Based from the 2011 SPI Handbook by Baulch' and McKinley, the SPI is described as a simple and unitary indicator rather than a composite index. It is not an abstract index and should provide a "normative" reference such as the magnitude of the impact on people.
2. The formulation of the revised SPI, under the present study, refers to the total SP expenditures divided by the total potential beneficiaries, and relative to a quarter of GDP per capita. This is mathematically expressed in the following equation:

$$SPI = \frac{\left[ \frac{\sum E}{\sum PB} \right]}{Z}$$

where

E represents the sum of all SP expenditures;  
 PB represents the sum of all potential beneficiaries; and  
 Z represents poverty-line expenditures which is 25% of GDP per capita.

3. The term "Total Expenditures per Total Potential Beneficiaries" has two parts:
  - (i) Total expenditures per total actual beneficiaries – this represents the Depth of the SPI;
  - (ii) Total actual beneficiaries per total potential beneficiaries – this represents the Breadth.
4. It is noted that 25% of GDP per capita is roughly the average national poverty line across ADB's sample of countries.

### B. SPI's Major Disaggregation

#### 1. Disaggregation by Depth and Breadth

5. The SPI can be disaggregated into measuring the depth of coverage and also, the breadth of coverage. Depth represents the average expenditures that the government spends for every actual beneficiary as a percentage of poverty-line expenditures.

#### a. Depth

6. The index is measured as

(Total Expenditures divided by Total Actual Beneficiaries);  
 Divide by Z or the poverty-line expenditure.

7. The index is represented by the following equation:

$$D = \frac{\left[ \frac{\sum E}{\sum AB} \right]}{Z}$$

where

D represents Depth

E represents the sum of all SP Expenditures, and

Z represents the poverty-line expenditures.

#### **b. Breadth**

8. The breadth of coverage index is simply the proportion of the total actual beneficiaries receiving government benefits over the total potential beneficiaries. This is computed as

Total Actual Beneficiaries divided by Total Potential Beneficiaries.

9. The index is represented by the equation

$$B = \frac{\sum AB}{\sum PB}$$

where

B denotes Breadth,

AB represents the sum of all actual SP beneficiaries

PB represents the sum of all potential SP beneficiaries.

### **2. Disaggregation by Component**

10. The second major disaggregation involves the three-way distinction between components.

11. Each of the three components for Expenditures per Potential Beneficiaries of SI, Potential Beneficiaries of SA, Potential Beneficiaries of LMP is multiplied by its weight. The mathematical relationship between the three components is based on weighted average.

- (i) SPI for Social Insurance (includes pensions, health insurance, and unemployment benefit)
- (ii) SPI for Social Assistance (includes assistance for the elderly, health assistance, poverty programs and child protection)
- (iii) SPI for Labor Market Programs (include training and public works scheme)

12. The formula for the SPI of each of the three categories can be illustrated by the formula for SPI<sub>si</sub>. Deriving the SPI for Social Insurance proceeds as

(SI Expenditures divided by SI Actual Beneficiaries) multiplied by

(SI Actual Beneficiaries divided by SI Potential Beneficiaries) multiplied by  
(SI Potential Beneficiaries divided by All SPI Potential Beneficiaries) multiplied by  
1/Poverty-Line Expenditures.

13. The SPI for SI is expressed in the equation

$$SPI_{st} = \frac{\left[ \frac{\sum E_{st}}{\sum AB_{st}} \right] \times \left[ \frac{AB_{st}}{PB_{st}} \right] \times \left[ \frac{PB_{st}}{PB} \right]}{Z}$$

14. The last expression in the numerator represents the proportion of SI, which is the potential SI Beneficiaries divided by the Total SPI Potential Beneficiaries.

Z represents the poverty-line expenditures.

15. After each of the three components' expenditures per potential beneficiaries (SI, SA, LMP) has been multiplied by its weight, all three are added together. The resulting total is the country's SPI. This is shown as

$$SPI = SPI(SI) + SPI(SA) + SPI(LMP)$$

### 3. Disaggregation of Expenditures on Poor and Non-Poor Beneficiaries

16. The SPI can be disaggregated by expenditures on poor and non-poor beneficiaries.

#### a. SPI (Poor)

17. The index is derived at as follows:

$SPI_p$  represents the total expenditures per poor actual beneficiaries as a ratio to all potential beneficiaries both poor and non-poor. The index is computed as:

(Total Expenditures on the Poor divided by the Total Poor Actual Beneficiaries)  
multiplied by (Total Poor Actual Beneficiaries divided by Total Potential Beneficiaries).

18. The index is represented by the following equation:

$$SPI_p = \left[ \frac{\sum E_p}{\sum AB_p} \right] \times \left[ \frac{\sum AB_p}{\sum AB} \right]$$

#### b. SPI (Non-Poor)

19.  $SPI_{np}$  represents the total expenditures per non-poor actual beneficiaries as a ratio to all potential beneficiaries, both poor and non-poor.

20. The index is derived as

(Total Expenditures on the Non-poor divided by Total Non-poor Actual Beneficiaries) multiplied by (Total Non-poor Actual Beneficiaries divided by Total Potential beneficiaries).

21. The index is represented by the following equation:

$$SPI_{np} = \left[ \frac{E_{np}}{\sum AB_{np}} \right] \times \left[ \frac{\sum AB_{np}}{\sum AB} \right]$$

22. When SPI (Poor) is multiplied to SPI (Non-Poor), the product represents the SPI of the country.

