SOCIAL PROTECTION INSIGHT

KUMPULAN WANG SIMPANAN PEKERJA

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EDITORIAL COMMITTEE

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Social protection services delivery in Malaysia differ from those in most other developed countries;

policies and benefits are not managed and administered by a single entity but by multiple agencies under various ministries.

THE MALAYSIAN SOCIAL PROTECTION LANDSCAPE

SOCIAL PROTECTION IN MALAYSIA: COVERING THE BASICS

Despite it's vital importance, there is no standard definition of social protection or clear classification of social protection measures in literature nor in policy practice.

In prior years, social protection in Malaysia aspired to the minimum standards (social security) definition set by the International Labour Organisation (ILO) which refers to the set of public measures that a society provides for its members to protect them against economic and social distress that would be 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, and death of the breadwinner); the provision of healthcare; and, the provision of benefits for families with children.

In line with the ILO's 2012 Social Protection Floors Recommendation 202, Malaysia is currently working towards having "nationally-defined sets of basic social security guarantees which secure protection aimed at preventing or alleviating poverty, vulnerability and social exclusion".

National social protection floors should include at least the following four social security guarantees, as defined at the national level:

- access to essential health care, including maternity care;
- basic income security for children, providing access to nutrition, education, care and any other necessary goods and services;
- 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; and
- basic income security for older persons.

Besides the ILO definition, the Malaysian pension system can be analysed based on the multi-pillar pension framework as promoted by the World Bank.

THE MULTI-PILLAR PENSION FRAMEWORK IN MALAYSIA

Pension provision for the elderly (age 60 years and above) addresses some of the nine contingencies of social protection.

Within the muli-pillar pension framework, pillar zero is a tax-funded social assistance for lifetime poor (either as universal benefit or means-tested) while the first pillar comprises publicly financed and managed 'pay as you go'

(PAYG) system to provide basic income protection which benefits are generally linked to earnings and are likely to be redistributive

The second pillar refers to mandatory funded occupational scheme which involves direct linkage between contributions and benefits whereas the third pillar is a fully funded voluntary or individual scheme which is privately managed to supplement pillar two.Lastly, pillar four embodies family and inter-generational financial and non-financial support for the elderly, including access to low cost housing and medical care.

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SUMMARY OF MALAYSIAN PENSION SYSTEM (MULTI-PILLAR FRAMEWORK)

	Pillar 0	Pillar 1	Pillar 2	Pillar 3	Pillar 4
Objective	Poverty eradication	Basic income	Income replacement	Extra income	Informal Support
Participation	Residual	Mandatory	Mandatory	Voluntary	Voluntary
Contributions	No	Yes	Yes	Yes	No
Financing	Unfunded (Tax)	Partially funded	Funded (contributions)	Financial assets	Financial assets
Scheme(s)	Social assistance scheme (means-tested) 1. Bantuan Orang Tua (BOT) 2. Zakat 3. 1 Malaysia People's Aid (BRIM)	NA	1. Public Service Pension Scheme (Public sector employees) - Social insurance scheme (DB) 2. Employees Provident Fund (EPF) (Private sector employees & non- pensionable public sector employees) -Provident Fund scheme (DC) 3. Armed Forces Fund (LTAT) (Enlisted military personnel) -Provident Fund scheme (DC) 4. SOCSO (Private sector employees) -Social insurance scheme (DB)	1. Private Retirement Scheme (PRS) (Eight fund managers with 24 products) 2. Insurance (annuity)	1. Inter-generation transfer (family) 2. Access to healthcare 3. Access to low cost housing
Administrator/ Regulator/ Ministry	• Social Welfare Department (MWFCD) • State zakat authorities (14 States) • MoF	NA	• PSD • Employees Provident Fund (EPF) - MoF • Armed Forces Fund (LTAT) - MoD • SOCSO - MoHR	• PPA • Insurance Companies • Securities Commission • Bank Negara	• MoH • MWFCD MUWHLC

Note:

DB	Defined Benefit (a retirement plan where the benefit formula is de fined and known in advance)
DC	Defined Contribution (a retirement plan where the formula for com puting the employer's and employee's contributions is defined and known in advance, but the benefit to be paid out is not known in advance).
MWFCD	Ministry of Women, Family and Community Development
MoF	Ministry of Finance
MoD	Ministry of Defense
MoHR	Ministry of Human Resource
MoH	Ministry of Health
MUWHLG	Ministry of Urban Wellbeing, Housing and Local Government
PPA	Private Pension Administrator
PSD	Public Service Department
SWD	Social Welfare Department

Zero Pillar –

The Department of Social Welfare of Malaysia plays an important role under the zero pillar of the National Multi-pillar Pension Framework. It provides tax funded means-tested social assistance benefits, namely the 1Malaysia Welfare Programme (Kar1sma). Covering the elderly, disabled, single mothers, military and police widows as well as children, it offers not only financial assistance, but also non-monetary support (day care centres, training programmes, etc.)

For instance, the Bantuan Orang Tua (BOT) under this programme entitles a lifetime poor person aged 60 years and above without any form of financial support for financial assistance of RM300 (USD 75) per month.

Another form of social assistance, particularly for the Muslim community is zakat or Islamic tithes. However, in Malaysia, zakat benefit amount differs from one state to another state.

The government introduced a one-off cash transfer programme, the "1 Malaysia People's Aid" (BR1M) in 2012 for low-income households, to partially compensate for food and fuel price increases. It has since been continuously implemented and expanded in terms of benefits and population coverage. In addition, to ensure the effectiveness of poverty eradication efforts, the eKasih database (a central registry of low-income households) has been designated as the sole database for low-income households and the Implementation Coordination Unit (ICU) of the Prime Minister's Department as the sole manager for this database, which was first developed in 2008. Besides the above, there are other social assistance programmes for school children, the aboriginal people, the disabled, and other vulnerable groups provided by various federal and state government agencies.

