CHANGING THE GAME

BUILDING THE WORLD WE WANT

ISWC2023

INTERNATIONAL SOCIAL WELLBEING CONFERENCE 2023

SOCIAL PROTECTION INSIGHT

VOL. 6 | 2023

KWSP | EPF ®

Editorial Committee

SOCIAL PROTECTION INSIGHT I VOL. 6/2023

Contents

CEO Foreword

Social Protection Insight 2023

Changing the Game: Building the World We Want

Datuk Seri Amir Hamzah Azizan
Chief Executive Officer, Employees Provident Fund

One of the valuable lessons that we learned from COVID-19 is that there are significant gaps in our social protection system. The deficiencies were due to inadequate levels of social assistance and social insurance coverage to mitigate the different types of vulnerabilities and risks that a person may face throughout his or her life stages. While the pandemic was a painful experience for all, it also presents an opportunity for the world to reflect and reset our social security and social protection policies to build a more resilient and inclusive society.

According to the International Policy Centre for Inclusive Growth (IPC-IG), the pandemic has revealed the cracks within social protection systems across the world where certain groups of people, such as workers in the informal sector, migrant workers, homeless people, unpaid family workers, and carers—predominantly women — are not covered by various social security programmes. On top of that, as government service delivery mechanisms rapidly pivoted and utilised digital channels to provide quick assistance to vulnerable groups, some portions of these groups were left out as they were unable to access those digital channels due to the digital divide. Therefore, not everyone who needed help during the pandemic was able to access social security benefits when they needed it most.

In Malaysia, around 3.6 million workers in the informal sector do not contribute to the Employees Provident Fund; hence, they are unlikely to have retirement income security to finance their old age. Additionally, there are approximately 700,000 workers in the formal sector who do not contribute to the EPF due to their falling under the ambit of contract-for-service workers (CFS). This shortcoming exists because currently there is no formal legislation mandating social protection coverage for these types of workers. Without retirement coverage, these and other groups of vulnerable people risk being exposed to old-age poverty.

The social protection framework in Malaysia is in need of a hard reset. With its limited targeting approach

and weaknesses in addressing different vulnerabilities throughout various stages of life, the current system needs to change in order to propel Malaysia towards the next phase of economic development.

Recognising the need to alter the current challenging state of income inadequacy and lack of coverage within our social protection system, there is a pressing need to enhance the existing framework. We can no longer stand back and leave some people to fend for themselves—when their lives or the world hits a crisis—because social protection is a fundamental right of every member of our society. Social security is not a cost but rather an investment in human capital development. Once a country's development is underpinned by solid social and human capital development, economic growth will follow in a more sustainable manner. Against this backdrop, we have chosen "Changing the Game: Building the World We Want" as the theme for this year's International Social Wellbeing Conference (ISWC 2023). The conference brings together practitioners, policy makers, non-governmental organisations (NGOs), and concerned citizens to discuss and reflect on the trends affecting social well-being, as well as gain exposure on the latest initiatives and thinking in the policy space. It is intended to prompt a public discussion and dialogue on the state of the social protection systems, especially in Malaysia, and take it through all the aspects of basic social wellbeing such as shelter, health, income security, nutrition, education, and mobility, factors that we coin as SHINE-M.

While the COVID-19 pandemic was a tragedy of huge proportions, it also demonstrated that societies can come together to support our weakest members, even in the absence of formal frameworks. Let us not allow that sacrifice be in vain. Let us not waste a crisis. Let us start the conversations that will result in the needed policy reforms that will build a world where no one is left behind, where the vulnerable are protected, and the strong can thrive. Let us create a prosperous society together. To you, the reader, I hope this conference, and this bulletin, will provide the catalyst for building the world we want.

Introduction

By The Editorial Team

Welcome to the latest Social Protection Insight (SPI) issue, a publication dedicated to exploring critical topics in social protection and social well-being. The SPI is a yearly publication by the Employees Provident Fund and has been published in conjunction with the annual International Social Well-being Conference (ISWC) since 2016. Largely consisting of policy briefs by scholars and practitioners alike, the fundamental goal of SPI is to provide insightful articles that shed light on pressing issues and offer potential solutions for a more equitable, sustainable, and thriving society.

This edition has ten articles and infographics that delve into various aspects and issues of social well-being and social protection policies. The articles consist of:

- Prof Dr Halimah Awang and Prof Datuk Dr Norma Mansor (Social Wellbeing Research Centre) present survey findings on the social assistance programmes received by older Malaysians during the pandemic, highlighting the number, types, and amount of social assistance received and whether or not those assistances are needed.
- Kirjane Ngu and Dr Juita Mohamad (IDEAS Malaysia) review the importance of social protection policies in dealing with prolonged youth unemployment, emphasising the need to invest in both active and passive labour market interventions in Malaysia.
- Dr Amalina Mursidi (Universiti Sains Islam Malaysia) explores the advantages of community-based care as an alternative to public healthcare service, especially for individuals with chronic and multiple health issues.
- Nor Iskandar Md Nor (EPF) discusses how financial technology has revolutionised the retirement planning landscape by making retirement savings more inclusive, flexible, and affordable.
- Ikmal Kadir and Nor Iskandar Md Nor (EPF) also examine the impact of COVID-19 withdrawals on EPF members' retirement savings.
- Nurulhana Sofia Abu Samah (EPF) outlines the advantages of implementing a Negative Income Tax in Malaysia as an alternative social assistance mechanism in dealing with the fragmented social programmes that exist today.
- Dr Helena Varkkey (Universiti Malaya) highlights that addressing income inequality in Malaysia could lead to a quicker turning point in the Environmental Kuznets Curve for Malaysia to support the sustainable development agenda.
- Adam Ahmad Abdullah's (EPF) examines the proper definition of affordable housing, which should also include other factors like location and quality.

We hope the diverse range of articles in this edition of SPI provokes thought, sparks dialogue, and inspires action. Let us strive to foster a social protection system that promotes the well-being and dignity of all individuals, leading to a more equitable and sustainable future.

Social Assistance: Evidence from the Malaysia Ageing and Retirement Survey (MARS)

Prof. Dr Halimah Awang and Prof. Datuk Dr Norma Mansor
Social Wellbeing Research Centre

Executive Summary

Social assistance programmes are crucial to support the most vulnerable households when they experience health and economic challenges, especially during a crisis. This article presents information on the social assistance programmes received by older Malaysians, using data obtained from the Malaysia Ageing and Retirement Survey (MARS) Wave 2, a nationwide survey conducted by the Social Wellbeing Research Centre (SWRC), Universiti Malaya. The survey was carried out between 2020 - 2022. Overall, the results suggest positive participation in which the social assistance systems in Malaysia managed to financially support more than half of the survey respondents during the pandemic, which was mostly provided by the federal government. This financial support received by the respondents was in the form of cash transfers and COVID-19 assistance.


R1200
AL-QASWA EDITION

Introduction

Social protection refers to the set of policies and programmes constructed to reduce poverty and vulnerability by improving people's capacity to protect themselves against crises and shocks due to the loss of income. Malaysia has several social assistance and social insurance programmes implemented by various government ministries and agencies as well as private corporations and NGOs to provide for targeted beneficiaries, including children, older adults, people with disabilities, and other vulnerable groups such as those who are not earning sufficient income. Social assistance is the provision of assistance in the form of cash and goods from the government to people, families, groups or communities to protect them from potential social risks and improve social welfare (Barbier & Burgess, 2020).

To mitigate against the adverse effect of the COVID-19 pandemic, the government introduced additional economic stimulus measures in the form of cash assistance, loan restructuring, rental deferment, and more. This paper examines social assistance received by respondents who participated in the second wave of the Malaysia Ageing and Retirement Survey (MARS Wave-2) conducted in October 2020 and completed in April 2022. MARS Wave-2 took place in the midst of COVID-19.

Research Overview

The MARS sample consists of individuals aged 40 and above residing in all the states of Malaysia, including Sabah and Sarawak. Sample selection was carried out by the Department of Statistics Malaysia (DOSM) based on the 2010 Population and Housing Census. MARS Wave-1 was completed in 2019, with 5,613 respondents successfully interviewed. The MARS Wave-2 survey was built on MARS Wave-1 (Mansor et al, 2021), in which Wave-1 sample respondents were revisited, and an addition of approximately 1,000 new households were visited. MARS Wave-2 included data from 4,821 respondents from all states of Malaysia. 75% of them participating for the second time. The mean and median age of the sample respondents was 58 years, and those aged 60 and older constituted 44%. For the questions on social assistance, only one respondent per household was asked whether any household member received any type of assistance. Should they respond positively, the respondents were to list down the type of assistance, its provider, the amount of benefit, and the frequency of the assistance received. The social assistance received can be provided by federal or state governments, NGOs, religious or private organisations, as well as individuals. The assistance can be in the form of cash and/or non-cash benefits.

Discussion

Overall, 51% of 2,768 respondents representing their respective households received at least one form of social assistance, whether cash or non-cash, by any member of the household (Figure 1). Among those who received assistance, about 61% reported their households received only one type of assistance, while 37% received two to four types of assistance, and 2% received more than 5 types of assistance (Figure 2). Households that received multiple assistance were those comprising of members of varying ages and conditions, which include children, older adults, persons with disabilities, and low-income families.

Figure 1: Household receiving social assistance (%)

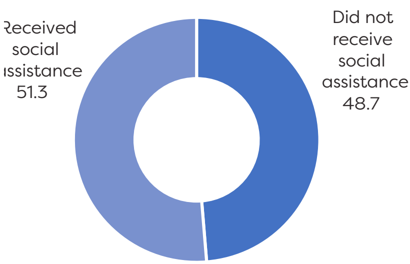


Figure 2: Number of assistance received by each household (%)

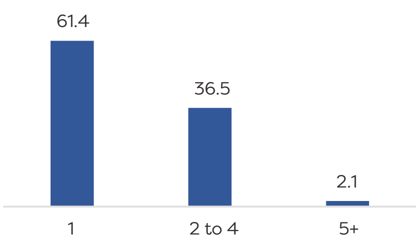


Figure 3 describes the source of social assistance and it should be noted that some of the households received more than one social assistance given by different providers. The data shows that nearly 88% of the households received social assistance from the Federal government and 11% from state governments (Figure 3). As shown in Figure 4, 96% of the assistance received was in the form of cash. Non-cash/In-kind assistance was in the form of food baskets, vouchers, discounts, medical equipment, services, and shopping credits.

Figure 3: Source of social assistance (%)

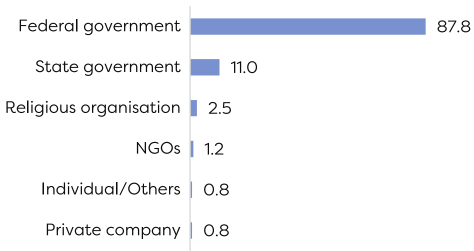
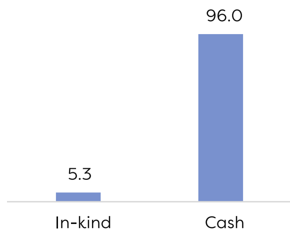
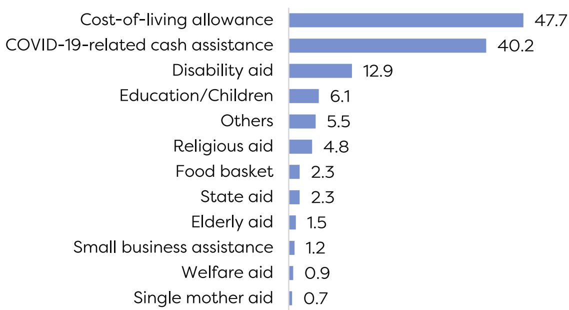


Figure 4: Type of assistance (%)



In terms of the types of social assistance received, 48% received cost-of-living allowances, 40% received COVID-19-related cash assistance, 13% disability aid, 6% education or childcare assistance, and 6% other types of aid, including health aid, disaster relief aid, housing and house repair, agriculture, and private donations. Meanwhile, approximately 5% of recipients were able to secure assistance from religious-related sources such as zakat/tithe, welfare, and donations, while slightly above 2% received welfare and elderly aid (Figure 5).

Figure 5: Social assistance received (%) (multiple responses)



Examining the amount of cash assistance received in the last year, the majority reported their households received less than RM2,000 (80%) with 20% receiving less than RM500, while cash assistance of at least RM4,000 was received by less than 5% (Figure 6).

Figure 6: Amount of cash assistance received in a year (%)

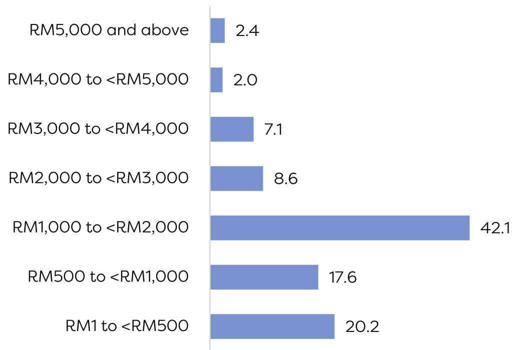


Figure 7 shows that 43% of the respondents who reported their households received social assistance did not need that social assistance, while 45% of the respondents whose households did not receive any assistance needed such assistance. This is an indication of probable exclusion and inclusion errors. Among those who admitted that they needed assistance, 70% said they needed it for their own use, suggesting that the respondents may have insufficient or irregular income (Figure 8).

