Social Expenditures of Malaysia for the period 2008-2012

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SOCX TECHNICAL PAPERS

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Abstract

This technical paper on social expenditures was based on the guidelines stipulated by the OECD. The statistics presented are important as they reflect on indicators of social protection programmes and the trend of social expenditures of Malaysia between 2008 and 2012. Six different social protection areas in the country are discussed: Social security, Social Insurance, Social assistance, Subsidies, Healthcare, and *Zakat*. The focus of the analysis of the above mentioned areas concerns social expenditure levels also expressed as a percentage of Malaysia's GDP. These details will help to construct an idea of the value of social protection programmes in Malaysia, and facilitate comparison with those of OECD countries and several other South East Asian countries. However, some informal social protection activities such as programmes implemented by the agricultural and fisheries communities were not included as they were not compatible with the OECD guidelines. In conclusion, the paper suggests that the Malaysian government needs to review its present systems and consider what policy changes are necessary to implement better social security protection provisions in each domain, with the final objective of having adequate social expenditure coverage for the nation.

Abbreviations

ADB	Asian Development Bank
AFC	Asian Financial Crisis
AFF	Armed Forces Fund
DSW	Department of Social Welfare
EPF	Employee Provident Fund
GDP	Gross Domestic Product
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immunodeficiency Syndrome
NGO	Non Governmental Organizations
MOD	Ministry of Defense
MOE	Ministry of Education
MOH	Ministry of Health
NEAC	National Economic Action Council
NEP	New Economic Model
MHI	Medical and Health Insurance
OECD	Organization for Economic Co-operation and Development
PWD	Persons with Disabilities
SEA	Southeast Asian
SOCSO	Social Security Organization
STD	Sexually Transmitted Diseases
TH	Tabung Haji
WB	World Bank

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SECTION 1

Introduction

Malaysia is a multicultural society with a population of over 30 million. The country has enjoyed sustained economic progress since the 1970s, with the Malaysia's economy growing at an average of 7.3% in the period of 1985-95. The decade prior to the 1997 financial crisis can be looked upon as a remarkable achievement of the economic and political liberalization package introduced by the Malaysia's government in the mid 1980s. The nation was able to sustain its pace of development, with Gross Domestic Product (GDP) growth rates averaging above 8% per annum. The unemployment rate in 1997 was 2.6%, with nearly two million foreign workers employed in the country, and the inflation rate was less than 3%. In 1996 external debt was manageable with a debt service ratio of 5.5%. Short-term debt was about 69.2% of the international reserves, which was much lower than that of other crisis-hit countries in the region (Sulaiman & Govindan, 2000).

The Asian financial crisis (AFC) of 1997-1998 seriously affected economic advancement in a number of the countries in the South East Asian region with the Malaysian economy contracting by more than 7% in 1998. Confronted with the impact of the AFC, the Malaysia's government initiated the National Economic Action Council (NEAC), a high powered body chaired by the Prime Minister, to minimize the negative impacts on its economy. The NEAC attempted to reduce the pressure on the Ringgit and it involved the imposition of selective capital controls and the pegging of the Ringgit to the US dollar. NEAC was also aimed to stabilize the banking system and to restructure affected business. The government did achieve some success as seen in the recovery of the Malaysia's economy from 1999 onwards. The GDP which experienced negative growth of 7.4% in 1998 went back to positive growth of 6.1% in 1999 (Ping & Yean, 2007). The GDP continued to grow subsequently, and it reached a stable point and continue to enjoy an average of 5.5% economic growth rate from 2000 to 2008. In 2013 its economic growth stood at 4.7% and the GDP remained 5.1% (Department of Statistics Malaysia, 2014; World Bank [WB], 2014).