1st Pillar –

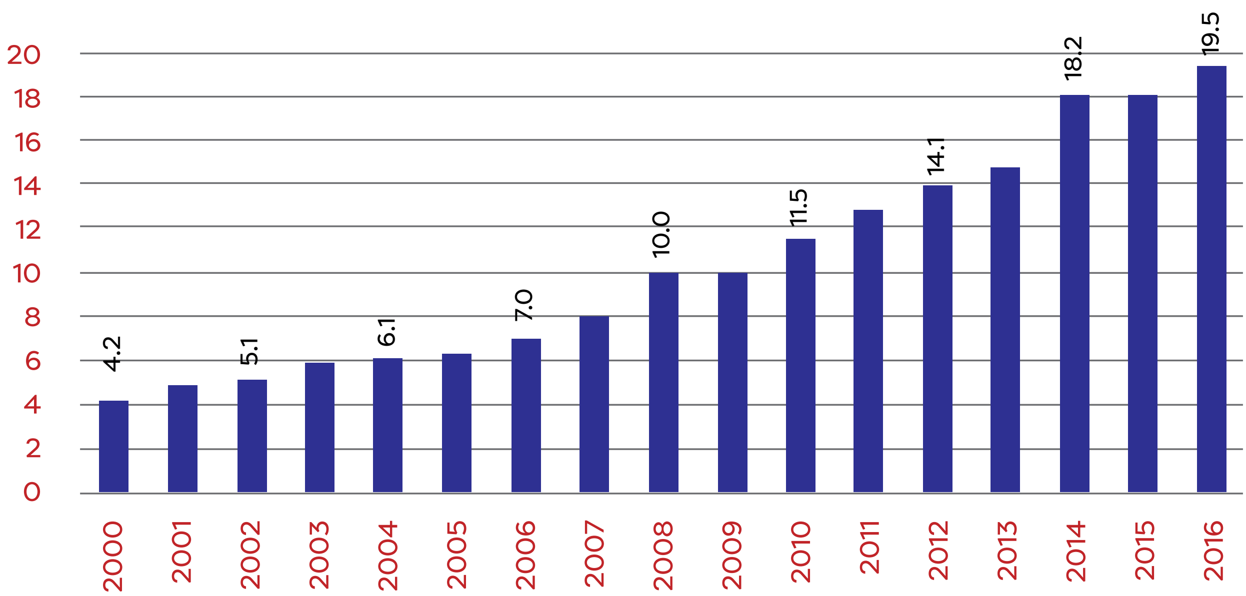
This pillar is not available in Malaysia.

2nd Pillar –

There are four different types of scheme to cater for different job sectors in Malaysia.
For the public sector, retirees who opt for the Government Pension Scheme are entitled for the non-contributory defined benefits pension upon reaching the age of 60 years. Depending on the length of service and last drawn salary, employees retiring after 30 or more years of service receive a lifelong monthly pension with a replacement rate of 60% of the final salary. On top of that, retirees from the public sector are also eligible for free or subsidised medical benefits for life.

As of June 2016, public sector retirees numbered 743,000 including spouses or children of public sector retirees who have passed away. Pension and gratuities expenditure under the national budget have been rapidly increasing over the years. Therefore, a more sustainable system is urgently needed taking into consideration that Malaysia will be an aged nation within 15 years.

PENSION & GRATUITIES EXPENDITURE (IN RM BILLION)



Source: Ministry of Finance. Economic Report (various year)

The Employees Provident Fund (EPF) is tasked with the role of managing a defined contribution retirement scheme which is compulsory for private sector and non-pensionable public sector employees. It also covers the self-employed, informal sector and foreign workers, but on a voluntary basis. The rate of contribution for employees with wages more than RM5,000 is 12% for employers and 11% for employees, while the rates for employees earning RM5,000 or less are 13% and 11% for employers and employees respectively. Upon reaching the age of 55, members have flexible options to withdraw their savings, including lump-sum, monthly, annual dividend or on a need basis.

Effective March 2016 until December 2017, employees' statutory monthly contribution rate was reduced from 11% to 8% for members below the age of 60 and 5.5% to 4% for those aged 60 and above. However, members could opt to maintain the previous contribution rate of 11% or contribute more than 11%.

Rank and file military personnel are compulsory members of the Armed Forces Retirement Fund (LTAT) scheme. Similar to the EPF, it is also a fully funded defined contribution retirement scheme with a contribution rate of 10% of the monthly salary with an additional 15% contribution from the government. Members can only withdraw the entire savings from the fund at the age of 50 in lump-sum form.

Invalidity, employment injury, and survivor's benefits for private sector employees are administered by the Social Security Organisation (SOCSO). The SOCSO schemes cover workers who earn less than RM4,000 a month and are financed by contributions from both employees and employers. Benefits are paid out in the form of periodical payments calculated on an earnings related basis. At present, the contribution rate is 0.5% for employees and 1.75% for employers.

3rd Pillar –

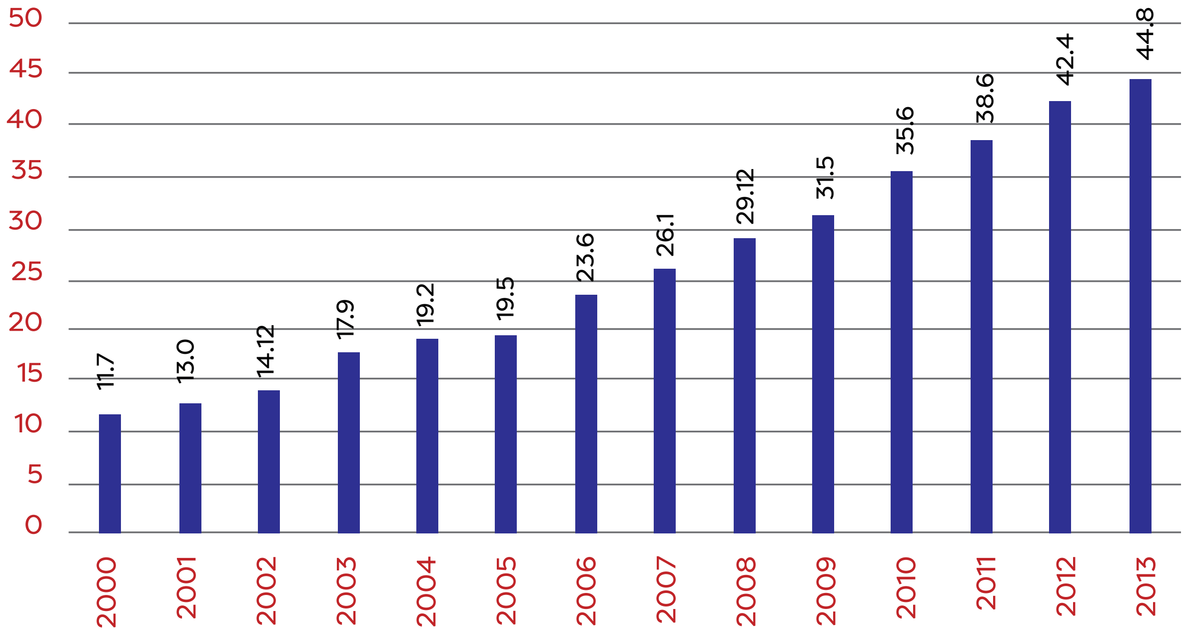
Launched in 2012, the Private Retirement Scheme (PRS) is a voluntary scheme for individuals to accumulate additional retirement savings as part of Malaysia's effort in fulfilling this pillar. All Malaysians regardless of job sector can participate and choose among the eight PRS providers approved by the Securities Commission. The administration of PRS accounts are managed by the Private Pension Administrator (PPA), including registration, withdrawals, and so on.