Figure 7: Households needing assistance (%)

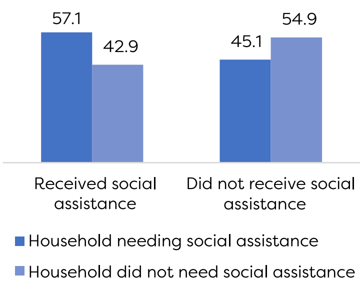
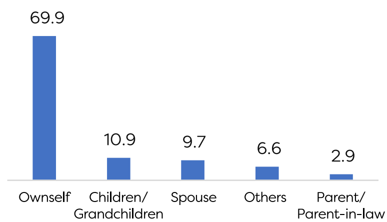
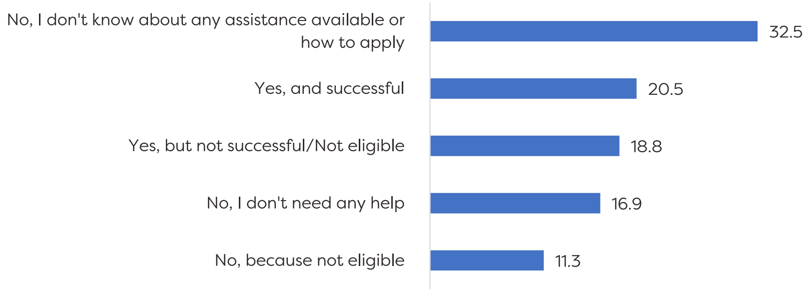


Figure 8: Use of assistance among household members needing assistance (%)



Respondents were asked whether they had ever applied for any type of social assistance programme. It is alarming to know that 33% reported they did not know about the availability of such assistance or did not know how to apply. The data show that 21% of the respondents reported their applications were successful, while 19% applied but were not successful/ not eligible (Figure 9). The question remains as to whether those successful applicants were deserving of government assistance or merely included due to inclusion error as supported by Figure 7.

Figure 9: Experience of applying for social assistance programme (%)



The MARS data also indicated that respondents received income from various sources, including salary, rental of properties, pension, and government assistance, and that 40% were dependent on cost-of-living allowances or financial assistance from the government.

Recommendations

The MARS data shows that while slightly more than half of the sample respondents reported that their household members received some form of social assistance from the Federal/State Government and/or other organisations, there were still many middle-aged and older adults who had no knowledge of any social assistance programme available or did not know how to apply for such assistance. Hence there is a need to improve communications to ensure that assistance programmes reach the intended beneficiaries.

The findings also indicate a high risk of vulnerability and dependency on government cash assistance. However, existing government assistance is not a regular payout and there is evidence of possible exclusion and inclusion errors. This is not surprising given that all available social assistance programmes in Malaysia are implemented based on means testing. This approach is time-consuming as it involves a tedious verification process.

References

Barbier, E. B., & Burgess, J. C. (2020). Sustainability and development after COVID-19. *World Dev*, 135, 105082. https://doi.org/10.1016/j.worlddev.2020.105082

Mansor et al (2021). Malaysia Ageing and Retirement Survey (MARS) Wave 1 – 2018/2019: A snapshot. Social Wellbeing Research Centre, Universiti Malaya.

Social Protection for Youths in Malaysia: Strengthening Labour Policies

Kirjane Ngu and Dr Juita Mohamad
IDEAS, Malaysia

Introduction: Background of the Youth Unemployment Issue

As individuals, being in a certain identifiable period in a life cycle brings about particular risks and contingencies related to age: infancy; childhood; adolescence and youth; adulthood (working life); and older age. The International Labour Organization (ILO) Social Protection Floors Recommendation, 2012 (No. 202) outlined a life-cycle approach to social protection that aims at ensuring a basic level of security for all members of society throughout their lives. In order for countries to have a truly inclusive social protection system for all, governments must identify and address vulnerability across the life cycle. Given that a large proportion of the Malaysian population—namely the youth today—will move into their most productive years, this creates an opportunity for realising a demographic dividend. However, this will not be achieved without ensuring that an enabling environment is in place for promoting youth transition to work while effectively protecting them from vulnerabilities during this transition period in the short to medium term. Investing in youth to develop a resilient young working population is especially important as Malaysia becomes an ageing society where more than 7% of the population is aged 65 and above, and is increasingly dependent on the working population.

More importantly, apart from the ageing society trend that Malaysia is observing, another negative trend to note is the prolonged unemployment issue among the youth. In general, prolonged unemployment leads to a lesser participation of working age adults in the labour market. This is because discouraged workers who are unable to secure a job in a timely manner may opt out of the labour force altogether[1]. This is why it is imperative for Malaysia to remedy its youth unemployment issue in the short to medium term, as prolonged youth unemployment may impact the supply of labour in the long term, exacerbating the labour supply issue for both skilled and unskilled workers in Malaysia.

High youth unemployment and underemployment due to labour market mismatches

In Malaysia, high youth unemployment and underemployment can be attributed to demand-side issues such as the lack of skilled employment opportunities in the labour market. While there is an ever-increasing supply of youth with tertiary qualifications competing for job opportunities, the economy has been increasingly generating low-skilled and semi-skilled jobs instead of skilled employment (see Figure 9). This is because domestic industries stay in low-value-added activities that prioritise cost efficiency and dependence on cheap labour over innovation as a source of growth. As such, the Malaysian economy also continues to face the challenge of attracting high-quality investments that would create more high-paying, high skilled jobs for the local workforce.[2,3] Hence, this limits the opportunities for graduates to be employed in skilled jobs that match their qualifications while increasing their likelihood of being underemployed in semi- and low-skilled jobs.

This subsequently has a compounding negative impact on their lifetime employment outcomes, such as wage progression and overall life satisfaction.[4] As Malaysian youths continue in their struggle to find employment that matches their skill level, many are also turning to entrepreneurship, self-employment, and gig work such as p-hailing.[5] For instance, a study by DOSM involving a total of 6,657 p-hailing workers found that 97.71% of them were youths aged 15 to 30. Hence, this also poses challenges to achieving universal social protection coverage for youth.

[1]OECD. (1994), pp. 15-16
[2]Nixon et al. (2017)
[3]Dian & Mohd (2016)
[4]Mohd et al. (2021)
[5]P-hailing is defined as services involving the delivery of food, drinks and parcels using motorcycles

On issues relating to labour supply, the skills shortage was largely cited as a key factor that prevents firms from making investments to move up the value chain. A survey conducted by the World Bank and Talent Corporation found that 90% of companies believe that university graduates should have more industrial training by the time they graduate, and 85% of companies surveyed rated communication skills as a major deficit among graduates. This suggests that there is a lack of partnership between industries and educational institutions, which impedes the effectiveness of training programmes.

Passive and Active Labour Policies Reforms

Both active and passive labour policies are key components of an inclusive social protection system. The other components are a social safety net and social insurance programmes. While expanding social safety net policies need a bigger fiscal

"...the Malaysian economy also continues to face the challenge of attracting high-quality investments that would create more high-paying, high skilled jobs for the local workforce. Hence, this limits the opportunities for graduates to be employed in skilled jobs that match their qualifications while increasing their likelihood of being underemployed in semi- and low-skilled jobs."

allocation, this is not the case for active labour market policies (ALMPs), as they are usually funded and financed by the market and its players.

Looking at the impact of ALMPs on long-term employment among developed countries, it was found that training programmes have little effect on employment in the short term, while in the medium to long term, there is evidence of positive gains in employment.[6] Additionally, while search and matching services along with wage subsidies have positive effects on employment in the short term, this is not the case in the long run.

From developing country perspective, studies have shown that ALMPs have a poverty reduction element if compared to developed countries programmes. The target group is usually the youth as globally the unemployment rate among youths is relatively higher. It was also emphasised that in developing countries training and matching programs are not necessarily integrated into the bigger social protection system context.[7] On a positive note, Technical and Vocational Education Training (TVET) programmes have positive effects on formal employment, earnings and human capital,[8] while in the long term, these positive effects are unclear.[9]

Additionally, passive labour market policies (PLMPs) are key components in alleviating youth unemployment. It was found that interaction between both active and passive labour policies have positive effects on unemployment, employment, and labour force participation. There is also evidence of spillover effects from one type of policy to another. It is also interesting to note that the negative short-term impacts of PLMPs will disappear, as long as sufficient funding is allocated for ALMPs at the same time.[10] With this said, it is important for a country to be investing in both types of policies to ensure that youth unemployment issues can be tackled effectively in the long term.

[6]IPC-IG. (2020)
[7]ibid
[8]Escudero et al. (2018), Tripney and Hombrados (2013)
[9]Kluve. (2016)
[10]ILO. (2018)

Active Labour Market Policies

Addressing the issue of youth unemployment has been a key priority in the national development agenda. This is evident from the various key policy documents such as the Shared Prosperity Vision 2030, the National Entrepreneurship Policy 2030, and the Twelfth Malaysia Plan that provided a range of employability-oriented measures to enhance youth or graduates' employability in Malaysia.

Table 1: Government-Led Active Labour Market Policies and Programmes in Malaysia

Ministry	Implementing Agency	Name of Programme	Target Group	ALMP
Ministry of Human Resource	Talent Corp	Young Employable Students (YES)	Students, Graduates	labour market training
		mynext	Students, companies, schools	employment services
		#KisahSiswa	Graduates	labour market training
		MyASEAN Internship	University students and graduates	labour market training
		National Structured Internship Programme (MySIP)	Youths who enrolled to universities or TVET	labour market training
	PERKESO	Program Transisi Pekerjaan Untuk Perantisan TVET & Lepasan Sekolah (Kerjaya TVET)	TVET Graduates, Employers	labour market training; subsidised employment
		Program Bina Kerjaya Pekerja Informal Gig Riders	Gig workers	labour market training
		Program Daya Kerjaya - Pelanjutan Insentif Penggajian Secara Bersasar	Unemployed youths and vulnerable citizens, Employers	subsidised employment

Ministry	Implementing Agency	Name of Programme	Target Group	ALMP
	HRD Corp	Industrial Training Scheme (ITS)	Students enrolled in universities, colleges or training institutions	subsidised employment
	Skills Development Fund Corporation (PTPK)	Pinjaman Latihan Kemahiran Islamik (PLK-i)	Youths who are graduates or workers across all races	labour market training
	Department of Skills Development	Sistem Latihan Dual Nasional (SLDN)	Youths who are aged 16 and above, Companies	labour market training; subsidised employment
Ministry of Higher Education	N/A (introduced by the Unit of Strategic Planning in the ministry)	Penjana KPT-CAP	Graduates	labour market training
Ministry of Youth and Sports	Institute for Leadership Education and Development (I-LEAD)	Malaysia Future Leaders School (MFLS)	Youths who are aged between 15 and 17	labour market training
	N/A (the initiative was introduced by the previous administration and it has been discontinued)	Skim Perantisan Nasional (SPN)	Youths	labour market training
Ministry of Finance	LAKSANA	Malaysian Short-Term Employment Programme (MySTEP)	Graduates and OKU	labour market training

Ministry	Implementing Agency	Name of Programme	Target Group	ALMP
	National Savings Bank (BSN)	Micro/I Penjaja Kasih-Muda	Micro/small/ hawker enterprises are owned by youth aged 30 and below	self-employment
Ministry of Investment, Trade and Industry	Malaysia Productivity Corporation (MPC)	Academy in Factory (AiF)	Youth who are age betwen 18 and 40	labour market training
Ministry of Communication and Multimedia	Malaysia Digital Economy Corporation (MDEC)	MyDigital Workforce Work in Tech (MYWiT)	Graduates, retrenched employees, and unemployed citizens	subsidised employment
Ministry of Entrepreneur Development and Cooperatives	N/A (introduced by the PROTÉGÉ unit in the ministry)	PROTÉGÉ-PTW Programe	Diploma graduates and above who have completed their studies or work are not equivalent to their qualifications	labour market training
	SME Corp	Tunas Usahawan Belia Bumiputera (TUBE)	Bumiputera youths who are aged between 18 an 30	self-employment
	SME Bank	Youth Entrepreneur Fund (YEF)	Young entrepreneurs between 21 an 40 years of age who own SME businesses	self-employment

Ministry	Implementing Agency	Name of Programme	Target Group	ALMP
	TEKUN Nasional	Program Pembangunan Usahawan Siswazah (PPUS)	Youths who are aged between 18 and 40 and have a Diploma/Degree/ Advanced Degree	self-employment
		Program Pembangunan Usahawan Profesional Muda Bumiputera	Young Bumiputra professionals who are aged betwen 18 and 50 and have a profetional certificate	self-employment
Ministry of Domestic Trade and Consumer Affairs	Companies Commission of Malaysia (SSM)	Skim Pendaftaran Perniagaan Prihatin (SPPP)	B40 entrepreneurs and students enrolled in higher education institutions	self-employment
Ministry of Works	Construction Industry Development Board (CIDB)	Accelerator Programme For Construction Entrepreneurs (ACE)	Bumiputera youth contractors grade G1 -G4 and Bumiputera TVET graduates who are aged between 25 and 40	self-employment

Source: Author's compilation

To date, ALMP for youth can be broadly grouped into four categories: (1) labour market training—programmes that operate on the labour supply side to improve the employability of workers through vocational training; (2) subsidised employment—programmes that aim to increase the demand for labour by subsidising the cost of labour to firms by providing wage subsidies; (3) employment services—policies that consist of search and matching assistance programmes that help to bridge the gap between supply and demand for labour; and (4) self-employment—programmes that promote self-employment through entrepreneurship incentives. In Malaysia, the establishment of ALMPs targeted at youth has been extensive, involving over 9 ministries and 18 implementing agencies and administering over 25 programmes of various scales (see Table 1). Despite this, the persistent issue of youth unemployment and underemployment poses questions about the effectiveness of these ALMPs, which warrants an evaluation of their accessibility, quality, and sustainability.

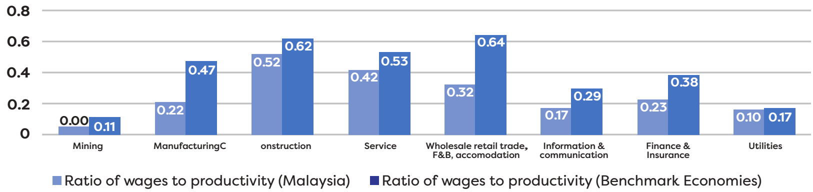
Passive labour market policies

PLMPs are a set of standards to be implemented to improve the labour standards that are needed for the creation of sustainable and good-quality jobs. These often refer to labour legislation and regulations based on the International Labour Standards (ILS)-such as the minimum wage law and other worker protection laws-that provide pathways for decent work for young people. PLMPs encompass welfare benefits and unemployment insurance in developed countries. In developing countries like Malaysia, minimum wage laws and other sets of laws on employment serve as PLMPs aimed at empowering workers through workers' associations. Through these associations, workers are able to negotiate and bargain wage and non-wage compensation packages that may also include improving living conditions on company-owned plants and plantations.