The New Economic Model (NEP) that was implemented in 2010 and aimed at achieving a high income status for Malaysians by 2020 has notably served the country to earn multiple economic successes. Today, the private sector in the country has largely flourished. The expansion were primarily in industries and public services, while substantial changes were also observed in the quality of life of the people. The poverty rate in the country has dropped from 3.8% in 2009 to 1.7% in 2012 (Shah, 2013). The unemployment rate has declined from 3.4% from 2003 to 2013 to 3% in 2014 (Global Property Guide, 2014). As far as exports are concerned, Malaysia is one of the leading exporters of electrical appliances, electronic parts and components, palm oil, petroleum and natural gas. Malaysia is also externally competitive, ranking 12th out of 135 economies in the World Bank in 2013 (Department of Statistics, Malaysia, 2014; Ministry of Health, 2011; Shah, 2013; WB, 2014).

The Malaysia's public healthcare is highly subsidized by the government and provides a strong healthcare infrastructure, thus, making accessible to 95% of the country's residents. The Ministry of Health (MOH) provides free health services to civil servants, pensioners and the needy. Malaysia's healthcare structure has experienced a two decades of rapid changes with its independence in 1957. With these constant reforms, healthcare in Malaysia can be seen as achieving universal coverage (Chee & Barraclough, 2007).

Whilst these economic developments have been overwhelmingly positive, Malaysia faced many socio-ecomonic challenges over the years. Pockets of poverty have seriously affected Malaysians' life (World Bank, 2014). Rapid urbanization has widened the income inequality gap among people (Frost & Sullivan, 2013) with the Gini Coefficient Index of Malaysia being 0.43 in 2013 compared with 0.44 in 2009 (WB, 2014). Apart from income inequality, issues such as the ageing of the population, drug addiction, and migrant workers, were other challenges faced by Malaysia.

The ageing population was an area that has been affected by social change. Significant changes in demographic pattern and family structures have increased the proportion of the elderly population who need to be looked after by formal care. Households headed by either the elderly or the unemployed have experienced difficulties in meeting their basic needs (Samad, Awang, & Mansor, n.d.) Inadequate savings among Malaysia's elderly have turned them into dependents of the State.

The growing number of drug addicts in the population has also created a challenge. Convicted drug addicts have increased the pressure on Malaysia's legal and prison systems. These addicts who have been infected with HIV/AIDS or STDs have also been marginalized. This marginalization has required them to be rehabilitated and reintegrated into mainstream society (Merican, Rohaizat, & Haniza, 2003). These factors have increased the requirement for the country to provide social protection to its people to address their needs and problems.

The number of those who enter the country legally but overstay the term of their visas is estimated to be three to four million, adding to the "official" foreign population (World Bank, 2013). Observers on Malaysia agree that opportunities for transnational crimes coincide with Malaysia's growing migrant population and increased trade. Among these transnational issues, drug smuggling and illegal workers are given the most attention by Malaysia's experts. Human trafficking is subsumed under the illegal workers category, leading the government to focus on visa violations of the trafficked victims (Yoichiro, n.d).

While the above narratives are an introduction of Malaysia's socio-economic status, the rest of this technical paper will be organized accordingly: Malaysia's social protection program will be detailed in Section 2; in Section 3, the paper details the expenditure of the program; Section 4 has three components - i) An analysis of the expenditures based on the country's GDP, ii) Assesses the results of the programs, and iii) Comparision of Malaysia's social expenditure with selected South East Asian countries; and iv) Section 5 provides the conclusion.

SECTION 2

Social Protection Programs

This section details the social protection programs and activities implemented by the Malaysia‘s government for its citizens. Malaysian government provided social protection to its citizens soon after its independence in 1957. In contemporary Malaysia, there are six major social protection programs available: Social security, social insurance, social assistance, healthcare, subsidies, and a religious based tax called *zakat* are discussed in this section. With the exception of the Employee Provident Fund (EPF) and *zakat*, each social protection program implemented by different government entitiy receives funding for its expenditure through their respective ministries from the government annual budget. Expenditures and amount which are shown in this section have been converted from Malaysian Ringgit to USD as per declared by the Bank Negara (2012) (1USD = RM3.17).