3rd Pillar –

In order to provide non-financial support to the elderly, the Malaysian government is very committed to the principle of universal access to high-quality healthcare, which the Ministry of Health offers through a network of nationwide public clinics and hospitals. Currently, there are 133 public hospitals and 9 special medical institutions, 1,061 health clinics (Pusat Kesihatan Besar & Kecil) and 1,810 community clinics (Klinik Desa) throughout the country. Public healthcare services are mainly funded (98%) through taxation, with free access for public sector employees and their families as well as for senior citizens. For other citizens, primary health care is a mere RM1 (USD0.25) for outpatient treatment and RM5 (USD1.26) for specialist care, including in oncology, obstetrics, gynaecology, and paediatrics. Total expenditure on healthcare has increased dramatically in recent years, with slightly above half under the public healthcare system, calling into question its sustainability.

"Malaysia has a long history of social protection programmes dating back to the 19th century."

TOTAL HEALTH EXPENDITURE, 2000-2014 (IN RM BILLION)



Source: Ministry of Health (2015). MNHA Health Expenditure Report 1997 – 2013.

HEALTHCARE DELIVERY IN MALAYSIA

Outside the pension system, the Malaysian government is also very committed to universal access to high-quality healthcare, which the Ministry of Health offers through a network of nationwide public clinics and hospitals. Currently, there are 133 public hospitals in the country and 9 special medical institutions. In addition, there are 1,061 health clinics (Pusat Kesihatan Besar & Kecil) and 1,810 community clinics (Klinik Desa) throughout the country.

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CONCLUSION

Malaysia has a long history of social protection programmes dating back to the 19th century. All these programmes have undergone various structural changes to suit their objectives in providing non-labour income, including access to essential health care, and basic income security for children, persons of active age, as well as older persons.

The mixed structure of tax funded and defined contributions has led to Malaysia satisfying the minimum set up of a social protection programme. Malaysia’s healthcare system in particular has received good feedback from the international community. International Living, an American publication, had rated Malaysia’s healthcare system as the third best out of 24 countries in 2014. However, the ever-increasing government expenses to cover social protection benefits might no longer be sustainable especially if the country suffers an economic crisis. Hence, the government is calling for a stronger support from families as well as encouraging people to start saving for their retirement as well as to be prepared for any unforeseen circumstances that could jeopardise earnings.

EPF MALAYSIA ORGANISES MALAYSIA'S LARGEST MEMBERS' CONSULTATION EXERCISE

Effort to Raise Members' Savings Through Policy Enhancement Initiatives

Recognising the growing concerns on the inadequacy and insufficiency of retirement savings, the EPF had conducted a members' consultation exercise in April 2015 to obtain its members' feedback and comments on four enhancement initiatives proposals to the EPF scheme.

- Options on aligning the Full Withdrawal age with the Minimum Retirement age:-
  - **a** Immediate alignment to the new retirement age of 60 or gradual alignment in 15 years; or
  - **b** Retaining full withdrawal at age 55 and new contributions after age 55 to be eligible for withdrawal at age 60.
- Aligning minimum contributions with the Minimum Wage legislation;
- Extending dividend payments from the current age of 75 to 100 years; and
- Introducing Shariah-compliant retirement savings in addition to the existing retirement savings scheme. Members will be given the option to switch to Shariah-compliant retirement savings when introduced.

As a custodian of retirement savings for close to half of the Malaysian working population, the EPF has a responsibility to introduce changes to its scheme in line with the changing demands and needs of its members. The 2015 initiatives presented for public scrutiny aimed to enhance members' awareness on the importance of retirement planning so they can make vital decisions pertaining to their personal finances.

The consultation exercise, which was conducted via an online survey on the EPF website, was reckoned as the largest consultation exercise in the country and it received 96,448 responses from EPF members within two weeks.

The proposals were designed to address issues related to the inadequacy of retirement savings among EPF members for the long term.

The exercise sparked a healthy debate among stakeholders, academicians and the public on matters pertaining to retirement. More importantly, it also helped to increase members' awareness on the importance of planning for their retirement.

Based on the results of the survey, the EPF amended its Act by the end of 2015, to cater for the following initiatives with implementation to be done in stages from 2017 onwards:-

- Retaining the full withdrawal age of 55 while new contributions (for those who are still working) from age 55 to 60 can be withdrawn at age 60;
- Aligning minimum contributions with the Minimum Wage legislation. The current Minimum Wage is RM1,000 for Peninsular Malaysia and RM920 for Sabah, Sarawak and Labuan.
- Extending dividend payments from beyond age 75 to 100.
- Providing members the choice to opt for Simpanan Shariah, in which their savings will be managed and invested according to Shariah principles.