In line with the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) commitments to improving labour standards among trading partners, Malaysia introduced the Minimum Wage Order in 2012, which was enforced in January 2013. Initially, the minimum wage was set at RM900/month for West Malaysians, while for East Malaysians it was set at RM800/month. The minimum wage rate is slated to be reviewed every two years, with the latest revision introduced in 2023 with some flexibilities given to small and medium enterprises (SMEs) in terms of implementation. Even though these revisions have resulted in nominal increases in wages, some may argue that these increments may not necessarily mirror price hikes, inflationary pressures, the supply of workers, or the demand from industries. It is important then, that these increments are backed by careful analysis on the ground that mirrors the needs of the labour market in the short to medium term.

This is needed as it is observed that Malaysian workers are compensated less across all sectors: mining, manufacturing, construction, services, wholesale retail trade, information and communication, finance and insurance, and utilities[11] when benchmarked with selected countries.

Ratio of wages to productivity by sector, Malaysia against Benchmark economies in 2017



Source: Bank Negara

[11]Note: 1. Figures are derived by taking the ratio of wages to productivity, with productivity being defined as output per worker; 2. Data for all countries are as at 2017 except for Malaysia (2016) as Malaysia's 2017 salaries and wage data only represent citizens (instead of both citizens and non-citizens as per previous years); 3. The economies used as benchmarks are the United States of America, United Kingdom, Australia, Germany and Singapore. Source: Bank Negara Malaysia; Department of Statistics Malaysia; CEIC

"Malaysian workers are compensated less across all sectors: mining, manufacturing, construction, services, wholesale retail trade, information and communication, finance and insurance, and utilities when benchmarked with selected countries."

The biggest difference is observed in the wholesale retail trade sector, while the compensation ratio is the smallest in the utility sector compared to other benchmarked countries.

Other reforms that took place to conform to the commitments of the CPTPP to ensure that labour standards are kept high for youths and the workforce in general, are in line with the ILO Declaration on Fundamental Principles and Rights at Work and its follow-up (1998) which include: a) Freedom of Association and the Right to Collective Bargaining, b) the Elimination of Forced Labour, c) the Abolition of Forced Labour, and d) the Elimination of Employment Discrimination.[12] With Malaysia already a ratified member of the CPTPP, it is now imperative that the assigned agencies introduce guidelines and regulations on the ground to stakeholders. To date, most of the legislation related to the Labour Chapter of the CPTPP have been passed by the Parliament, with a few pending, like the legislation on trade unions.

In the medium term, when both the ALMPs and PLMPs are introduced in a concerted effort that applies to the labour force, these would contribute to the formation of an inclusive social protection system that protects and nurtures the youth in the workforce in Malaysia.

[12]CPTPP Partners. (2018)

Policy recommendations

Moving forward, there are several improvements that can be made to the existing or newly introduced ALMPs and PLMPs executed on the ground. These policy recommendations are highlighted below.

Enhance employment services to address information asymmetry

The effectiveness of ALMPs highly depends on having an effective labour market information system to ensure information regarding these policies and programmes is widely accessible for both employers and youth. Hence, employment services play an important part in providing accessibility to such information in order to effectively match employers with job seekers that possess the particular skill sets and qualifications that are fit for the roles on offer.

Promote partnerships between employers and learning institutions to address the skills mismatch

The effectiveness of ALMPs highly depends on partnerships between employers and education and training institutions to bridge the supply and demand mismatch in the labour market. However, the School-to-Work Transition Survey (SWTS) revealed that 84% of enterprises in the survey never communicated with education and training institutions regarding skills demanded by their industries. This indicates that there is a weak feedback mechanism between employers and education institutions, highlighting the need to strengthen partnerships in order to improve the quality of graduates and to address the skills mismatch.

Strengthen inter-ministerial collaboration for more cohesive and effective governance and delivery

The ALMP ecosystem in Malaysia currently involves multiple providers under various ministries. Given the absence of an inter-ministerial strategy for youth unemployment issues, this may result in duplication of programmes and fragmented strategy and implementation. Given the complexity of youth unemployment issues, strong inter-ministerial collaboration is needed to ensure the efficient allocation of resources as well as harmonisation of standards and curriculum for training programmes.

[13]World Bank (2014)

Translate newly introduced PLMPs into implementable guidelines for stakeholders and industry players

With the ratification of the CPTPP and the passing of more than 5 legislations related to labour standards, capacity building is needed among government agencies on how to set standards via the introduction of clear sets of rules and regulations for industry players and workers. Here technical assistance is needed from countries in the region and beyond that have successfully implemented these regulations is key.

Revisit mechanisms and in-depth analysis of minimum wage increments

To date, increments of the minimum wage and the underlying methodology used have not been shared publicly. To ensure that future increments mirror the needs of the market as well as the supply of labour, a revamp of the mechanism setting the minimum wage rate is needed. Here best practices can be examined, those from the region and other peer economies with similar economic structure and challenges.

References

Carcillo, S., Fernández, R., Königs, S., & Minea, A. (2015). NEET Youth in the Aftermath of the Crisis, OECD Social, Employment and Migration Working Papers, no. 164. OECD Publishing.

Department of Statistics Malaysia. (2022). *Labour Force Survey (LFS) Time Series Statistics by State, 1982-2021* [Dataset]. Putrajaya: Department of Statistics, Malaysia.

Department of Statistics Malaysia (2022). *Graduates Statistics 2021.* Putrajaya: Department of Statistics, Malaysia.

Stewart, N., Hidekatsu, A., & Vincent, K. (2017). *Fostering inclusive growth in Malaysia, OECD Economics Department Working Papers 1371.* OECD Publishing. https://doi.org/10.1787/24837aed-en

Dian, H.M.I. & Mohd, Z.H (2016). *Youth Unemployment in Malaysia: Developments and Policy Considerations, Annual Report 2016.* Bank Negara.

Mohd, A.R.A.R., Diana, A.W., & Rohana, J. (2021). *Overeducation and Its Effect on Wages: The Case of Young Workers in Malaysia.* International Journal of Advanced Research in Education and Society 3 (3):31-48.

Khazanah Research Institute. (2018). *The School-to-Work Transition of Young Malaysians.* Kuala Lumpur: Khazanah Research Institute. Lecense: Creative Commons Attribution CC BY 3.0.

World Bank. (2014). *Malaysia economic monitor: boosting trade competitiveness.* Malaysia Economic Monitor. Washington, D.C.: World Bank Group.

OECD. (1994). Active Labour Market Policy and Unemployment - A Framework for the Analysis of Crucial Design Features

CPTPP Partners. (2018). Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), available at https://fta.miti.gov.my/index.php/pages/view/tpp_cptpp

ILO. (2018). Better together: Active and Passive Labour Market Policied in Developed and Developing Economies. Switzerland

IPC-IG. (2020). Evidence from Global Practices of Active Labour Market Policies for Young people's Transition to Work. Brazil

IZA World of Labour. (2018). Labour Market Policies, Unemployment, and Identity, Germany

BASIC SOCIAL PROTECTION FRAMEWORK

RISKS AND VULNERABLITIES ACROSS THE LIFECYCLE

EARLY CHILDHOOD

- INADEQUATE ANTE- AND POST-NATAL CARE
- MALNUTRITION
- POOR COGNITIVE DEVELOPMENT

SCHOOL AGE

- SCHOOL DROPOUT
- MALNUTRITION
- LOSS OF PARENTAL CARE DUE TO MIGRATION OR DEATH
- CHILD LABOUR

WORKING AGE

- INADEQUATE SKILLS
- UNDEREMPLOYMENT
- UNEMPLOYMENT
- LOW PAY AND POOR WORKING CONDITION
- EMPLOYMENT INJURY
- CASUAL WORK AND INCOME INSECURITY
- CARE FOR FAMILY

OLD AGE

- INABILITY TO WORK AND LOSS OF INCOME
- POOR HEALTH
- LACK OF FAMILY SUPPORT

ALL AGES
Ill-health, disability, disaster risks, conflicts, other shocks

TYPES OF SOCIAL PROTECTION

<table>
<tr><th colspan="8">SOCIAL SECURITY</th></tr>
<tr><th colspan="5">NON-CONTRIBUTORY</th><th>CONTRIBUTORY</th><th colspan="2" rowspan="2">LABOUR MARKET POLICIES AND INTERVENTIONS</th></tr>
<tr><th colspan="4">SOCIAL ASSISTANCE</th><th>SOCIAL CARE</th><th>SOCIAL INSURANCE INTERVENTIONS</th></tr>
<tr><td>SOCIAL TRANSFER</td><td>PUBLIC WORKS PROGRAMME</td><td>FEE WAIVERS</td><td>SUBSIDIES</td><td rowspan="2">• FAMILY SUPPORT SERVICES
• HOME-BASED CARE</td><td rowspan="2">• OLD-AGE PENSION
• INSURANCE FOR
» HEALTH
» UNEMPLOYMENT
» MATERNITY
» DISABILITY
» EMPLOYMENT INJURY
• CROP/LIVESTOCK INSURANCE</td><td>ACTIVE</td><td>PASSIVE</td></tr>
<tr><td>• CASH TRANSFERS
• VOUCHERS
• IN-KIND TRANSFERS (INCLUDING SCHOOL FEEDING</td><td>• CASH FOR WORK
• FOOD FOR WORK
• VOUCHERS FOR WORK</td><td>• FOR BASIC HEALTH/ EDUCATION</td><td>• FUEL
• FOOD</td><td>• WORK SHARING
• TRAINING
• JOB-SEARCH SERVICES</td><td>• CHANGES IN LEGISLATION (E.G. MINIMUM WAGE, MINIMUM RETIREMENT AGE)</td></tr>
</table>

Source: Adapted from Carter, B., Roelen, K., Enfield S. & Avis, W. (2019). Social protection topic guide (Revised Ed.). K4D Emerging Issues Report. Brighton, UK: Institute of Development Studies.

SOCIAL PROTECTION FLOOR

Nationally defined sets of basic social security guarantees which secure protection aimed at preventing or alleviating poverty, vulnerability, and social exclusion

The ILO Social Protection Floors Recommendation, 2012 (No. 202)

Access to a set of goods and services constituting **ESSENTIAL HEALTHCARE** including maternity care

ALL

Basic **INCOME SECURITY FOR CHILDREN**

FAMILY & CHILDREN

Basic **INCOME SECURITY** for persons in **ACTIVE AGE** unable to earn sufficient income

WORKING AGE

Basic **INCOME SECURITY** for persons in **OLD AGE**

OLD AGE

National definition of minimum levels

Source: Adapted from International Labour Organization (2012)

PRINCIPLES OF SOCIAL PROTECTION FLOORS

1. General **responsibility of the State**
2. A **rights-based approach** based on entitlements prescribed by national law
3. **Diversity** of methods and approaches
4. **Progressive** realisation
5. **Universality** of protection based on **social solidarity**
6. Adequacy and **predictability of benefits**
7. **Protection of rights** and dignity of beneficiaries
8. **Non-discrimination**, gender equality and responsiveness to special needs
9. Financial, fiscal and economic **sustainability**
10. **Transparency** in management
11. Social partners' **participation**

Source: Adapted from the ILO (2012). Social Protection Floors Recommendation, 2012 (No. 202)

FOUR FUNCTIONS OF SOCIAL PROTECTION

	OBJECTIVE	SCOPE
PROTECTION	Poverty eradication	Giving cash and in-kind transfers to poor people through social assistance programme
PREVENTION	Poverty eradication and vulnerability	Providing income security to life-cycle risks and income shocks through social insurance
PROMOTION	Increase economic opportunities and individual capacities	Lifting poor and vulnerable people out of poverty through education and skills development
TRANSFORMATION	Sustainability through social inclusivity	Social justice through legislations, labour standards, and sensitivity design and implementation

Source: Adapted from ILO (2012).