Categorization of Social Protection Programs in Malaysia

Figure 1 below shows Malaysia’s social protection schemes. Social security schemes in Malaysia are derived from provisions introduced during the country’s colonial era. Malaysia’s social security schemes tend to cover those in the waged or salaried groups only. The earliest social security provisions were a workmen’s compensation scheme, established in 1929, and an employer’s liability, sickness, and maternity scheme for plantation workers, introduced in 1933 (Midgley, 1984). The first component of the social protection program is the social security that includes three types of activities:

- Pension Scheme (for civil servants)
- Employee Provident Fund (EPF)
- Armed Forces Fund (AFF)

The second component is the social insurance, which has the following services:

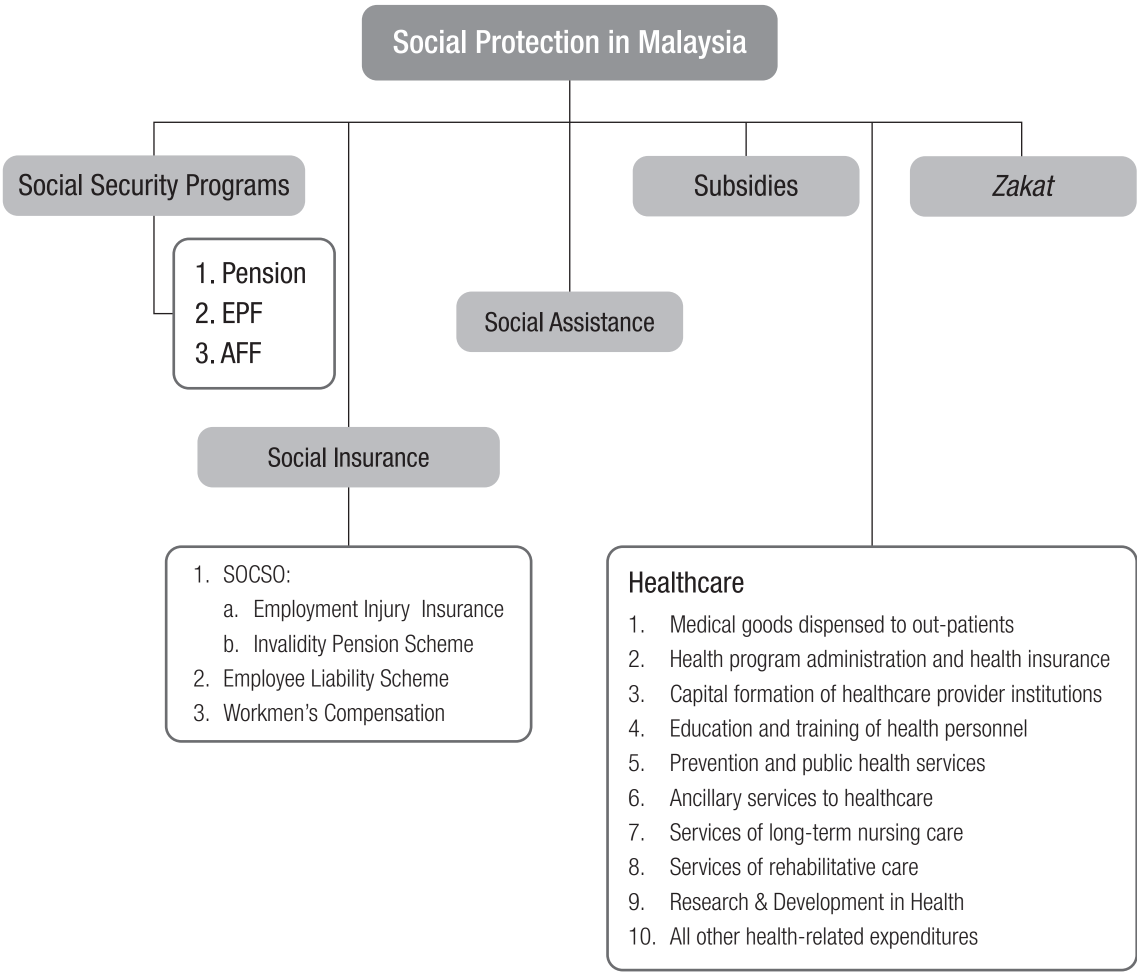
- SOCSO
    - Employment Injury Insurance
    - Invalidity Pension Scheme
- Workmen's Compensation Scheme
- Employers' Liability Scheme

The third component is the social assistance programs (see pg. 14 for the services). Other components of social protection are health and subsidies for the following items:

- Food item (sugar, rice, flour and cooking oil)
- Petrol and diesel
- Electricity

Finally, *zakat* (religious based tax) make up for the present social protection programs in Malaysia.