RESULTS OF MEMBERS' CONSULTATION EXERCISE

The results are **statistically significant** and **representative** of the opinion of all EPF members

95.0% Confidence Level

0.35% Margin of Error

96,448 Respondents

83.1% Private Sector

12.1% Public and Statutory Bodies

4.8% Self-Employed

AGE	≤40	41-50	51-60	>60
	65.7%	24.9%	9.2%	0.2%

63,366 respondents are members **age 40 and below**

Male **57.6%** | **42.4%** Female

Gender representation **reflected the composition of the current Malaysian workforce**

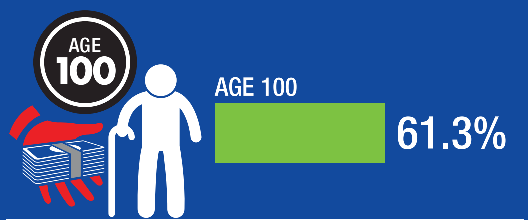
INITIATIVE 1: INCREASING MEMBERS' RETIREMENT SAVINGS

91,047 members had opted for Option 2, which entails **retaining the full withdrawal age of 55 years** and to **lock in new contributions until age 60**

INITIATIVE 2: ALIGNING MINIMUM CONTRIBUTIONS WITH THE MINIMUM WAGE LEGISLATION

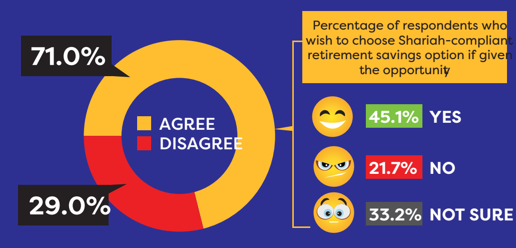
71,950 members agreed that this proposal would help to **increase low-paid employees' retirement savings**

INITIATIVE 3: EXTENDING DIVIDEND PAYMENTS FROM AGE 75 TO 100



61.3% members who wish to continue to keep their savings with EPF after they retire indicated their preference to **continue receiving dividends until age 100**

INITIATIVE 4: SHARIAH-COMPLIANT RETIREMENT SAVINGS OPTION



71.0% of members agreed to switch to a **Shariah-compliant retirement savings**

SHEDDING LIGHT on EPF Members

DEMOGRAPHY SHAPE

One in two Malaysians is most probably a member of the EPF. Hence, the demographic profile of the EPF membership naturally mirrors shifts in Malaysia's demographic landscape. In addition, savings at the EPF form the bulk of members' financial assets, implying that an examination of EPF savings data will be revealing for the state of household financial wealth and retirement adequacy. In this article, we take a look at some of the key demographic and financial statistics of the EPF membership.

Statistics of EPF Members

14.55 mil Total Members

6.79 mil Active Members

RATIO
100 : 118
100 : 127

36 years old
31 years old

38 years old
33 years old

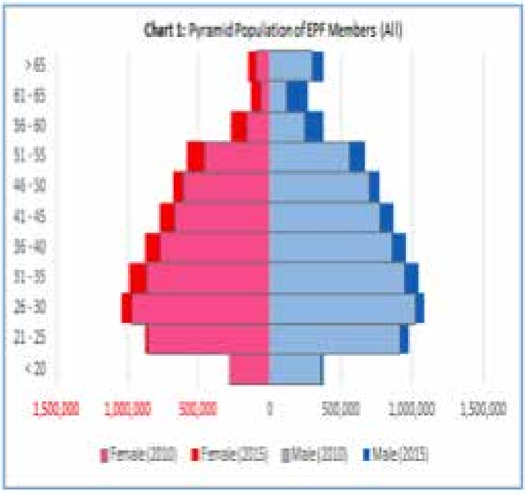
Population By Race

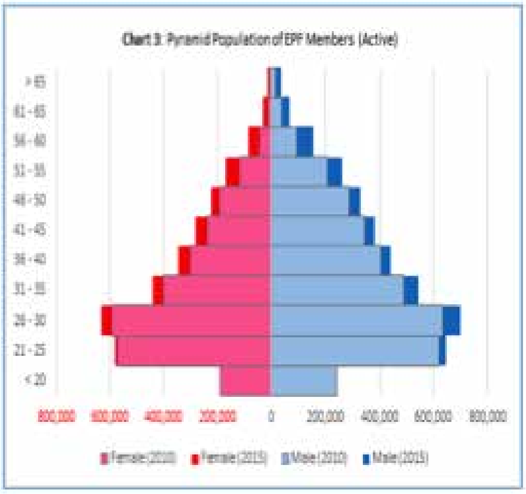
MALAY	CHINESE	INDIAN	OTHERS
50.7%	24.5%	7.3%	17.42%
51.1%	27.0%	7.5%	14.36%

Figures in **BLUE** are for All Members and Figures in **RED** are for Acive Members

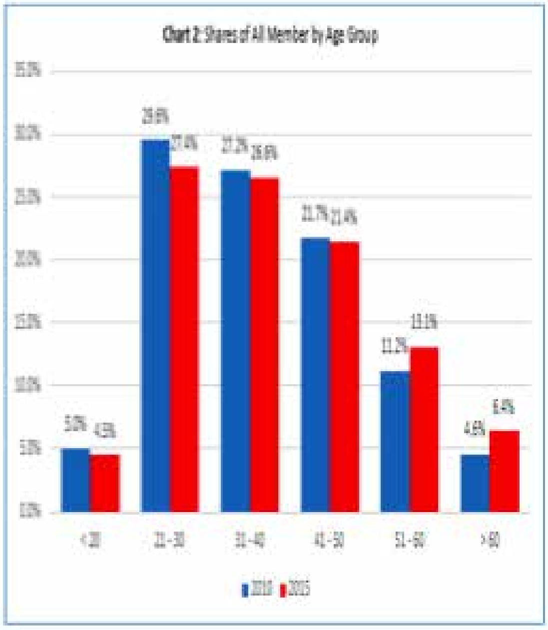
The first striking observation is the disproportionate number of men relative to women in the membership, which mirrors the higher male participation rate in the workforce. The ratio is higher for active members (those who contribute to their EPF accounts at least once a year).