SOCIAL PROTECTION PROGRAMMES ACROSS LIFE-CYCLE

EARLY CHILDHOOD
- FREE IMMUNISATION
- CHILD ALLOWANCE

SCHOOL AGE
- SCHOOL FEEDING PROGRAMME
- CHILD ALLOWANCE LINKED TO SCHOOL ATTENDANCE

YOUTH AGE
- STAY IN SCHOOL LINKED TO ATTENDANCE
- MANDATED SECONDARY SCHOOL

WORKING AGE
- FORMALISE ALL EMPLOYEES SO THAT EVERYONE IS COVERED BY SOCIAL PROTECTION PROGRAMMES
- UNEMPLOYMENT BENEFITS
- EMPLOYMENT INJURY BENEFITS
- MATERNITY

OLD AGE
- OLD AGE BENEFITS
- LONG-TERM CARE BENEFITS

FORMAL EDUCATION

SKILLS AND LIFE-LONG LEARNING

UNIVERSAL HEALTHCARE

NINE BRANCHES OF SOCIAL SECURITY

Source: ILO

PUTTING THINGS TOGETHER: SOCIAL PROTECTION POLICY WORKING FRAMEWORK FROM EPF'S PERSPECTIVE

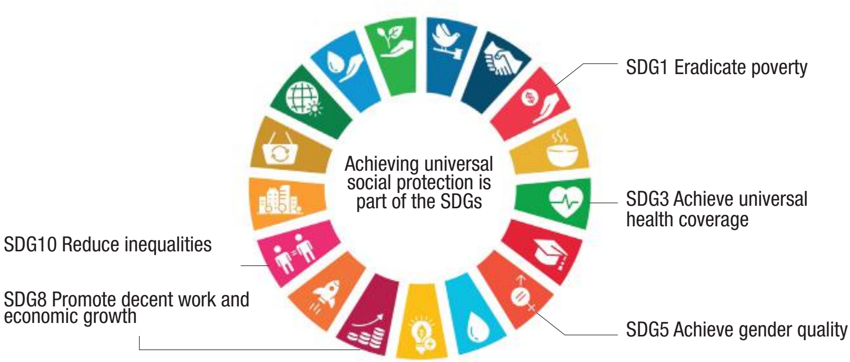
KEY QUESTIONS

1	2	3	4	5	6
What are the areas of VULNERABILITIES	Why we DO IT	Which PRIORITY AREAS to COVER	Who to COVER	How to APPROACH	How to FINANCE

SCOPE OF SOCIAL

1	2	3	4	5	6
• MEDICAL CARE • SICKNESS • UNEMPLOYMENT • OLD-AGE • EMPLOYMENT INJURY • FAMILY • MATERNITY • INVALIDITY • SURVIVOR	• REDUCE POVERTY • MANAGE VULNERABILITIES • REDUCE INEQUALITY • INCLUSIVE ECONOMIC GROWTH • SOCIAL COHESION	• SHELTER • HEALTH • INCOME • NUTRITION • EDUCATION • MOBILITY	• ALL CITIZENS ACROSS LIFE CYCLE	• SOCIAL ASSISTANCE • SOCIAL INSURANCE • LABOUR MARKET INTERVENTIONS	• CONTRIBUTORY • NON-CONTRIBUTORY

SUNSTAINABLE DEVELOPMENT GOALS AND SOCIAL PROTECTION



Source: Adapted from the International Labour Organization (ILO)

MULTI-PILLAR PENSION SYSTEM

OBJECTIVES

- Address different aspects of what constitutes adequate and sustainable pension benefits
- Mitigate political pressures on the retirement system by diversifying retirement risks across the political and financial spheres

TYPE	SPECIFIC OBJECTIVE	RELEVANT INSTITUTIONS IN MALAYSIA
3RD PILLAR VOLUNTARY PERSONAL SAVINGS PILLAR, PRIVATELY MANAGED	COMPLEMENTING THE PENSION BENEFITS	PRS Private Retirement Schemes
2ND PILLAR CONTRIBUTORY OCCUPATIONAL PENSION, EITHER IN THE FORM OF DEFINED BENEFIT OR CONTRIBUTION	PROVIDE HIGHER LEVELS OF PENSION BENEFITS IN ORDER TO MAINTAIN THE STANDARD OF LIVING AFTER RETIREMENT	KWSP EPF
1ST PILLAR CONTRIBUTORY, REDISTRIBUTIVE, PUBLICLY MANAGED	PROVIDE BASIC SOCIAL PROTECTION BENEFIT TO ADDRESS THE RISK OF INDIVIDUAL MYOPIA	NOT AVAILABLE
ZERO PILLAR NON-CONTRIBUTORY, TAX-FINANCED, UNIVERSAL OR MEANS-TESTED	ESTABLISHING A SOCIAL PROTECTION FLOOR FOR OLDER PERSONS	ZAKAT

Source: Adapted from ILO (2018). The ILO multi-pillar pension model: Building equitable and sustainable pension systems. International Labour Organization.

Unleashing the Potential: Advantages and Challenges of Community-Based Care

Dr Amalina Mursidi
Faculty of Economics and Muamalat
Universiti Sains Islam Malaysia

Executive Summary

In recent years, there has been a global effort to enhance the handling of healthcare for individuals with chronic or multiple health issues. This has sparked various investigations into different methods of organising and providing care for this particular population. The effectiveness of these models is usually evaluated based on their ability to enhance the quality of care, produce better outcomes for patients, and offer more cost-efficient services. Community-based care is a healthcare approach that focuses on providing services and support to individuals within their communities. This article explores the advantages and challenges associated with community-based care, highlighting its potential to improve health outcomes and enhance patient well-being.

Introduction

Community-based care refers to healthcare and social services that are provided within a community setting, rather than in a hospital or institutional setting. It focuses on delivering care and support to individuals in their communities, where they live, and socialise. Community-based care aims to promote holistic well-being, prevent illness and injury, and provide ongoing care and support for individuals with chronic conditions.

Community-based care typically involves a multidisciplinary approach, bringing together various healthcare professionals, social workers, caregivers, and community organisations to provide comprehensive care and support. It can encompass a wide range of services, including primary healthcare, preventive care, rehabilitation, mental health services, home care, palliative care, and social services.

Community-Based Care Principles

There are five key principles of community-based care, which are accessibility, continuity of care, a patient-centred approach, empowerment and engagement, and collaboration and integration. Accessibility is a service that is designed to be easily accessible and available to all members of the community, regardless of their location or socioeconomic status. Continuity of care is focused on providing ongoing, coordinated care that addresses the individual's physical, emotional, and social needs throughout their lifespan.

Meanwhile, the patient-centred approach is tailored to the specific needs and preferences of the individual, considering their cultural, social, and economic circumstances. Empowerment and engagement refer to the individuals who actively participate in their care, make informed decisions, and engage with their community to promote their well-being. Lastly, collaboration and integration, where community-based care involves collaboration between healthcare providers, social services, community organisations, and individuals to ensure seamless coordination and integration of services.

Advantages of Community-Based Care

Community-based care offers several advantages that contribute to improved healthcare outcomes and overall well-being. Several advantages highlighting the key benefits of community-based care are as follows:

Accessibility and Convenience
Community-based care brings healthcare services closer to individuals, making them more accessible and convenient. It eliminates the need for long-distance travel and reduces waiting times, ensuring that individuals can receive timely care without significant disruptions to their daily lives.

Holistic and Patient-Centred Approach
Community-based care emphasises a holistic approach to healthcare, addressing not only the physical health needs of individuals but also their mental, emotional, and social well-being. By considering the unique circumstances and preferences of patients, this approach allows for personalized and patient-centred care.

Prevention and Early Intervention
Community-based care places a strong emphasis on preventive measures and early intervention. By engaging with individuals in their communities, healthcare providers can identify risk factors and implement proactive measures to prevent the onset or progression of illnesses. This approach helps reduce healthcare costs and improve health outcomes in the long run.

Continuity of Care
One significant advantage of community-based care is the continuity it provides. Through ongoing relationships between healthcare providers and patients, it ensures that individuals receive consistent care and support, promoting better management of chronic conditions and reducing the likelihood of fragmented care.

Collaboration and Integration
Community-based care encourages collaboration and integration among healthcare professionals, social service agencies, and community organizations. This multidisciplinary approach ensures that individuals receive comprehensive care, with healthcare providers working closely with other stakeholders to address the social determinants of health and provide holistic support.

Challenges of Community-Based Care

While community-based care offers numerous benefits, it also faces certain challenges. Here are some challenges in community-based care:

Resource Limitations
Implementing community-based care requires adequate resources, including healthcare facilities, skilled healthcare professionals, and funding. In some areas, limited resources may hinder the establishment and expansion of community-based care programmes, making it challenging to meet the needs of all individuals in the community.

Care Coordination
Coordinating care among multiple healthcare providers, social service agencies, and community organizations can be complex. Ensuring seamless communication and collaboration among these entities is essential to providing integrated and efficient care. However, coordinating schedules, sharing information, and maintaining clear lines of communication can be challenging.

Limited Specialised Services
While community-based care can address many healthcare needs, certain specialised services may be limited or unavailable in a community setting. Individuals requiring highly specialised medical procedures or advanced treatments may still need to access care in hospital settings, leading to potential gaps in comprehensive care.

Socioeconomic Disparities
Community-based care must address socioeconomic disparities to ensure equitable access to healthcare services. Disadvantaged communities may face additional challenges related to poverty, limited transportation options, or inadequate healthcare infrastructure. Addressing these disparities requires targeted interventions and community engagement to bridge gaps in access and quality of care.

Strategies to Increase Awareness

Raising awareness about community-based care is an important step in promoting its benefits and encouraging its adoption. Therefore, this study has also come up with a few strategies to help raise awareness:

Education and Information Dissemination
Develop informational materials such as brochures, pamphlets, or fact sheets that explain what community-based care is, its advantages, and how it can benefit individuals and communities. Distribute these materials through local community centres, healthcare facilities, schools, and other relevant organisations.

Public Speaking and Presentations
Offer to give presentations or speak at community events, conferences, or town hall meetings to educate the public about community-based care. Highlight success stories, case studies, and statistics that demonstrate the positive impact of this approach.

Collaborate with Local Organisations
Partner with local healthcare providers, community organisations, and social service agencies to host workshops or events focused on community-based care. Engage with these organisations to spread the word about the benefits of community-based care and encourage them to integrate it into their programs.

Utilise media Channels
Leverage traditional media outlets, such as newspapers, radio stations, and television, to share stories, interviews, or opinion pieces related to community-based care. Additionally, utilise social media platforms, blogs, and online forums to reach a broader audience and engage in discussions of the topic.

Collaborate with Academic Institutions
Partner with local colleges, universities, or research institutions to conduct studies or gather data that supports the effectiveness and impact of community-based care. Publish research findings and share them with the community, policymakers, and healthcare professionals.

Advocate for Policy Changes
Work with policymakers, advocacy groups, and stakeholders to promote policies that support community-based care. Lobby for increased funding, improved regulations, and the integration of community-based care into existing healthcare systems.

"Community-based care typically involves a multidisciplinary approach, bringing together various healthcare professionals, social workers, caregivers, and community organisations to provide comprehensive care and support."

Conclusions

Community-based care has several benefits, including reduced healthcare costs, improved health outcomes, increased patient satisfaction, and enhanced community engagement. It can also help reduce hospital admissions and emergency room visits by providing early intervention and proactive care. Overall, community-based care recognises the importance of addressing the broader determinants of health and acknowledges that individuals are best served when care is provided within their communities, with a focus on prevention, wellness, and support. Community-based care offers numerous advantages by providing accessible, patient-centred, and holistic healthcare services. Despite its benefits, challenges related to resource limitations, care coordination, limited specialised services, and socioeconomic disparities must be addressed to ensure effectiveness and inclusivity.

References

Bardsley, M., Steventon, A., Smith, J., & Dixon, J. (2013). *Evaluating integrated and community-based care How do we know what works? Research summary.* www.nuffieldtrust.org.uk/evaluation

Bennett, S. (2004). The role of community-based health insurance within the health care financing system: A framework for analysis. In *Health Policy and Planning* (Vol. 19, Issue 3, pp. 147–158). https://doi.org/10.1093/heapol/czh018

Browne, G., Roberts, J., Gafni, A., Byrne, C., Weir, R., Majumdar, B., & Watt, S. (1999). Economic evaluations of community based care: lessons from twelve studies in Ontario. *Journal of Evaluation in Clinical Practice*, 5(4), 367-385.

Lassi, Z. S., Kumar, R., & Bhutta, Z. A. (2016). Community-based care to improve maternal, newborn, and child health. *Disease Control Priorities*, 2, 263-84.

Williams, A. P., Challis, D., Deber, R., Watkins, J., Kuluski, K., Lum, J. M., & Daub, S. (2009). Balancing institutional and community-based care: why some older persons can age successfully at home while others require residential long-term care. *Healthcare Quarterly (Toronto, Ont.)*, 12(2), 95-105.

Simmons, J. (1994). Community based care: The new health social work paradigm. *Social Work in Health Care, 20*(1), 35-46.

FinTech And Retirement Savings

Nor Iskandar Md Nor
Employees Provident Fund

Introduction

Financial technology (FinTech) has revolutionised the way individuals conduct financial transactions. It has enabled people to access financial services and products at their fingertips, facilitating convenience and access. FinTech has proven to be a great tool in enabling people to get better returns on their investments, save for retirement, and make informed decisions. One area where FinTech has made a particularly big difference is in retirement planning. We will explore the different ways in which FinTech has disrupted traditional ways of saving or investing for retirement.

FinTech and saving for retirement

Saving for retirement has traditionally been associated with conventional forms of investment such as equity, bonds, and unit trusts. These forms of investment typically require substantial sums of money, and it can be challenging for people with limited capital to participate. Therefore, FinTechs have emerged to bridge this gap by offering low-cost investment options that can be accessed by anyone with a smartphone or a computer. FinTech has democratised access to retirement income products by making them more inclusive, affordable, and accessible.

One of the main ways FinTech has changed retirement planning is through robo-advisors. Robo-advisors are digital platforms that provide financial advice based on algorithms and data analytics. These platforms recommend the allocation of assets based on an investor's age, risk tolerance, and financial goals. In addition, robo-advisors automate asset management by rebalancing portfolios and providing regular updates on investment performance. In this way, robo-advisors have reduced the cost of investing and made it easier for people to access retirement savings.

FinTech has also disrupted traditional 401(k) plans offered by employers in the United States. Many FinTech startups have entered the market with digital platforms that offer low-cost, easy-to-use retirement plans. These platforms offer automated contributions, intuitive investment selection, and asset management at a fraction of the cost of traditional 401(k) plans. Robo-advisory platforms such as Betterment and Wealthfront,


AI
Volume
50
25
25
50%
80%
55%
75%

for example, charge only 0.25% of assets under management compared to the 1% to 2% charged by traditional investment firms.

In addition, FinTech has enabled the creation of self-directed investment platforms. These platforms offer investors greater control over their assets and investment decisions. Unlike traditional retirement plans, investors can choose their investments through these platforms, giving them more flexibility, and control over their retirement income products. With low fees, greater flexibility, and more control over investments, self-directed platforms are becoming increasingly popular with tech-savvy Millennial investors who are seeking a more active role in managing their investments.