Figure 1 Social protection programs in Malaysia



Social Security Programs and Eligibility Criteria

This section will describe in detail the social security programs and eligibility criteria of the respective programs. Social security programs includes: Pension scheme for the public servants, Employees' Provident Fund (EPF), and Armed Forces Fund (AFF).

Public Pension Scheme

According to the Act 227 of the Federal Constitution declares that the pension is the responsibility of the federal government. Benefits include those relevant to employment injury, disability, superannuation, or gratuity payments made upon retirement, and dependents' pension in the event of an employee's death while in service and death after retirement (Mohd, 2013). The employer (the government) allocated a minimum of 17.5% of a civil servants salary into a pension trust fund every month. The pension is a retirement income protection granted to the civil servant or his or her dependent(s) upon retirement, or because of disease (s) that prevented an employee from working, or death. The benefit pension scheme is fully financed from the government's budget and does not require any contributions from beneficiaries.

On retirement, a public sector employee is entitled to pension benefits, gratuity and 'golden handshake'[*] payment (if applicable). The pension benefits and gratuity would be paid one month after retirement whereas the 'golden hand-shake' would be paid on the last day of work. The gratuity is paid as a lump sum, whereas the pension benefits are paid monthly for the rest of the employee's life span.

Eligibility. It is granted to the public servant or her (his) dependant (s) upon retirement, on contraction of disease (s) that prevent an employee from continuing work, or death. The minimum retirement age is 60 years, and a minimum of 10 years of service is required for an employee to be eligible for a pension. The rate of contribution is 17.5% of the pensionable employee's basic salaries (Retirement Fund, 2014).

* Under the 'golden handshake' facility, public servants may accumulate up to a maximum of 90 days of their annual leave in exchange for cash payment at the end of their service; the amount is calculated based on the last drawn salary, inclusive of all allowances, and the accumulated leave, being leave not taken on grounds of exigencies of service.

Employees Provident Fund (EPF)

The EPF is one of the main platforms of savings in Malaysia for employees working in private sector organizations. It is implemented by the EPF of Malaysia. It is a mandatory contribution retirement benefit plan, wherein employer (13%) and employees (11%) jointly contribute (Employment Provident Fund, 2014). The plan serves as an accumulated savings in a personal account (effective from September, 2013). Both parties contributions are transferred into two accounts, namely: Account 1 (to be withdrawn only when the employee reaches 55 years), and Account 2 (can be withdrawn at age 50 for housing, tertiary education and health needs) (The Global Expat Net Work, 2013).

Eligibility. The EPF is intended to help employees from the private sector save a fraction of their salary in a lifetime banking scheme, to be used primarily as a retirement fund but also in the event that the employee is temporarily or no longer fit to work. The EPF also provides a framework for employers to meet legal and moral obligations to their employees. As a retirement plan, money accumulated in an EPF savings can only be withdrawn when members reach 50 years old, during which they may withdraw only 30% of their EPF; members who are 55 years old or older may withdraw all of their EPF.

When a member dies beforehand, the EPF fund is withdrawn in favour of a nominated individual (Anual Report, 2012). Withdrawals are also possible when a member becomes disabled, or requires essential medical treatment. Members above 55 years old can choose not to withdraw EPF savings immediately and withdraw only later.

Armed Forces Fund (AFF)

Armed Forces personnel who are in service are given benefits under the management of the Armed Forces Fund Board. Some of the benefits are contributions, death and disablement benefits scheme as well as benefits for the retiring and retired members of the armed forces (AFF, 2012).