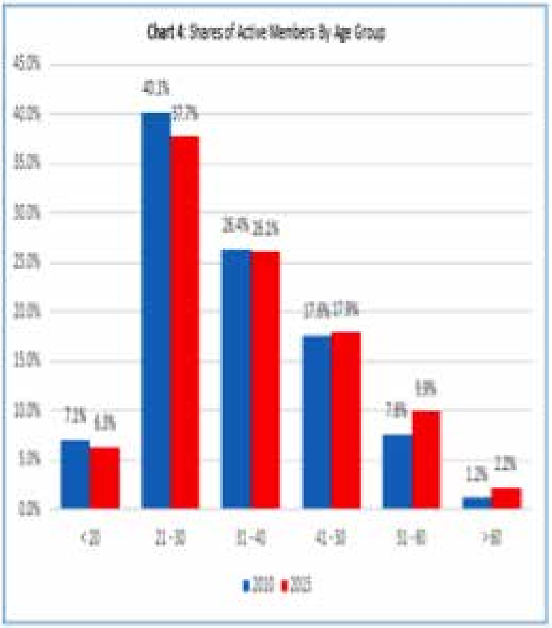
One third of EPF members and 40% of active members are aged 30 and below





Secondly, Malaysia in general has a relatively young population with a median age of about 29. EPF members are slightly older, reflecting the fact that membership only comes with entering the labour force. Looking at the changes between 2010 and 2015, we can also detect the gradual ageing that is occurring in the membership, a trend that is also happening in the general population.





Given that EPF is a mandatory scheme, this age structure implies a stable inflow of net contributions into the EPF for at least the next couple of decades.

However, EPF active members account for less than half of the overall membership. There are a number of reasons for this. For instance, the younger generation are known to dislike conventional formal working hours and typical office set up as a workplace, and prefer self-employment. Members who join the public sector and fall under the category of pensionable employees are also not required to continue contributing as an EPF member. Women starting families also tend to leave the work force, sometimes permanently, reducing the number of active contributors. There is also an increasing trend towards contract work, which often bypasses the legal requirement for EPF contributions. Whatever the case, this group of people receives the least protection or coverage under the current social protection framework, and there remains a substantial portion of the workforce who are not even passive members. This group of people may potentially face the challenge of a lack of income and insufficient retirement savings.

One manifestation of this is the increasing fraction of members above 50 years old who continue to be active members. In fact, the rate of members aged above 60 has shown considerable growth (albeit the percentage is small, the size has doubled!) within the span of only five years. EPF statistics shows that members aged above 60 increased from 1.2% in 2010 to 2.2% in 2015, adding up to more than 147,000.

DIFFERENCES IN SAVINGS

Moving on to EPF savings, it's clear that there are substantial differences when we break down the membership by segments. For instance, male average savings are 20 percent higher than the female average; Chinese members average savings are almost triple that of the average Malay. This disparity in EPF savings is indicative of differences in incomes evident from official household income statistics. It is noteworthy however that the disparities are somewhat less for the membership as a whole, compared to active members.

Statistics of EPF's Average Savings by Gender & Race

RM41,780
RM63,593

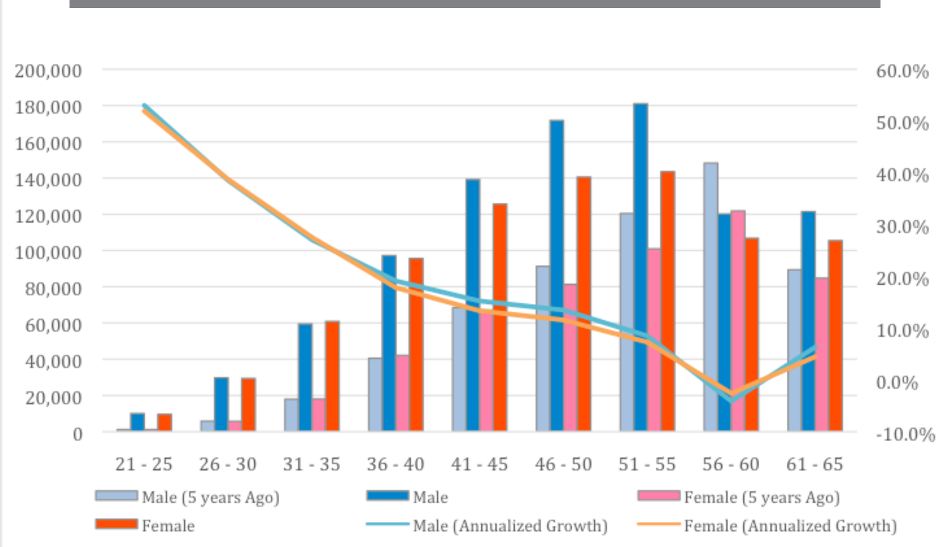
RM51,685
RM77,122

MALAY	CHINESE	INDIAN	OTHERS
RM32,841	RM85,208	RM49,927	RM27,348
RM48,300	RM125,947	RM73,210	RM47,947

Figures in **BLUE** are for All Members and Figures in **RED** are for Acive Members

It should also be said that many of the members are still in the accumulation stage, which would also help to explain some of the disparity. In this case, it is only fair to observe the growth of active members' savings only, since savings for inactive members could simply be built up from the annual dividends declared by the EPF.

Average Active Members Savings By Age Group & Gender



On a gender basis, both males and females have actually experienced strong (double-digit) growth in annualised EPF savings prior to reaching age 50. This can be attributed to the compounding effect of the annual dividend, on top of consistent monthly contributions. For members within the 51 to 55 year old age group, growth was a more modest 7% to 8%, largely due to the Age 50 Withdrawal scheme.

Naturally, members between ages 56 to 60 demonstrated decumulation, a sign that the majority of members opted to withdraw their savings upon reaching 55 years old

An interesting circumstance to highlight is that average savings of active members aged 60 and above is actually reverting back to the accumulation trend, indicating more and more members are continuing to work beyond retirement and keeping their savings in the EPF. Based on our records, there are actually 1,372 members older than 75 years old who are still actively contributing into their EPF account even though contributions are only mandatory for workers up to the age of 75.

While the data shows that EPF active members are undoubtedly building up their retirement funds throughout their working life, what's more crucial is whether it is sufficient for their actual retirement needs. To have a clearer picture on this, we could focus on the average savings for members aged 51 to 54.