Elya is a unique chatbot launched by the Employees Provident Fund in June 2020. Elya is touted as the first bilingual virtual assistant for social security organisations, powered by artificial intelligence, using natural language processing, and supported by live chat. The chatbot provides instant customer support 24/7 across all digital channels, reducing reliance on the customer service team for repetitive queries. Elya provides helpful answers in the form of written content, hyperlinks, or images to questions about product information and related retirement services. It also seamlessly escalates complex enquiries that cannot be covered by the trained knowledge base to human agents or designated escalation channels.

Finally, FinTech has enabled the development of savings apps that offer financial education, personalised investment recommendations, and investment tracking. These apps have made financial education and investing fun and easier for people to learn about investing and retirement planning. They have also made it easier for people to save money through frequent small contributions rather than investing it in a lump sum. FinTech savings apps like Acorns and Stash have become popular with young investors who want to start saving for retirement early.

Conclusion

FinTech has revolutionised saving for retirement by creating low-cost, easy-to-use automated platforms that provide access to previously exclusive investment opportunities. The platforms have also simplified investing through gamification, financial education, and personalised recommendations. FinTech has made retirement income products accessible to people of all income levels and promoted the democratisation of investing. The advances FinTech companies have made in retirement income products have disrupted the conventional way of saving, giving people more control, flexibility, and lower costs. In summary, FinTech has played an important role in the retirement income products industry and will continue to transform it in the future. The challenge for the Employees Provident Fund, a mandatory pension savings scheme, is to use FinTech to extend coverage to self-employed and platform workers and to increase savings voluntarily so that members will have more flexibility and freedom in later years.

"Elya is a unique chatbot launched by the Employees Provident Fund in June 2020. Elya is touted as the first bilingual virtual assistant for social security organisations, powered by artificial intelligence, using natural language processing, and supported by live chat."

References

Hadass, Y., Laboure, M., Shen, S., & Turner, J. A. (2021). *Fintech and the retirement savings system.* Society of Actuaries.

Kilroy, A. (2022). *Stash vs Acorns: Which investing app is better?* https://smartasset.com/financial-advisor/stash-vs-acorns

OECD (2017). *Technology and pensions the way pensions operate and how: The potential for FinTech to transform governments are supporting its development.* Organisation for Economic Co-operation and Development.

OECD (2018). *Financial markets, insurance and private pensions: Digitalisation and finance.* Organisation for Economic Co-operation and Development.

O'Shea, A. (2023). *Betterment vs. Wealthfront: 2023 Comparison.* https://www.nerdwallet.com/article/investing/betterment-vs-wealthfront

The COVID-19 Pandemic and Retirement Savings Withdrawals In Malaysia

Mohammad Ikmal Kadir Mohd Arshad and Nor Iskandar Md Nor
Employees Provident Fund

Introduction

The COVID-19 pandemic was an extraordinary occurrence that affected people all across the world in different ways. Regardless of age, ethnicity, religion, or nationality, the effects of this worldwide health crisis have been felt not only on economies but also on many social facets. The pandemic had had a major impact on Malaysia's economy, which resulted in a sharp recession, increased poverty, and political instability.

Malaysia's GDP decreased by 5.6% in 2020, according to the Department of Statistics (DOSM) (DOSM, 2021), and the economic difficulties persisted into 2021 and 2022. The economy only began to recover in the second half of 2022 with widespread vaccination and the shift to treating COVID-19 as endemic. Numerous factors, including the disruption of international trade, restrictions on mobility, and a decline in vital industries like tourism, manufacturing, and construction, were to blame for the slowdown during the epidemic. The pandemic's severe effects on the national economy left many Malaysians struggling financially.

The adverse impact on Malaysia's population's well-being was one of the immediate effects of the economic slump. An investigation into the effects of COVID-19 on Employees Provident Fund (EPF) members was undertaken in 2021 with the participation of 21,655 respondents (EPF, 2021). Three out of every five employees in the formal sector earned an average monthly wage of less than RM2,500. In addition, 78% of respondents were employed on a permanent basis, 16% worked on a contract basis or in the unofficial sector, and 6% were jobless. 96% of respondents continuing their employment in the same industry during

the Movement Control Order (MCO) period, when there were severe constraints on individual movement. However, 2 out of 5 employees had their pay reduced or were placed on unpaid leave, while 2% were fired or made to quit their positions.

Similar difficulties beset workers in the informal sector, with only about 51% of respondents able to keep their jobs during the MCO period, although half of them had their salary reduced or had to take unpaid time off. Additionally, four out of every five workers in the informal sector earned less than RM2,500 per month (EPF, 2021).

The prevailing circumstances underscored the critical necessity for implementing social protection measures to safeguard the livelihoods of the population. The government's efforts to address the economic impact of the pandemic were ad-hoc and inadequate in delivering comprehensive and sustainable support. In response to the urgency of the situation, the government introduced stimulus packages amounting to a staggering RM530 billion over the course of 2020 and 2021. However, only 15.6% (RM82.9 billion) of this substantial sum was through actual fiscal injections. The bulk of it was dominated by loan repayment aid through moratoriums and individuals own EPF withdrawals. To paint a clearer picture, the fiscal injections translated to a mere RM0.16 for every RM1 announced in the various fiscal stimuli's packages. This discrepancy raises concerns about the effectiveness and impact of the government's fiscal interventions, the appropriateness of the binding legal and constitutional constraints on fiscal policy, and at the same time highlights the major gaps in our social protection system.

Despite the intention to alleviate day-to-day financial hardships and sustain businesses to preserve jobs, these policies only went so far. The complex nature of the crisis required comprehensive measures that can effectively stimulate economic recovery and ensure the long-term stability of Malaysians financial situations. While these policies were aimed to alleviate the hardships faced by the population though mitigating the impact of the pandemic on individuals' financial well-being, particularly in the context of day to day expenses, and to sustain businesses in a bid to preserve jobs, they fell short of plugging the financial shortfalls that many households faced.

List of COVID-19 aid and relief measures according to types of social protection

Cash Transfer	
1	RM500 of one-time assistance for 120,000 e-hailing drivers nationwide with an allocation of RM60 million.
2	RM500 cash assistance for government pensioners.
3	RM500 monthly cash assistance for three months is provided to disabled persons who have lost their jobs or who are unemployed.
4	RM300 of one-off assistance to informal sector workers, fresh graduates, and school leavers who are registered in the MYFutureJobs platform.
5	RM200 of one-time assistance for affected higher education institution students.
6	Allocation of RM300,000 for each parliamentary constituency to assist those affected in their respective constituencies with a food basket.
7	All individual borrowers are entitled to an unconditional 6-month moratorium on bank loans regardless of income classification.

Subsidy

1. A subsidy is paid to employers for each local employee earning below RM4,000 per month for three months beginning 1 April 2020. The amount of subsidy per worker per month ranges from RM600 to RM1,200, depending on the number of local workers under an employer (Wage Subsidy Programme).
2. A special discount of 5% to 40% on electricity bills is provided based on electricity usage capped at 900 kWh a month.

Social Insurance

1. Under the Employment Insurance System (EIS), those who have been contributing and are retrenched can receive payment.
2. Under the Employment Retention Programme (ERP), those forced to take unpaid leave are entitled to a monthly RM600 for up to six months, limited to those earning below RM4,000.
3. Reduction in the minimum employee's EPF contribution by 4% from 11% to 7% from April to December 2020 and by 2% from 11% to 9% from January to June 2022.

COVID-19 related EPF withdrawals

Figure 1: COVID-19 related EPF withdrawals

2020	2021		2022
i-Lestari	iSINAR	iCITRA	PENGELUARAN KHAS
APR2020 TO MAY2021	JAN2021 TO DEC2021	JUL2021 TO FEB2022	APR2022 TO MAY2022
WITHDRAWAL FROM ACCOUNT 2	WITHDRAWAL FROM ACCOUNT 1	UTILISING SAVINGS FROM ACCOUNT 2 AND SUBSEQUENTLY ACCOUNT 1	UTILISING SAVINGS FROM ACCOUNT 2 AND SUBSEQUENTLY ACCOUNT 1
RM20.8B Total amount disbursed	RM58.7B Total amount disbursed	RM21.4B Total amount disbursed	RM44.6B Total amount disbursed
5.3M Applications approved	6.6M Applications approved	5.2M Applications approved	6.0M Applications approved

In an effort to alleviate the financial burden caused by the COVID-19 pandemic and to ensure the well-being of Malaysians, the Employees Provident Fund (EPF), guided by the government and in response to public pressure, allowed members to have early access to their retirement savings before reaching retirement age. This measure was aimed at providing immediate financial relief to individuals during the challenging pandemic period.

It's crucial to note that early access to retirement savings is not exclusive to Malaysia only. In fact, more than 20 other countries introduced such access as a way to deal with the pandemic's economic effects. Financially struggling people were given a lifeline by these withdrawals, enabling them to take care of their urgent needs and commitments. These programs acted to stabilise aggregate demand, prevent severe income losses, and mitigate the impact of economic shocks on individuals and families. The withdrawals from EPF were unprecedented in scale, with a total of RM145.5 billion accessed through all four COVID-19 related withdrawals between April 2020 and May 2022.

In assisting EPF members cope with the impact of COVID-19, EPF introduced two other measures which included the reduction in EPF member contribution rates and restructuring of employer obligations for those businesses most affected by the economic slowdown. The reduction of the contribution rate saw a further RM10 billion in potential contributions being redirected to domestic consumption.

However, when it came to the final withdrawal tranch, known as Pengeluaran Khas, there were growing doubts on the wisdom of this course. Other countries had halted access to retirement savings post-2021, considering signs of improving economies. The Malaysian government had to carefully weigh the potential impact of allowing another EPF withdrawal, taking into account the progress made in economic recovery and the need to balance immediate relief with long-term retirement adequacy.

Impact of COVID-19 related EPF withdrawals on EPF members' savings adequacy

The COVID-19 related withdrawals significantly impacted retirement income adequacy in Malaysia. As a means to quantify retirement savings adequacy, the EPF measures the achievement of basic savings by age. Basic savings in this context refers to the goal of having RM240,000 in retirement savings in the EPF account by the time a member reaches 55 years old, taking into account the minimum public sector pension in Malaysia and life expectancy.

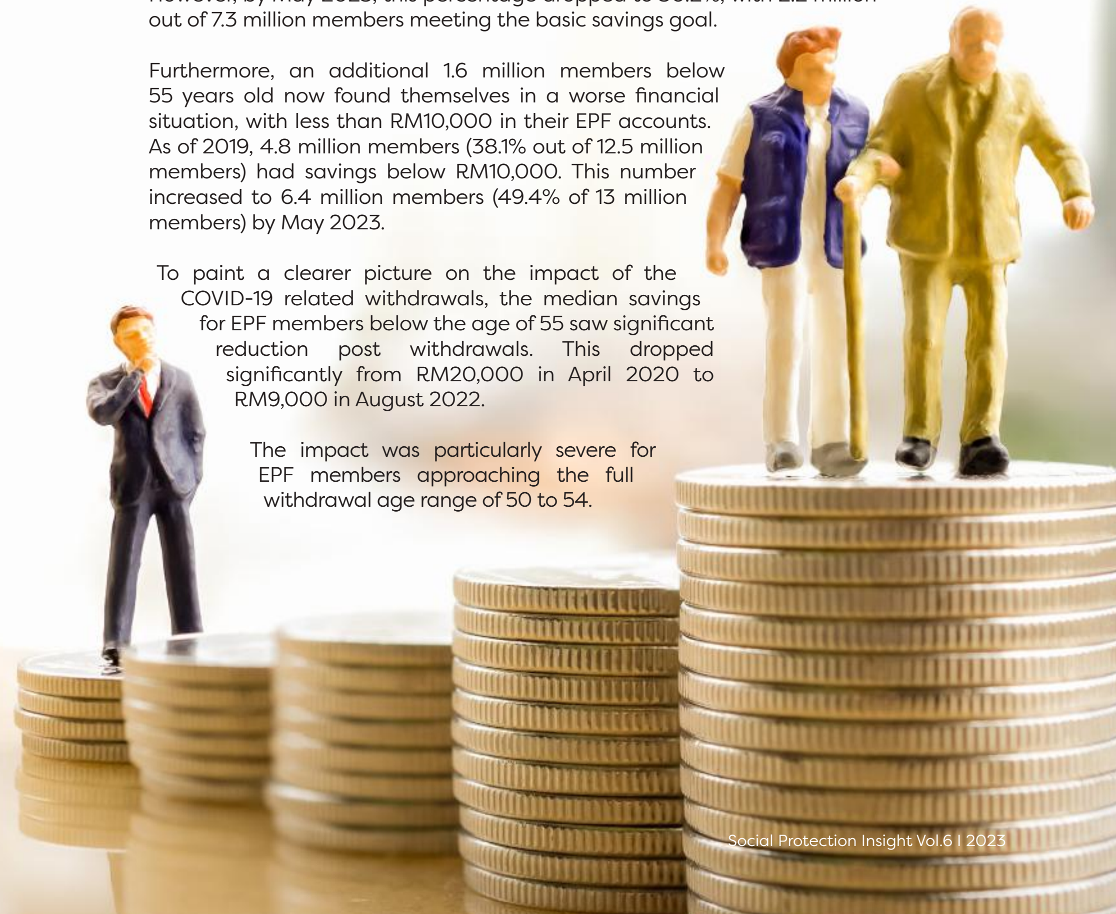
Prior to the pandemic, 20.4% of EPF members aged 18 - 55, equivalent to 2.6 million individuals out of the 12.7 million members, had achieved basic savings by age as of 2019. However, as of May 2023, this figure has decreased to 18.4%, with only 2.4 million out of 13.2 million members meeting the basic savings target.

The impact on basic savings has been particularly pronounced among active formal sector members. In March 2019, 34.5% of active formal sector members, totalling 2.3 million individuals out of 6.8 million members, had achieved basic savings by age. However, by May 2023, this percentage dropped to 30.2%, with 2.2 million out of 7.3 million members meeting the basic savings goal.