Eligibility. The Armed Forces Fund is a defined contribution scheme with contributions at a rate of 10% of monthly salary for employees and 15% from the government as employer. It is mandatory for all military personnel and the age for full withdrawn is 50. The military retirement pension is a special type of pension whereby a pensioner is able to enjoy a regular pension as early as 39 years old until the end of his or her life. The normal entry age for joining the Malaysia's Armed Forces is 18 years and personnel are eligible to receive a pension after 21 years of service (Armed Forces Fund, 2012).

Social Insurance Programs and Eligibility Criteria

Social Security Organization (SOCSO)

SOCSO provides financial assistance to employees and their families in the event of an accident which results in death, disability or illness, or an occupational disease (Economic Planning Unit-Prime Minister's Department, 2012). This program is administered under the Employees' Social Security Act, 1969 and the Employees' Social Security (General) Regulations 1971 (JobsDB.com, n.d.). Only Malaysia's citizens and permanent residents are eligible to contribute to, and to benefit from, the scheme. SOCSO provides two kinds of insurance:

- Employment injury insurance
- Invalidity pension scheme

SOCSO is funded by contributions from both the employer and the employee. The amount paid into the scheme depends on an employee's earnings. It is the employer's responsibility to ensure that their employees are registered with SOCSO; a new employee must be registered within 30 days of starting work. Coverage under the SOSCO system is optional for employees earning more than USD946.37 per month.

Eligibility. The following category of persons can benefit under SOCSO's scheme. An employee employed under a contract of service or apprenticeship and earning a monthly wages of USD 630.91 and below must compulsorily register and contribute to SOCSO regardless of the employment status whether it is permanent, temporary or casual in nature.

1. An employee must be registered with the SOCSO irrespective of the age.
2. SOCSO only covers Malaysia's workers and permanent residents.

SOCSO does not cover the following categories of persons:

1. A person whose wages exceed USD 630.91 a month and has never be covered before.
2. Government employees.
3. Domestic servants employed to work in a private dwelling house which includes a cook, gardeners, house servants, watchman, washer woman and driver.
4. Employees who have attained the age of 55 only for purposes of invalidity but if they continue to work they should be covered under the Employment Injuries Scheme.
5. Self-employed persons.
6. Foreign workers (JobsDB.com. n.d).

Employer's Liability Scheme

Employers' Liability Insurance provides indemnity to the insured against liability at law for damages and compensation and claimant's costs and expenses in respect of bodily injury or illness sustained by any person under a contract of service or apprenticeship arising out of and in the course of his employment by the insured in the business.

For those categories of employees not protected by the Workmen's Compensation Acts or SOCSO, liability at law still exists and the employer can obtain indemnity under the Employer's Liability Policy. The employer can be held liable at common law if it can be proved that the injury or illness sustained had been caused by the employer.

Eligibility. The following are the protection provided to the employees against the employers:

- Personal negligence
- Negligence in failing to exercise reasonable care in engaging suitable and competent employees
- Negligence in failing to exercise reasonable care in providing and maintaining suitable and safe plant and machinery
- Negligence in failing to exercise reasonable care in providing a safe place of work
- Breach of duties laid down by statute or regulation for safety of employees

Workmen's Compensation Scheme

Under the Workmen's Compensation Scheme (conceived from the Workmen's Compensation Act 1952), an injured or deceased worker is compensated by the employer who is required to insure his company against such liabilities. Unlike SOCSO, this scheme operates as a law that governs the terms and amounts of compensation in the case of accident or death. The scheme does not handle the funds but the employer is fully responsible for the social insurance obtained from private companies. Under the Foreign Workers' Scheme, an employer of foreign workers is responsible for paying an insurance premium of USD27.12 per year per worker (The Global Expat Net Work, 2013).

Eligibility. Foreign workers.