AGE	FEMALE AVERAGE SAVINGS	MALE AVERAGE SAVINGS
54	162,296	214,923
53	155,793	198,047
52	146,991	190,041
51	141,120	177,929

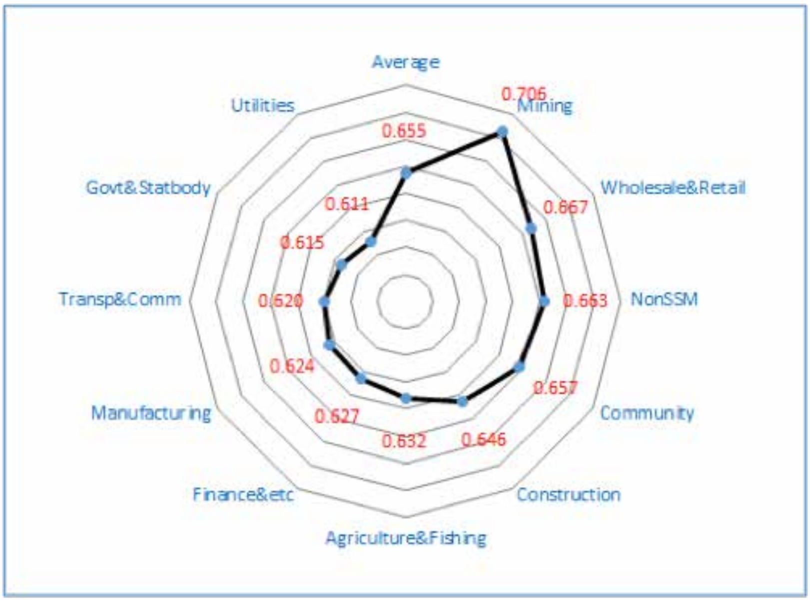
From the data, men on average will meet the EPF's Basic Savings level (RM196,800) on reaching 55, although most women won't. This is small comfort, since the Basic Savings level is predicated on the bare minimum required for funding 20 years of retirement, and nowhere near replacing a person's standard of living while still working. Studies in fact show that many retirees exhaust their EPF savings within 3-5 years.

Another observation is the gender imbalance is only noticeable for members aged 40 and above. Average savings amount for both genders are roughly the same before the 40 years old mark. Be that as it may, the gender difference underscores the need for raising support for women within Malaysia's social protection framework, especially given that women who are expected to live longer than men and need more savings to support their retirement.

One way to illustrate simply the differences in savings is to calculate the Gini coefficient for EPF savings. A Gini coefficient of 0 indicates perfect equality while 1 expresses total inequality.

The overall Gini coefficient of EPF savings was around 0.65 in 2015, with a slight downtrend evident over the last five years. Amongst male members, measured inequality was slightly higher than the average of all EPF active members, while female members were relatively lower, hence indicating that the gap of EPF savings among female members is closer than the males.

From a racial perspective, all three major races - Malay, Chinese and Indians - displayed a lower Gini coefficient score compared to the average, with the Indian score the lowest (0.59), followed by the Chinese (0.60) and Malays (0.65).



From a sector perspective, the top three industries with the highest Gini coefficient mark are Mining, Wholesale & Retail and Non SSM, which all are well above the average.

FUTURE REVIEW ENDEAVOR

Numerous factors can be identified as contributing to the level of an individual's EPF savings – level of Income, changes in contribution rate, long term fund returns, inconsistent contribution, and withdrawal behavior, just to name a few. Each of the factors above are grounds for further analysis, providing essential findings for policy makers to plan initiatives to continuously empower members' retirement savings.

WITHDRAWAL TRENDS: EPF data and the health of the economy

One of the advantages of the EPF scheme is that because of its scale, it partially reflects the state of the economy.

The data generated is enormously useful on many levels, capturing as it does the income and savings behaviour of over 14 million citizens and non-citizens of Malaysia, of which nearly half are active contributors.

To take one example, because EPF contributions are mandatory on salaried income, wage growth and trends are captured almost in real time. This can serve as input for policies for development over the long term, as well as for demand management under monetary policy. Real net contributions (inflation adjusted contributions less withdrawals) are actually used by Malaysia's Department of Statistics as one of the components of its Index of Leading Indicators, which indicates the strength of economic growth. Internal data is also useful as part of the EPF's investment process, particularly the health of various economic sectors.

In this note, we focus on withdrawal data from the EPF scheme from January 2010 to June 2016. Under normal circumstances, EPF members are only allowed to withdraw their savings in full at 55, but are allowed to draw down some portion for special reasons. Among these types of withdrawal are home purchases, mortgage assistance, education, health, financing the Hajj, and unit trust investment. The rationale for much of these, despite the "leakage" from retirement savings they cause, is that these represent alternative investments (such as housing and education) that serve more or less the same function as EPF savings for retirement.

What can we discern from this data? First and foremost, there is a seasonal pattern to EPF withdrawals. There is a statistically significant drop in applications at the end of each year, followed by a surge in March-April, which coincides with EPF's annual dividend announcement. Very obviously, holidays induce lower withdrawals, while the crediting of dividends conversely increases eligibility for further withdrawals

Secondly, there was a discernable slowdown in applications going into 2014, which only recovered to the previous trend in 2016. Much of this was driven by a 57% annual drop in withdrawal applications for investment purposes, due to an increase in the EPF's minimum basic savings requirement which essentially reduces the amount eligible for withdrawal. Given market conditions from 2014 onwards, withdrawals for unit trust investment remained subdued.

Thirdly, preliminary testing has indicated that there are strong correlations between some economic indicators and withdrawal trends

Other structural changes are apparent for the period under review. Breaking down the details, the bulk of withdrawals continue to be for partial or full withdrawal at ages 50 and 55, a combined 18.7% of total applications and 42% of withdrawal amounts in 2010. While the ratio remained the same in 2015 (18.7% of applications), the amount withdrawn fell to 36.2% of total withdrawals. In contrast, partial withdrawals between ages 50-55 took a leap, from 4.6% of applications in 2010 (11.7% in Ringgit terms), to 15.7% (26.1%) in 2015.

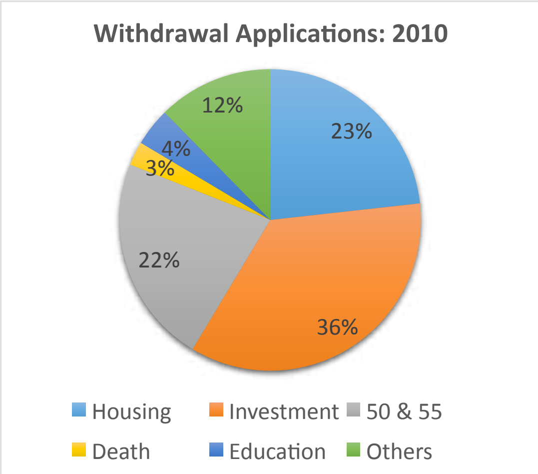
For withdrawals related to housing, applications for withdrawals for house purchases fell from 7.4% of applications in 2010 (and 8.4% of withdrawn amount) to 4.9% (5.0%) in 2015. Again in contrast, applications for withdrawals against mortgage payments rose from 5.1% (3.2%) in 2010 to 7.9% (3.9%) in 2015. This mirrors the slowdown in the housing market generally, while intimating that households are looking at their cash flow.