Furthermore, an additional 1.6 million members below 55 years old now found themselves in a worse financial situation, with less than RM10,000 in their EPF accounts. As of 2019, 4.8 million members (38.1% out of 12.5 million members) had savings below RM10,000. This number increased to 6.4 million members (49.4% of 13 million members) by May 2023.

To paint a clearer picture on the impact of the COVID-19 related withdrawals, the median savings for EPF members below the age of 55 saw significant reduction post withdrawals. This dropped significantly from RM20,000 in April 2020 to RM9,000 in August 2022.

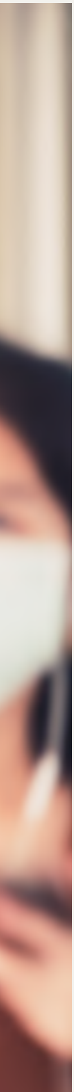
The impact was particularly severe for EPF members approaching the full withdrawal age range of 50 to 54.



More than half of these members have less than RM50,000 in savings, which is equivalent to a monthly replacement income of RM200 or less. This highlights the challenges faced by individuals in achieving adequate retirement savings and underscores the need for effective financial planning and education.

In light of these challenges, it is crucial to prioritise the education of EPF members on the importance of retirement savings. Efforts should focus on raising awareness about the long-term implications of COVID-19 related withdrawals and the importance of replacing the savings withdrawn. By promoting financial literacy and encouraging members to actively contribute to their retirement savings, individuals can take proactive steps to safeguard their future financial security.

Conclusion



The COVID-19 outbreak has highlighted the serious difficulties Malaysians have in protecting their retirement assets. It is critical to address the issue of old-age income security as Malaysia moves closer to the position of an aged nation in 2030, with a predicted threefold increase in the elderly cohort by 2060. Many older people are financially vulnerable since they do not have enough income sources to cover their fundamental necessities in retirement.

If left unaddressed, this situation will have far-reaching implications on both the economic and social fronts. The ongoing rise in the number of elderly individuals amplifies the risks of this large elderly cohort falling into old-age poverty, placing a greater burden on the government to provide support. Such a scenario will lead to higher fiscal implications in the long run, underscoring the urgency for comprehensive and timely action.

Given the rapid demographic changes and the increasing prevalence of informal employment, it is imperative to develop social protection policies that safeguard the well-being of the current and future population. The COVID-19 pandemic served as a stark reminder of the existing discontinuities in our social protection policies, revealing significant gaps in the system's ability to address not only unforeseen crises like the pandemic itself, but also the everyday risks encountered by all individuals. Social protection policies play a vital role in promoting inclusive growth, enhancing social cohesion, and improving the overall well-being of Malaysians.

To ensure a secure and dignified retirement for all Malaysians, a holistic approach must be taken. This includes raising awareness about the importance of retirement savings, promoting financial literacy, and implementing comprehensive social protection policies. By doing so, Malaysia can navigate the challenges posed by COVID-19-like pandemics and the ageing phenomenon, fostering a resilient and prosperous future for Malaysia.

References

1. Department of Statistics Malaysia. (2020). *Population Estimates and Projections.*
2. Department of Statistics Malaysia. (2022). *Annual Gross Domestic Product 2015-2022*
3. Employees Provident Fund. (2023). *EPF's Performance for May 2023.*
4. Employees Provident Fund. (2023). *Retire Well with EPF: Unlocking Your Retirement Potential.*
5. Employees Provident Fund. (2021). *EPF's COVID-19 Response.*
6. Employees Provident Fund. (2023). *EPF Business Intelligence.*
7. International Labour Organization. (2022)
8. Ministry of Finance Malaysia. (2021). *Malaysia's Economic Outlook 2022.*
9. United Nations Development Programme. (2018). *Malaysia's Aging Population: An Urgent Need for Reforms.*
10. World Bank Group. (2019). *Malaysia's Path to High-Income Status.*

EPF MEMBERS FINANCIAL LITERACY SURVEY 2022

Since its inception in 2017, the Employees Provident Fund (EPF) has been running the EPF Members Financial Literacy Survey to gauge the level of financial literacy among its members. The 2022 survey, held from October 2022 to January 2023 saw strong participation from around 37 thousand members via the EPF's i-Akaun and social media platforms. Based on the respondents' profile, a majority of the respondents were from the lower income group with lower education levels, with 52% earning below RM2,500 monthly and 64% not having a bachelor's degree, respectively. In addition, the survey also garnered support from the younger generation, with 39% of the respondents below 30 years old. The following results have been weighted to reflect the EPF member population.

FINANCIAL BEHAVIOURS
SAVINGS AND LOAN COMMITMENTS

Monthly savings and emergency fund – REMAIN A CHALLENGE FOR MAJORITY OF EPF MEMBERS

52% indicated that they were unable to save or were not saving at all from their monthly income. In terms of having an emergency fund, 46% did not have any emergency savings at all.

MONTHLY SAVINGS

52%	28%	15%	5%
Unable to save or did not save	<10% of monthly income	11-20% of their monthly income	More than 20% of monthly

EMERGENCY FUND

46%	18%	21%	15%
No emergency fund	Up to 1 month	2 – 5 months	6 months and above

90% of EPF members HAVE LOAN COMMITMENTS

87% up to 30 years old	95% 31-40 years old	94% 41-50 years old	88% 51-60 years old
51%	58%	52%	50%
34%	50%	52%	48%
32%	45%	48%	36%

MEMBERS IN THE AGE GROUP BETWEEN 31 AND 40 YEARS OLD RECORDED HIGHEST LOAN COMMITMENTS

90% of EPF members had loan commitments but the proportions changed with age. Housing, vehicles, and personal loans were the consistent loan types across different age groups.

FINANCIAL BEHAVIOURS
RETIREMENT PLANNING

7 IN 10 ARE STRUGGLING OR HAVE NOT PREPARED for their retirement

More than 70% of EPF members were struggling or had not prepared adequately for their retirement. Among them, 48% had not given any thought to starting planning for retirement while 29% had started planning but needed further guidance due to the financial challenges they faced. Only 23% indicated that their retirement planning was on track. For those who had not planned for retirement, they indicated that they will rely solely on their EPF savings to support their financial needs during retirement. On the other hand, for those who had a retirement plan, a majority of them would look for an opportunity to generate additional income apart from using EPF savings to support their financial needs during retirement.

		48% Have not thought about any plans for retirement	**29%** Have started preparing for retirement but need further guidance due to financial challenges	**23%** Have worked on a retirement plan and the plan is on track
RETIREMENT PLANNING	Depends entirely on EPF savings	55%	59%	43%
	Plan to generate additional income for retirement apart from EPF	12%	31%	33%
WITHDRAWAL OPTIONS	Prefer full withdrawal upon retirement	39%	30%	36%
	To keep savings intact for as long as possible	6%	10%	15%

FINANCIAL BEHAVIOURS
FINANCIAL HEALTH STATUS

4 IN 10 ACHIEVED FINANCIAL STABILITY LEVEL and above

Four in ten EPF members had achieved a financial health status at the financial stability level and above. The survey results also showed that those who earned higher monthly income were able to shift their financial health beyond financial security, indicating a positive impact on overall financial well-being.

TOTAL POPULATION		≤RM4,840	RM 4,851 – RM 10,970	≥RM10,971
54%	**FINANCIAL INSTABILITY** • Negative cash flow • No savings and assets • Debt exceeding income	62%	27%	11%
33%	**FINANCIAL STABILITY** • Budget within income • Low savings and assets • Debt under control	29%	48%	36%
9%	**FINANCIAL SECURITY** • Positive cash flow • Savings of 1-6 months income • Debt well-managed	5%	20%	37%
3%	**FINANCIAL STABILITY** • Positive cash flow • Strong savings and assets • Able to generate extra income	2%	4%	12%
1%	**FINANCIAL WEALTH** • Debt-free • Stable passive and active income • Extra savings and assets	2%	1%	4%

Making a Case for a Negative Income Tax for the Working-Age Group in Malaysia

Nurulhana Sofia Abu Samah
Employees Provident Fund

Introduction

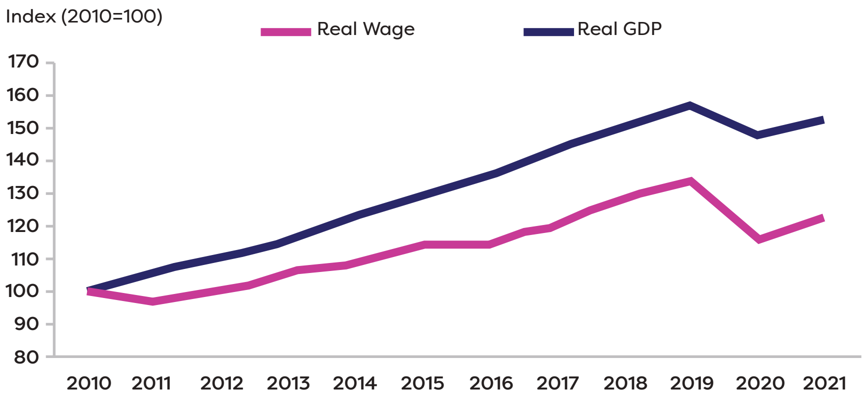
Over the years, millions of Malaysians have been lifted out of poverty thanks to robust economic growth and successful poverty alleviation policies. Relative poverty, the portion of the population earning half of the median earner, has come down from a peak seen in 2002 at 20.0% to 15.9% in 2016. Income disparity between the rich and the poor, measured by the Gini coefficient, has also declined steadily from its highs in the 1970s of 0.557 to 0.399 in 2016 (Department of Statistics Malaysia, 2020). However, despite these achievements, there are growing concerns that these positive trends are faltering, especially in light of the recent global pandemic.

The cost of living continues to soar, further exacerbating the situation. While relative poverty rates have improved, overall real wage growth remains lacklustre, such that the 10-year average annual growth of real wages was a mere 2.0%, against a 10-year average growth of real GDP of 4.0%, indicating marginal improvements in the standard of living for Malaysians (see Figure 1). This predicament is compounded by a low wage structure and a high level of informality in the labour market, intensifying the challenges individuals and households face even before the onset of the pandemic caused real wages to crash.

To address these issues, the government has implemented various policies, including a minimum wage, broad-based subsidies, and cash transfer programmes. Although these initiatives have brought about some improvements, they come at a significant cost to both the government and businesses. In addition, despite these efforts, low- and medium-income earners still struggle to cope with the rising cost of living.

In light of Malaysia's tight fiscal situation and declining tax base, it has become crucial to reassess the efficiency of government spending, particularly with regard to social assistance. As such, this paper advocates for the implementation of a Negative Income Tax (NIT) as a potential tool for redistribution to assist the remaining millions to climb out of poverty. By prioritising efficiency and minimising market distortions, an NIT offers a promising solution to provide a minimum income level and much-needed support to those in need.

Figure 1: Real GDP vs Real Wage, Index (2010=100)



Source: DOSM, EPF

60

What is Negative Income Tax

In theory, an NIT would work as a mirror image of the regular tax system. The system would pay lower income earners a percentage of the difference between their income and the level at which they start paying tax (Friedman, 1962). As such, the phasing out of cash transfers creates a financial incentive for individuals to seek employment and increase their earnings. For example, if the taxable income cut-off is set at RM36,000 per annum, and the NIT rate is 50%, those who earn RM18,000 annually would receive RM9,000 from the government. If they made RM30,000, they would then receive RM3,000 from the government during the year. The government may decide to disburse the qualified benefits on a monthly basis throughout the year, as current taxpayers are subjected to a monthly tax deduction before filing them as the income year ends, by assuming what the earnings would be for the year. Alternatively, income tax filers may also file their tax returns on a quarterly basis. Essentially, the NIT transfer would be in the form of a pay-first, question-later format, which may encourage a better take-up rate and may minimise exclusion errors that are usually associated with means-tested programmes. Indirectly, this also would expand the taxpayer database as it incentivises more people to report their income directly to the Inland Revenue Board to be able to qualify for the NIT.

Popularised by economist Milton Friedman in the 1960s, the NIT's key basic idea is

"The advantages of this arrangement are clear. It is directed specifically at the problem of poverty. It gives help in the form most useful to the individual, namely, cash. It is general and could be substituted for the host of special measures now in effect. It makes explicit the cost borne by society. It operates outside the market. Like any other measures to alleviate poverty, it reduces the incentives of those helped to help themselves, but it does not eliminate that incentive entirely, as a system of supplementing incomes up to some fixed minimum would"

– Milton Friedman in Capitalism and Freedom

to act as a tool for poverty alleviation by providing a direct cash transfer to low-income earners rather than in-kind benefits. Consequently, it simplifies the social assistance system by centralising cash transfer administration at a respective country's tax authority rather than having several different agencies administer assistance. In addition, the fundamental nuance of the NIT as a form of welfare is that it treats the poor the same way the government treats the rich, by filing income tax returns.

Several governments have executed NIT-like tax policies to varying degrees, mainly in the form of wage subsidies or tax credits. The United States (US) government experimented with an NIT policy during Richard Nixon's administration. However, poor data collection and misreported data resulted in ambiguous findings on the effectiveness and impact of the policy (Widerquist, 2002). Despite this, the US continued to move ahead with the introduction of the Earned Income Tax Credit in 1975, and the programme has gained bipartisan support over the years and has been expanding since its introduction. The same can be seen for the United Kingdom (UK). An NIT proposal cropped up much earlier, during the publication of the Beveridge Report in the early 1940s, and saw the evolution of NIT-style implementation in UK tax policies, with the latest being the introduction of the Universal Credit.

Current problems

As highlighted earlier, Malaysia continues to face significant income disparity, and the escalating cost of living places a heavier burden on households, particularly those in the lower income bracket. Doubts about the efficiency and effectiveness of existing policies in addressing this issue remain.