Social Assistance Programs and Eligibility Criteria

Social assistance programs in Malaysia are implemented by the Department of Social Welfare (DSW) which comes under the purview of the Ministry of Women, Family and Community Development. There are different social assistance programs aimed at providing assistance to different target groups - assistance for widows and their dependents; children; schooling; prisoners' dependents; the unemployed; needy families; the elderly; the disabled; those affected by disasters; the destitute and general population (Ragayah & Hani, 2005). Eligibility

Under the above programs, the following categories of persons are entitled to obtain financial support from the DSW (Ministry of Women, Family and Community Development, 2012):

1. Families who are providing care to a child (the child)
2. Children aged 18 and under
3. School age children, should continue their schooling
4. Children fatherless / orphans
5. Children who have parents / guardians who can not afford or lost livelihoods due to ill, disabled, diseased or dependents of prisoners or detention centers
6. Children who do not have parents
7. Children living with foster family
8. Children not be adopted through the Adoption Act 1952 or Registration of Adoption Act 1952
9. Children taken from the "Keep Children Program" operated by the department
10. Seniors aged 60 years and above
11. No specific livelihood to survive
12. No family or have family who can not afford to contribute
13. Registered with the Social Welfare Department
14. Self-employed or employers
15. Income not exceeding USD378.55 per month
16. Not living in institutions who have provided accommodation, food / drink and free clothing
17. Department of Social Welfare monthly recipients capable of working on a project such as single parents or their children

18. Persons with Disabilities (PWDs)

19. Former coach of the Institution welfare

Subsidies

The Malaysia's government provides its citizens usually in the form of a cash payment (BR1M) and price reduction to remove the burden of cost of living and is often considered to be in the interest of the public (Bank Negara, 2012). To address this, the government undertakes both short-term and long-term measures which includes subsidies of main commodities such as sugar, flour, cooking oil, Ron 95 petrol, diesel and liquified natural gas (Budget, 2012). These subsidies result in Malaysians enjoying such products at prices lower than their actual costs of production.

1 Malaysia People's Aid

The 2015 Budget unveiled those with monthly incomes of between USD916 and USD1221 will receive a one-off cash payment of between USD229 –USD290.

Eligibility. i) Malaysia's citizen, ii) Man or woman who is a head of household/ members who live with a monthly gross income of USD1221 and below, iii) All alone elderly (age 60 and above) with a total gross monthly income of below USD1221, and iv) Single 21 years and above with a total gross monthly income of USD611 and below.

On a smaller scale, assistance is channeled to rubber smallholders, who get a one-off special payment of USD153 to help overcome the low price of the commodity, fishermen to get monthly living allowances of USD76 or USD92 depending on location and a monthly allowance of USD61 for coastal fishermen. To enable more people to buy their first home and reduce the cost of buying a house, the 50% stamp duty exemption will be extended to Dec 31, 2016 while the purchase limit will be increased to USD152,716 from USD122,172.

Public Healthcare

Malaysia has a well established healthcare system represented by public and private sectors in the country. Healthcare has been one of the key concern areas of the country as human capital has been treated by the government as a prominent ingredient of economic stability and growth. In Malaysia, public healthcare has been the largest health industry, which is delivered by the government. MOH, Ministry of Education (MOE) and Ministry of Defence (MOD) have been the Malaysia's public healthcare providers. The MOE has been running at least three university hospitals in the country for academic and medical research ambitions, while the MOD has couple of military hospitals to deliver medical attention armed forces and their families. Yet, the prime public healthcare provider of the country has been the MOH. It is responsible for a healthcare service from outpatient curative care to preventive and promotion of health (Country Report, 2006; Hamidy, n.d).

The following table shows the domains of Malaysia's healthcare which ranges from curative care to prevention of health issues (Malaysia's Health Expenditure Report, 2009, 2010 & 2011):

1. Medical goods dispensed to out-patients
2. Health program administration and health insurance
3. Capital formation of healthcare provider institutions
4. Education and training of health personnel
5. Prevention and public health services
6. Ancillary services to healthcare
7. Services of long-term nursingcare
8. Services of rehabilitative care
9. Research and development in health
10. All other health-related expenditure

Eligibility. All Malaysia's residents are eligible for government funded healthcare; however, only holders of a MyKad card, (a Malaysia's ID card), can benefit from anything other than emergency care. Malaysia does not have any reciprocal healthcare agreements with other countries. Only residents with residency status can access public healthcare; visitors and tourists must use private medical facilities. Foreigners who are employed by a Malaysian company are also eligible for public healthcare, but they usually have to pay more for treatment (Chua & Cheah, 2012).