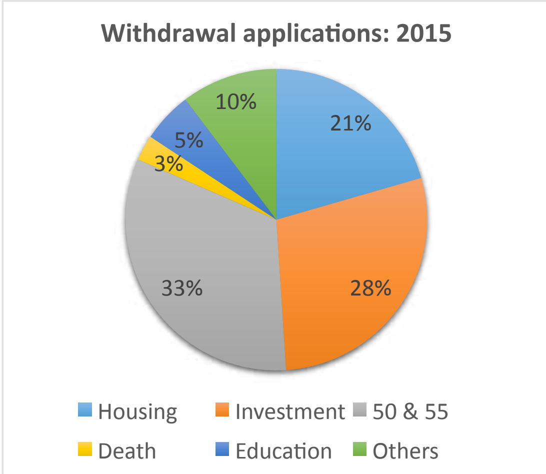
Two other significant changes in withdrawal behaviour needs to be mentioned. The EPF allows for those with savings in excess of RM1 million to withdraw these savings regardless of age. Applications for these withdrawals nearly quadrupled between 2010 and 2015. Withdrawals against education expenses on the other hand also doubled in the same period, and applications received to date in the first half of 2016 have nearly matched that for the entire 2015. Part of this no doubt is due to recent policy changes at the National Higher Education Fund Board (or PTPTN), which has prompted many student loan defaulters to take steps to repay. A poorer job market in 2016 may have also prompted some workers to go back to school.

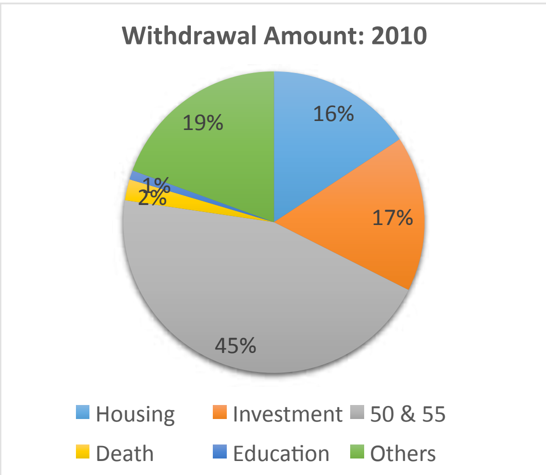
While it would be premature to draw general conclusions from this data without deeper analysis, the emerging picture is that Malaysian households have been under some stress in the past two years. There has been a reduction in asset acquisition (housing and investment), while withdrawals that assist with household cash flow (education, mortgage payments and discretionary withdrawals) have generally increased. Nevertheless, in total, withdrawals as a whole have been on a steady upward trend over the review period, in line with the growth of the economy. The interesting happenings have largely been in terms of structural changes in the composition of withdrawals.

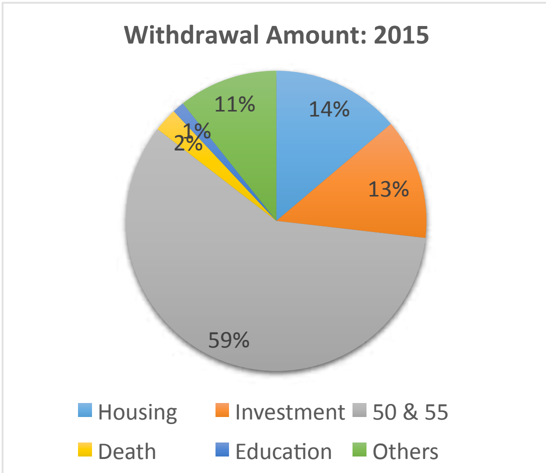
The foregoing discussion demonstrates some of the usefulness of EPF data to policymakers, EPF members, as well as for guiding internal EPF strategy. Withdrawal behaviour and savings attitudes provide clues to the underlying economic realities faced by EPF members, as well as reflecting changes in policies and procedures, whether within EPF or outside.

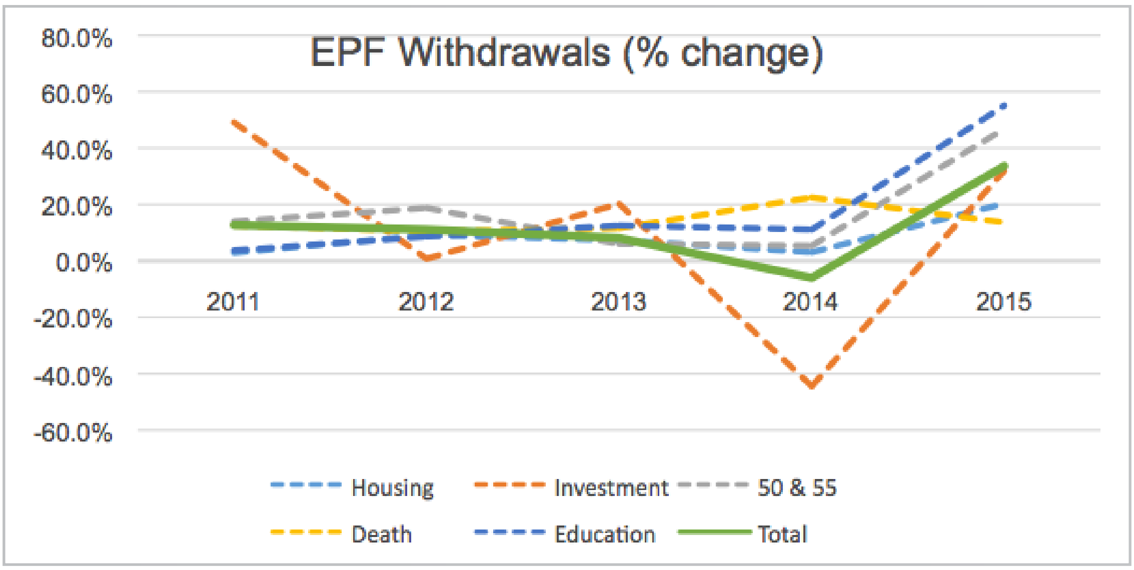
In this vein, the EPF is committed to regularly compiling and analysing our internal data to steer management decisions and as input into policy decisions. For the future, we are working towards making as much of this data publicly available, where feasible.