Firstly, the most common argument for inefficiencies in the Malaysian system is the fragmented nature of social assistance programmes. The multiplicity of programmes has, in a way, hampered the effectiveness of addressing the needs of the most vulnerable. The lack of coordination and synergy among different initiatives has led to duplication of benefits, resulting in the wastage of resources. At the same time, means-tested programmes often face high exclusion errors. These inefficiencies highlight the urgent need for streamlining and consolidating cash assistance programmes to ensure better targeting, reduced duplication, improved efficiency, and, ultimately, more effective support for those in need.

Secondly, implementing a subsidy programme that is accessible to all has definitely helped keep prices affordable for the general population, yet it remains a costly endeavour for the government. The distributional impact has also proven to be regressive, such that the subsidy spending is directed more towards those of higher income who can afford to spend more, rather than people experiencing poverty. In essence, assistance should be prioritised for people who need it the most.

Lastly, raising the minimum wage has undoubtedly contributed to stronger wage growth across all income groups, especially those in the lower income bracket. However, the common disemployment effect of a higher minimum wage, despite a large body of empirical evidence seeing it as short-term, could discourage businesses from hiring formal workers, particularly in an environment characterised by increasing informality in Malaysia. Therefore, raising the minimum wage may be seen as a potential catalyst in the context of a growing informal sector and the rising cost of doing business.

How NIT would be a good solution

Contrary to Friedman's proposal that an NIT should replace all existing social assistance in both cash and in-kind, this paper believes in the complementarity of existing benefits in both cash and in-kind, particularly universal education and healthcare. However, specific aspects of an NIT system would provide a good solution for Malaysia, especially with regard to its simplicity and transparency in calculating and determining eligibility for assistance.

Malaysia has already implemented cash transfer programmes, which have garnered significant support despite lacking proper legislation. As such, introducing an NIT would primarily simplify the current system by consolidating all cash transfer programmes under the administration of the Inland Revenue Board (IRB). This would effectively address issues related to duplication, enhance the efficiency of benefit distribution, and reduce administrative costs. Streamlining assistance programmes and the tax filing system would concurrently create more robust data collection for the working-age group, including those in the informal sector.

Furthermore, as mentioned, the nature of filing for income tax would suggest that an NIT system would provide immediate support without much extensive scrutiny, which would encourage a higher take-up rate of the programme, accordingly minimising exclusion errors. Also, the means-tested nature of the programme would suggest that the benefits would be transferred substantially more to the deserving poor, as opposed to broad-based subsidy programmes, where the distributional effect may be the opposite.

Finally, implementing an NIT would assist in mitigating the challenges posed by the country's low wage structure. While the minimum wage has contributed to stronger wage growth, artificially raising wages may lead to distortions in the labour market. An NIT system would be able to provide support to low-income workers without imposing additional burdens on employers, consequently striking a balance between wage levels and market efficiency.

Conclusion

In short, implementing an NIT in Malaysia offers a potential solution to address the income disparity and the rising cost of living faced by the country's working-age population. By streamlining and consolidating cash transfer programmes, the NIT can minimise administrative costs, enhance efficiency, reduce duplication, and improve targeting, ensuring that support reaches those who need it most. Additionally, the NIT system can effectively address the challenges associated with the country's low-wage structure by supporting low-income workers without distorting the labour market.

Despite these promising benefits, arguments against an NIT remain. The most common would be the inevitable exclusion errors of a means-tested programme compared to providing a universal basic income that is eligible for all. Having a universal basic income would definitely be more efficient in the sense that the benefits would reach everyone with no questions asked, suggesting lower administration costs compared to an NIT, and zero exclusion errors. Banerjee et al. (2022) pointed out in their paper that the decision to provide either universal or means-tested benefits eventually comes down to the level of importance a government would place on exclusion and inclusion errors and the concentration of benefits to those who need them most. The paper also acknowledges that a universal benefit provides better horizontal equity. All in all, there will always be two sides to the same coin. An NIT implementation can be a potential intervention that Malaysia could consider as part of a continuous effort to provide basic social protection for all.

References

Banerjee et al. (2022). *Social Protection in the Developing World.* Retrieved from https://economics.mit.edu/sites/default/files/2022-09/220919%20social%20protection%20review%20manuscript.pdf

Department of Statistics Malaysia. (2020). *Household Income Survey 2020.*

Friedman, M. (1962). *Capitalism and Freedom.* The University of Chicago Press.

Widerquist, K. (2002). *A Failure to Communicate: The Labour Market Findings of the Negative Income Tax Experiments and Their Effects on Policy and Public Opinion.* Retrieved from https://www.ilo.org/public/english/protection/ses/download/docs/wider.pdf

The Environmental Kuznets Curve: Closing The Income Inequality Gap For Sustainability

Associate Professor Dr Helena Varkkey
Department of International and Strategic Studies, Universiti Malaya

Executive Summary

Recent research has highlighted the link between income inequality and environmental degradation. These findings indicate that high levels of income inequality reduce public demand for environmental protection and increase the power of capital owners to prevent such protection. According to the environmental Kuznets curve hypothesis, reducing income inequality should translate to less pollution and better environmental quality. Malaysia ranks lower than the halfway point in the global Gini coefficient rankings, which means that income distribution in Malaysia is more unequal than in most of the other countries in the world. Reducing income inequality in Malaysia should therefore be a key focus area in achieving the nation's short- and long-term sustainability agenda.

"Malaysia ranks lower than the halfway point in the global Gini coefficient rankings, which means that income distribution in Malaysia is more unequal than in most of the other countries in the world"

Introduction

Everyone wants to have a prosperous life in a healthy environment. However, economic development is often also linked to environmental degradation. Panayotou (1993, in Stern, 2018) described this as the scale effect, where pure growth in the scale of the economy would result in a proportional growth in pollution and other environmental impacts.

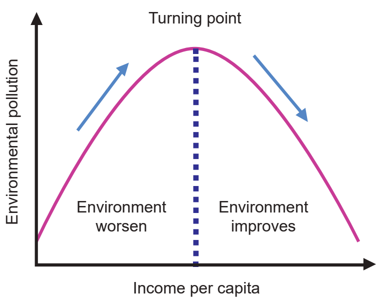
The introduction and popularisation of the concept of sustainable development in the 1980s changed how economists viewed the relationship between the economy and the environment: development does not necessarily have to be damaging to the environment. Scholars highlighted one important prerequisite for sustainable development: poverty reduction. This policy brief explores the link between development, the environment, and poverty reduction, specifically within the Malaysian context.

Overview

In 1992, the World Bank promoted the idea that as incomes rise, the demand for improvements in environmental quality will increase, along with the availability of resources for investments towards a better environment. Indeed, economists began to observe that although economic growth usually leads to environmental degradation in the early stages of development, environmental quality would improve as countries became richer. To explain this, they hypothesised a

relationship between various indicators of environmental degradation and per capita income, known as the "environmental Kuznets curve" (EKC).

Figure 1: Environmental Kuznets Curve



According to the EKC, in the early stages of economic growth, pollution will increase and environmental quality will deteriorate. However, at some level of per capita income (the "turning point"), this trend reverses. Therefore, environmental impacts are an inverted U-shaped function of per capita income. The theory is that higher development and income levels will eventually trigger a structural change in industries and services, motivated by increased environmental awareness, enforcement of environmental regulations, better technology, and higher environmental expenditures. This will result in the levelling off and gradual decline of environmental degradation.

Several Malaysia-based studies have validated the existence of the EKC in the Malaysian context (Ali et al., 2020; Lau et al., 2014; Saboori et al., 2012, 2016). These studies have found an inverted U-shaped relationship between economic growth and environmental degradation in general and carbon dioxide (CO_2) emissions in particular, both in the long- and short-term in Malaysia.

Furthermore, Saboori et al.'s (2016) study shows that energy consumption and urbanisation have positive effects on CO_2 emissions in Malaysia. They found that a 1% increase in energy consumption and urbanisation led to around 0.34% and 0.79% increases in CO_2 emissions in the long run, respectively. This means that the rate of increase in energy consumption and urbanisation is linked to a slightly lower rate of increase in CO_2 emissions. However, foreign trade had a negative effect on CO_2 emissions, where the rate of increase in foreign trade translates to a higher rate of CO_2 emissions increase. Hence, we cannot conclusively claim that Malaysia has already reached a higher level of economic growth where environmental quality does not deteriorate as fast as, or faster than, development.

Discussion

Recent studies have, however, further refined our understanding of the EKC. They have called into question the significance of per capita income in determining environmental outcomes. Per capita income is a factor of averages obtained by dividing the population's total income by the size of that population. Therefore, it cannot account for inflation, income disparity, poverty, wealth, or savings. Scholars have started to highlight other factors that may be more representative of social security and thus be a better indicator for the EKC. These include income inequality (income distribution or the relative income effect) (Ridzuan, 2019), education, information accessibility (Bimonte, 2002), and the country's policy framework (Magnani, 2000).

Ridzuan's (2019) study particularly notes that income inequality levels can affect turning points, i.e., how quickly a country reaches the level of economic growth where pollution levels and environmental degradation will level off and decline. The study finds that income inequality delays the EKC turning point, which suggests that high inequality can be damaging to the environment. This is because high levels of income inequality reduce public demand for environmental protection and increase the power of capital owners to prevent such protection.

While some countries may have a high per capita income, this does not mean that their society is equally secure. For example, the United States (US) is among the top ten countries in the world in terms of per capita income. However, their Gini coefficient score, measuring the inequality among levels of income, is almost the same as Malaysia's. Both countries place lower than the halfway point in the global Gini coefficient rankings, which means that income distribution in Malaysia and the US is more unequal than in most of the other countries in the world. To illustrate, in the US, the top 1% of earners averaged around 40 times more income than the bottom 90% (World Population Review, 2023). This means that countries like Malaysia have a long way to go in terms of income distribution and social security.

Conclusion and Recommendations

A recent survey showed that 96% of Malaysians consider climate change an immediate threat to the well-being of Malaysia (47%) or that it is an important issue that deserves to be monitored (49%) (ISEAS-Yusuf Ishak Institute, 2022). However, perhaps due to high levels of income inequality, many may feel that they are not in a position to demand better environmental protection. Therefore, it is important for the government to implement policies that reduce income inequality across various social strata. This should, ultimately, lead to a quicker "turning point" on the EKC for Malaysia on its path to sustainable development.

One key stratum is age. In most countries, the risk of poverty increases with age. Around 7% of the Malaysian population is classified as elderly (65% and above) (Department of Statistics, 2022). Strategies like improving government pension schemes, promoting retirement and pension funds, and encouraging savings for old age can contribute to reducing poverty, improving financial well-being, and narrowing the wealth gap among the elderly. An elderly population that is more socially and financially secure will not only be able to make better environmental decisions and influence multiple generations of their family members, but they will also be inclined to demand better environmental protection, both from the government and capital owners. All of this will contribute to supporting the nation's sustainability agenda in the long and short term.

References

Ali, W., Rahman, I. U., Zahid, M., Khan, M. A., & Kumail, T. (2020). Do technology and structural changes favour environment in Malaysia: an ARDL-based evidence for environmental Kuznets curve. Environment, Development and Sustainability, 22(8), 7927–7950. https://doi.org/10.1007/s10668-019-00554-7

Bimonte, S. (2002). Information access, income distribution, and the Environmental Kuznets Curve. In *Ecological Economics* (Vol. 41). www.elsevier.com/locate/ecolecon

Department of Statistics, M. (2022, July 29). *Current Population Estimates*, Malaysia, 2022. Department of Statistics Malaysia. https://www.dosm.gov.my/portal-main/release-content/current-population-estimates-malaysia-2022.

ISEAS-Yusuf Ishak Institute. (2022). Southeast Asia Climate Outlook: 2022 Survey Report.

Lau, L. S., Choong, C. K., & Eng, Y. K. (2014). Investigation of the environmental Kuznets curve for carbon emissions in Malaysia: DO foreign direct investment and trade matter? Energy Policy, 68, 490–497. https://doi.org/10.1016/j.enpol.2014.01.002

Magnani, E. (2000). The Environmental Kuznets Curve, environmental protection policy and income distribution. In Ecological Economics (Vol. 32). www.elsevier.com/locate/ecolecon

Ridzuan, S. (2019). Inequality and the environmental Kuznets curve. Journal of Cleaner Production, 228, 1472–1481. https://doi.org/10.1016/j.jclepro.2019.04.284

Saboori, B., Sulaiman, J., & Mohd, S. (2012). Economic growth and CO 2 emissions in Malaysia: A cointegration analysis of the Environmental Kuznets Curve. Energy Policy, 51, 184–191. https://doi.org/10.1016/j.enpol.2012.08.065

Saboori, B., Sulaiman, J., & Mohd, S. (2016). Environmental Kuznets curve and energy consumption in Malaysia: A cointegration approach. Energy Sources, Part B: Economics, Planning and Policy, 11(9), 861–867. https://doi.org/10.1080/15567249.2012.662264

Stern, D. I. (2018). The Environmental Kuznets Curve. In Reference Module in Earth Systems and Environmental Sciences. Elsevier. https://doi.org/10.1016/B978-0-12-409548-9.09278-2

World Population Review. (2023). World Population Review. World Population Review. https://worldpopulationreview.com/

Costs of Buying and Keeping a House

Adam Ahmad Abdullah
Employees Provident Fund

Affordability

Affordable housing is an important subject for many Malaysians. A house is, after all, a basic need for everyone. In cities such as Kuala Lumpur and Georgetown, a family with two children would at least spend RM1,000 and RM900, respectively, every month on housing—either on rental or loan repayment—representing approximately 20% of the estimated minimum monthly expenses for the said household in Kuala Lumpur (Social Wellbeing Research Centre, 2023). With that level of spending on housing, it is critical to address the issue of affordable housing, especially in the current environment of rising costs of living.

What is affordable housing? Generally speaking, a house is considered affordable if the price is less than three times a household's median annual income (Demographia, 2022). Median multiples above 3.0 are considered unaffordable (see Table 1).