Zakat

In the religion of Islam, it has a mechanism to assist mitigating poverty amongst the Muslims, which is called *zakat*. *Zakat* is an important institution in the socio-economic framework of Islam, and is an Arabic word which means "purity" and "cleanliness." It is an act of giving away part of one's wealth to the poor – a contribution paid once a year on savings of at least 2.5% (Tohrin-Muhammad & Ali, 2013). *Zakat* is one of the five pillars of Islam and is considered an obligation for every adult, mentally stable, free, and financially abled Muslim, male and female, has to pay to support specific categories people (Ariff & Mohamed, 1991).

Zakat is used as a tool for income distribution (payment transfer) and social welfare promotion in Malaysia. It is a basis of Islamic social welfare and plays an important role in solving problems such as poverty, unemployment and unequal income distribution in a Muslim society, both for families, communities and the entire country (Dogarawa, 2010; Rahman, Alias, & Omar, 2012). There is a well organized system in Malaysia to collect and distribute zakat. All aspects relating to the administration of zakat are handled by the respective states through the religious council (Hassan, 1987). While zakat is identified as one of the social protection programs in Malaysia, its beneficiaries are only the Muslim public.

Eligibility

The beneficiaries of *zakat* are categorized as below. This categorization is based on different criteria stipulated by religious scriptures (Kaslam, 2011).

1. The poor of straitened means. This includes a) all Muslims whose means are, in spite of their best efforts or due to some physical disability, insufficient to adequately provide for the basic lawful material necessities of life such as food, clothing and shelter. b) households receive income under 50% from their needs for life. These include all Muslims whose means are, lacking or are so deficient as to deny them the basic lawful material necessities of life.
2. Zakat officials including, clerks, measures, distributors, informers, assemblers, and custodians (whose duty it is to keep safe and disburse the zakat funds to the lawful beneficiaries).
3. Those solicitude of Islamic brotherhood.
4. All debtors who find themselves unable to repay their debts without suffering undue distress or destitution, or the debtor is in genuine difficulty or truly needy who may lawfully seek relief from their burden through the agency of zakat.
5. Lawful warfare for the defense of Islam and of the Muslim peoples and territories.
6. Collective efforts which are directed toward reducing hardships arising out of emergencies of any nature – natural calamities, famine or war.
7. Category of people who, for some valid reason are unable to return home temporarily or permanently (facing religious or racial persecution, political exiles or refugees, those seeking safety from, oppression and those pursuing knowledge and education or involved in satisfying meritorious social wants away from home). For such people, zakat serves as a social insurance fund, the medium of temporary help until they can stand on their own feet.

SECTION 3

Expenditures

This section reports on the various expenditures and fundings on social protection programs. For this task, this report has used the annual data for the period 2008 to 2012. The time series for expenditure on pensions, EPF, AFF, social insurance, social welfare programs, subsidies, healthcare, and zakat are collected from the annual reports of different authorized entities. Expenditures and amount which are shown in this section have been converted from Malaysian Ringgit to USD as per declared by the Bank Negara (2012) (1USD = RM3.17).

Public Pension

Table 1 below shows the expenditure made by Malaysia's government on public pension over five years starting from the year of 2008 until 2012. In year 2008, the amount of government expenditure on pension was USD3,162 million, and in 2012 the pension expenditure was USD4,476 million.

Table 1 Government Expenditure on Pension (2008-2012)

Year	Expenditure in USD (million)
2012	4,476
2011	4,279
2010	3,410
2009	3,201
2008	3,162

Sources: Ministry of Finance Report, 2008-2012.