COORDINATING SOCIAL PROTECTION -THE CASE FOR A CENTRALISED BODY

KEY ISSUES SURROUNDING THE MALAYSIA SOCIAL PROTECTION FRAMEWORK

Social protection policy development and programme implementation in Malaysia are not managed and administered by a single entity but by multiple ministries and public agencies (see the accompanying article on "The Malaysian Social Protection Landscape"). Studies have found that there are an extraordinary number of ministries and public agencies involved in social protection policy development and programme implementation in the country. The World Bank for example, states that while many countries have multiple agencies involved in the social protection system, the situation in Malaysia is remarkably spread and has become more so in recent years. This has occurred due to several factors:

a. Reproduction of small and often similar types of programmes across and sometimes within agencies which most probably do not target the right recipients or duplicate benefits to the same group of recipients;

b. Lack of a comprehensive system to provide subsistence income as a basic safety net to all those in need in retirement. For instance, Malaysia still does not have any scheme available under the First Pillar of in a Multi-pillar Pension Framework;

c. Involvement of agencies which are not typically core social protection institutions in programme implementation e.g. the involvement of the Inland Revenue Board of Malaysia in the implementation of the 1Malaysia People's Aid (BR1M) programme; and

d. Incomplete consolidation of functions that are normally within a single agency in most middle and high income countries e.g. the separation of the Employees Provident Fund (EPF), which is responsible for income security for private sector workers, from the Social Security Organisation (SOCSO), which is responsible for employment injury and invalidity of employees. Both organisations have separate but almost similar functions such as collection of contributions, enforcement, investments, and delivery of benefits;

e. Lack of a consolidated and integrated database across government ministries and social protection agencies

Malaysia's spending on its social protection system has expanded significantly in recent years as a share of total expenditure and as a ratio to GDP. Social protection expenditure almost doubled in nominal terms to over RM60 billion between 2009 and 2013, and also increased sharply as a share of total operating expenditure from around 16% to almost 25%, and as a share of GDP from around 4.6% to over 6.0%. These figures do not include EPF withdrawals, which are individual savings based on contributions from employees and employers.

Despite this, Malaysia currently lacks high level coordination which could help to bring greater coherence, consistency and effectiveness to the policy and planning process for social protection. Institutional multiplicity in the social protection system would be less of a concern if there was strong coordination and leadership across the system. Unfortunately, at this point Malaysia lacks such a function or body.

INTERNATIONAL BEST PRACTICES

Other countries have taken the step of consolidating planning and policy making in a single body, to address these very same issues. For example, in Japan, the Social Security Council (Shakai Hosho Seido Singi Kai) was established in 1949 under the Ministry of Health, Labour, and Welfare. The Council advises the President on social security issues and policy options and it proposed the Recommendation on Social Security System in 1950. Its sister organisation, the National Institute of Population and Social Security Research (an affiliated research institution to the Ministry of Health, Labour, and Welfare), develops and publishes materials concerning the relationship between the benefits provided by and the fiscal burden of the social security systems, projections concerning social security benefit payments, estimation of the future population, National Fertility Surveys, and so on.

Indonesia's pension system, before the enactment of the National Social Security System (Law No. 40/2004), was similarly fragmented with different benefits and a different administrator for various labour market groups – civil servants, the military and formal sector workers. The government also sponsored a variety of targeted social assistance programmes for the poor and vulnerable, and the overall supervision and enforcement of the system was a challenge.

After the reform, the Coordinating Ministry for People's Welfare (Kementerian Koordinator Kesejahteraan Sosial) became responsible for coordination efforts for legislation and regulatory development, and the implementation of social protection programs. This Ministry established the National Social Security Council (Dewan Jaminan Sosial Nasional) on 24 June 2008, which is mandated to formulate policies and provide supervision for the implementation of the National Social Security System. The Council is composed of 15 members representing the government (with representatives from five ministries), social security experts, and employer and worker organisations.

Indonesia's social protection system is being consolidated with the four main social security service providers integrated under a single body, the Social Security Administrative Body (Badan Penyelenggara Jaminan Sosial, or BPJS):

a. PT ASKES (Persero) became BPJS Kesehatan and began operating on January 1, 2014;

b. PT (Persero) JAMSOSTEK provides four social security schemes for private sector workers i.e. employment injury insurance, life insurance, old age savings and health insurance. The organisation became BPJS Ketenagakerjaan since January 1, 2014;

c. PT (Persero) ASABRI, which is responsible for retirement income for military men, is expected to join BPJS Ketenagakerjaan by 2029; and

d. PT TASPEN (Persero), which is responsible for retirement income for civil servants, is expected to join BPJS Ketenagakerjaan by 2029.

CONCLUSION AND RECOMMENDATIONS

Coming back to Malaysia, the establishment of a coordinating ministry or body would help overcome the problems associated with the multiplicity of programmes and agencies involved in providing social protection. Such a body can:

a. play a key role in building and maintaining a strong national consensus behind a sensible and viable national blueprint;
b. be both an advisory and research body. A consultative process with labour unions, employer associations, and other stakeholders will reflect, balance and reconcile stakeholder interests;
c. improve coordination between different ministries which have some responsibility for social protection, and promote better private-public partnerships. Such a body would take a long-term view which more closely aligns social protection commitments with available resources; and
d. monitor the adequacy of the regulatory framework, the efficiency of supervision, and the quality of professional expertise supporting the operation of the systems.

The establishment of a high level coordination body, such as exists in Japan and Indonesia, would also be a powerful platform to push through consistent and harmonised reform on a permanent basis through advocacy, dialogue and effective communication. Achieving a comprehensive, efficient and effective social protection system in Malaysia requires no less.

EMPLOYEES PROVIDENT FUND, MALAYSIA