Table 1: Demographia Housing Affordability Ratings

Housing Affordability Rating	Median Multiple
Affordable	< 3.0
Moderately Unaffordable	3.1 – 4.0
Seriously Unaffordable	4.1 – 5.0
Severely Unaffordable	> 5.1

The median multiple of houses in Malaysia varies across different states (see Table 2) (Ismail, et al., 2019). Between 2002 and 2014, there was a general downward trend in all states' housing affordability. Prior to 2014, many states in Malaysia had median multiples of 4.0 and below. However, in 2014, only Kedah and Melaka reported median multiples of less than 4.0.

Table 2: Median Multiple Affordability by State, 2002 – 2016

State	2002	2004	2007	2009	2012	2014	2016
Kelantan	5.1	5.4	4.4	4.5	6.2	7.1	5.5
Sabah	6.3	6.7	10.0	6.2	5.8	5.6	5.5
Penang	4.1	4.3	4.1	4.0	4.1	5.8	5.5
Negeri Sembilan	3.4	3.1	3.3	3.4	2.8	5.0	5.1
Pahang	5.0	4.2	3.7	3.9	3.8	5.3	5.0
Johor	4.9	4.9	3.5	3.7	3.7	4.3	5.0
MALAYSIA	**4.1**	**4.3**	**4.4**	**4.4**	**4.0**	**5.1**	**5.0**
Terengganu	4.7	4.8	5.2	5.2	5.3	6.2	5.0
Kuala Lumpur	4.7	5.4	4.6	4.6	4.9	5.6	4.9
Selangor	3.7	3.5	3.6	3.6	3.6	5.2	4.7
Perak	3.9	4.1	3.5	3.5	3.3	5.1	4.6
Kedah	4.6	4.1	4.1	4.0	3.6	3.4	4.3
Sarawak	n.a.	n.a.	3.7	4.1	4.0	4.2	4.0
Perlis	4.4	3.7	3.6	4.5	4.3	4.5	4.0
Melaka	3.4	3.5	2.9	2.9	2.6	3.1	3.1

Source: (Ismail, et al., 2019)

But affordability does not only refer to prices. The United Nations Human Settlement Programme (UN-HABITAT) defines affordable housing as a type of housing with adequate quality and location and not so costly that it affects the occupants' ability to meet other basic living needs (Bank Negara Malaysia, 2017). Therefore, affordable does not only refer to the price of the house, but also includes other factors such as the quality of the dwelling and where it is located. The UN-HABITAT also said that housing affordability is affected by two factors, namely:

- The cost of purchasing the house
- The cost of keeping the house

What makes a house expensive?

Several cost components go into the pricing of a house. Apart from the construction costs, some of these expenses were incurred way ahead of the construction of the property itself.

The first major component of property development is the land cost. The land costs vary according to several factors including location, type of land, and geographical characteristics. Generally speaking, land costs make up approximately 20% – 40% of gross development value (GDV).

Second is the conversion premium payable to the government because in many cases, property developers purchase agricultural land and convert it into residential land. The formula for the conversion premium is as follows:

$$Conversion\ Premium = 15\% \times MV_{new}$$

Where,

MV_{new} = *Market value of the land after conversion*

15% is the conversion premium rate to convert agricultural land to residential land and the market value of the land after conversion will be determined by the Valuation and Property Services Department (JPPH). As an illustration, for land (1 acre) with a market value after conversion of RM15.0mn, the conversion premium is RM2.25mn.

On a 1-acre land, a developer is allowed to build a maximum of 20 units of a typical double-storey terrace with a land area of 1,200 sqft each. Due to this limitation,only about half of the 1-acre land can be used to build houses. The rest of the land would be left for roads/streets, drainage, electricity substation, sewerage facility, and parks. As a result, assuming the initial land cost of RM5.0mn, the average cost per unit of the double-storey terrace is close to RM365,000—excluding the actual construction costs (see Table 3).

Table 3: illustration of the Average Cost per Unit

Item	
Initial Land Cost (RM)	RM5,000,000
Conversion Premium (RM)	RM2,250,000
Total Costs (RM)	RM7,250,000
Number of Units	20
Average Cost per Unit	RM362,500

Source: EPF

The Costs of Buying and Keeping a House

The cost to purchase a house could be affected by several factors, such as the purchase price of the house itself and the required down payment to buy the house. The down payment required to purchase a house depends on the amount of savings that the house purchaser has, the loan amount (depending on eligibility), and existing debt obligations. Other purchasing costs include legal fees and relevant taxes. In Malaysia, for example, buying a house attracts other costs such as the legal fee for the sales and purchase agreement (SPA), and stamp duty on the memorandum of transfer (MOT). If the house purchaser is taking up a mortgage, other costs include the legal fee for the loan agreement, stamp duty on the loan agreement, a valuation fee (for a property in the secondary market), and mortgage insurance/takaful. When it comes to the price of the house, it largely depends on the land acquisition cost for the developer, the price of building materials, the cost of labour, and the expected profit margin.

The cost to keep a house could be affected by the land lease premium, home insurance, assessment tax, quit rent, and maintenance costs. A land lease premium refers to the premium payable at the end of the lease period—this applies to leasehold lands in Malaysia. Typically, the lease period of a land lease is 99 years. The cost of a land lease could be quite hefty. In Kuala Lumpur, the guidance on calculating the premium to extend the lease period of a leasehold land is outlined in the Federal Territory of Kuala Lumpur Land Rules 1995, as follows:

$$\frac{1}{4} \times \frac{1}{99} \times MV \times (NLP - BLP) \times LA$$

Where,

MV=Market value of the land in RM per sqft
NLP=New leasehold period in years
BLP=Balance of the current leasehold period in years
LA=Land area in sqft

Based on that formula, a property in Kuala Lumpur with a land size of 1,400sqft and a land value of RM400 per sqft would cost RM140,000 for the lease to be renewed for another 99 years (assuming the existing lease of 99 years is nearing its end). If the lease is not renewed, the land that the house is built on returns to the government. Typically, a house purchaser does not need to worry about this until the lease expires. Having said that, property developers would usually have extended the lease period before selling the properties. Therefore, the costs would have been included in the final price of the houses. Similarly, a house purchaser who takes up financing has to bear the cost of servicing the loan interest costs.

A Lot of Focus on the Prices

Unfortunately, much of the focus in terms of housing affordability has been on prices and access to loans. To keep prices low, the government has provided several affordable housing programmes. The most popular affordable housing projects are 1Malaysia Housing Programme (PR1MA), Residensi Wilayah (RUMAWIP), and Rumah Selangorku. Under these programmes, houses are priced from as low as RM60,000 to a maximum of RM400,000. While PR1MA houses are located in various locations across the country, RUMAWIP and Rumah Selangorku houses are located in Kuala Lumpur and Selangor—only Kuala Lumpur and Selangor residents are allowed to purchase them.

When it comes to loan affordability, loan tenures have increased gradually since the 1970s. For example, prior to the 1970s, loan tenure typically maxed out at 15 years and increased to 20 years in the 1980s. Loan tenure further increased to 25 years in the 1990s (Thilainathan, 1997). Today, house purchasers can apply for a housing loan for as long as 35 years. Also, when it comes to making housing loans more affordable, the government's position has been consistent when using interest rates as a tool. For example, the government imposed a ceiling on interest rates on loans for houses with prices of RM100,000 and below, introduced in 1987. Between 1992 and 1994, the government provided an interest subsidy of up to 1.0% to financial institutions for providing housing loans. More recently, various initiatives have been provided to address the issue of affordability, such as stamp duty exemption, a 100% financing scheme (removing the need to pay the initial 10% down payment), and a loan guarantee scheme.

The issue with these measures is that they attempt to improve loan eligibility rather than address affordability in the first place. For example, a longer loan tenure means a lower monthly repayment, but in the long run, it means higher interest payments. If the loan tenure extends beyond retirement age, there could be a risk of default if the homeowner does not have retirement income security. Also, a 100% financing scheme may be beneficial as a house buyer need not pay the 10% down payment, but it could also mean a slightly higher monthly repayment. This could affect the house buyer's ability to pay for other necessities and commitments.

Lack of Emphasis on Location

As mentioned earlier, location also plays an important role. Affordable housing means that the residents are able to commute between their houses and workplaces within 60 minutes (Demographia, 2022). This is critical because distance would have an impact on commuting costs. If commuting costs are too high, they would affect the occupants' ability to pay for other basic necessities. Most of the time, commuting costs are left out of the equation in the decision-making process to buy a house. This applies not only to house buyers but also to the government in its policy to encourage the construction of affordable housing. Apart from accessibility to workplaces, affordable housing should enable its occupants to have access to basic facilities such as hospitals, schools, shops, and parks.

Proximity to the centre of economic activity allows residents of affordable housing to give more attention to improving other aspects of their lives. Lower transportation expenses give them more money to spend on other necessities, such as nutritional food. The less time they spend commuting to work or school, the more time they can spend improving their physical and mental health—going to parks and doing recreational activities.

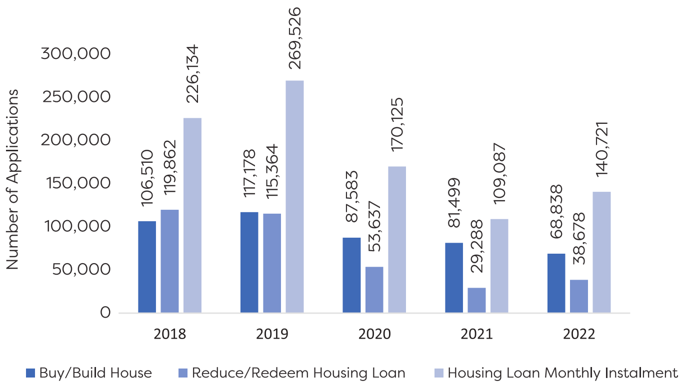
EPF Initiatives

Generally, it is a matter of personal preference when it comes to choosing between buying or renting a house. Culturally, in Malaysia, the general preference for most Malaysians is to own a house. As the agency responsible for retirement income security, the Employees Provident Fund (EPF) recognises the need for EPF members to afford to live in a house when they retire.

To address home ownership, EPF members can withdraw savings from their EPF Account 2 to either pay for down payments or to pare down their existing mortgage balance or to pay mortgage monthly instalments. Between 2018 and 2022, most of the withdrawal applications seen were to pay for the housing loan monthly instalment (see Figure 1).

The most popular affordable housing projects are 1Malaysia Housing Programme (PR1MA), Residensi Wilayah (RUMAWIP), and Rumah Selangorku.

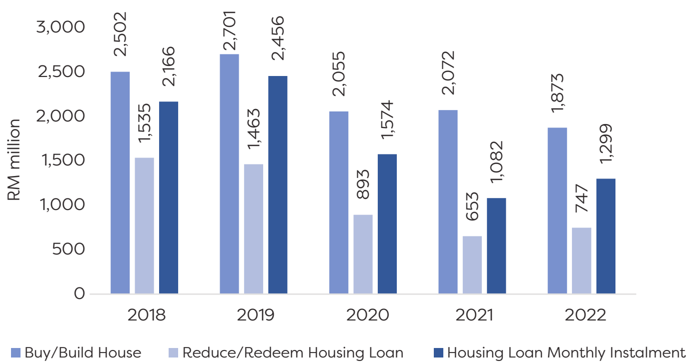
Figure 1: Number of Applications for Housing-related Withdrawals, 2018 – 2022



Source: EPF

In terms of the amount of withdrawal, the highest portion typically was for buying or building a house (see Figure 2). This usually goes to paying for the down payment of the house, suggesting that the applicants did not have adequate savings for a down payment on a property.

Figure 2: Amount of Withdrawal for Housing-related Withdrawals, 2018 – 2022



Source: EPF

In addition, Cagamas Berhad (Cagamas) has introduced Malaysia's very first reverse mortgage scheme in collaboration with the EPF and the Credit Counselling and Debt Management Agency (AKPK) in December 2021. This allows members to age in place while providing them with a stream of income post-retirement.

Conclusion

Affordable housing is an important subject for many Malaysians as it is a basic necessity. Unfortunately, affordability ratings of houses across the country have come down over the years. Therefore, a lot of effort and initiatives have been made to increase access to affordable housing. These efforts include introducing lower house prices for selected developments targeted to selected sections of society, lowering the initial outlay to purchase a house, and increasing accessibility to housing loans. While all these effort and initiatives should be lauded, they do not address the affordability of keeping and maintaining a house.

Also, more often than not, locations of the affordable housing projects do not take into account the needs of the would-be occupants. The house, though affordable, may be located far from workplaces, schools, hospitals, and parks. Distance to these places, especially workplaces, would have an impact on commuting costs and in turn, the occupants' ability to pay for other basic necessities. By strategically locating affordable housing, it improves the quality of life for its occupants.

Therefore, policies on affordable housing have to include elements beyond prices and loans. This includes reviewing the current laws and regulations to keep compliance costs down and reduce pre-construction expenses. Such policies will enable Malaysians to live in reasonable-quality dwellings with good access to basic amenities and workplaces. A more holistic approach to affordable housing policies will not just provide a roof over their heads, but also improve the overall wellbeing of Malaysians.

References

Bank Negara Malaysia. (2017, March 23). Demystifying the Affordable Housing Issue in Malaysia. *Bank Negara Malaysia Annual Report 2016, pp. 90-98.*

Demographia. (2022). *Demographia International Housing Affordability. Bellville: Demographia.*

Ismail, S. et al. (2019). Rethinking Housing: between State, Market and Society: A Special Report for the Formulation of the National Housing Policy (2018 – 2025), Malaysia. Kuala Lumpur: *Khazanah Research Institute.* License: Creative Commons Attribution CC BY 3.0.

Social Wellbeing Research Centre. (2023). *BELANJAWANKU: Expenditure Guide for Malaysians 2020/2021.* Kuala Lumpur: University of Malaya Press.

Thilainathan, D. (1997). Homeownership in Malaysia: An Analysis of Trends and Issues. *Housing Finance International*, 15-23.

KWSP
EPF

KWSPMalaysia

www.kwsp.gov.my