Benefit Payments to EPF Members

Table 2 below shows the trend of payments to EPF members from year 2008 until 2012. The data show that the payments to EPF members fluctuated over the years. The highest payment was in year 2012 (USD10,441million), while the lowest was in year 2008 (USD5,875 million). USD8,331million and USD9,469 million was collected in 2010 and 2011, respectively.

Table 2 Payments to EPF Members (2008-2012)

Year	Payments in USD (million)
2012	10,441
2011	9,469
2010	8,331
2009	7,795
2008	5,875

Source: Annual Report of EPF, 2008- 2011 and 2013.

Armed Forces Fund (AFF) Payments to Its Members

Table 3 shows the total members' payments made in 2009 (number of withdrawals was 4,609) decreased to USD155 million from USD185 million in 2008 (5,198 withdrawals). Members' payments made in 2010 (the number of withdrawals was 5,983) increased to USD213 million from 2009. In 2011, the member payments increased which amounted to USD222 million (the number of withdrawals increased to 6,115). In 2012, spending declined considerably to USD187 million because of a decreased number of withdrawals (4,975 withdrawals).

Table 3 Payments to Members of AFF (2008-2012)

Year	Payments in USD (million)
2012	187
2011	222
2010	213
2009	155
2008	185

Source: Armed Forces Fund, Malaysia, 2008-2012.

Social Insurance

Table 4 below provides a breakdown of social insurance expenditure for the year 2012 in Malaysia. Total expenditure was USD637 million with the largest expenditure on survivors' pensions with USD222 million. An amount of USD158 million were on permanent and temporary disablement benefits. The third highest spending was on Invalidity Pension and Grant (USD130 million). The remaining expenditure was USD59 million under various schemes; these include, physical and vocational rehabilitation facilities and invalidity pension and grants and education benefits. There were miscellaneous expenditure on a number of social security measures like funeral benefits, constant attendance allowance, social security appellate board allowance, general expenses and damages for termination of contract.

Table 4 Expenditure on Social Insurance (2012)

Program	Activities	Expenditure in USD (million)
Social Insurance		
	Temporary Disablement Benefit	43
	Permanent Disablement Benefit	115
	Dependents' Benefit	68
	Invalidity Pension and Grant	130
	Survivors' Pension	222
	Funeral Benefit	5
	Constant Attendance Allowance	7
	Medical Allowance	2
	Physical and Vocational Rehabilitation Facilities	40
	Activities to Promote Health and Social Security	2
	Board Allowance	0.2
	Medical Board Allowance	1
	Appellate Medical Board Allowance	0.6
	Social Security Appellate Board Allowance	0.2
	General Expenses	0.5
	Education Loans Debtors Written Off	0.7
	Conversion of Education Loan into Scholarship	0.2
	Benefit Debtors Written Off	0.09
	Doubtful Debts on Contributions	0.07
	Doubtful Debts on Benefit Debtors	0.01
	Reversal of Provision for Doubtful Debts on Education Loan Debtors	0.02
	Damages for Termination of Contract	0.8
Total		637

Source: Social Security Organization, 2012.

According to Table 5, annual expenditure on social insurance for 2008 amounted to USD730 million and this increased to USD818 million in 2009. Social insurance expenditure for 2011 significantly decreased to USD600 million from USD1,144 million recorded in 2010. In 2012 social insurance spending was USD637 million. Social expenditure by SOCSO in 2012 was considerably lower than in 2010 (and spednign levels in 2008 and 2009), but it is not clear as to why this change has occurred (Zurairi, 2013).

Table 5 Expenditure on Social Insurance (2008-2012)

Year	Expenditure in USD (million)
2012	637
2011	600
2010	1,144
2009	818
2008	730

Source: Social Security Organization, 2012.

Social Assistance Programs

Table 6 below provides the details of government's expenditure on social assistance programs. According to the database of the Department of Social Welfare, USD117.14 million was spent in 2008 and it was remarkably increased to USD239.42 million in 2009. The expenditure for the period of 2010 was USD377.25 million and it increased to USD482.04 million in 2011. However, there was a drop recorded in 2012 compared to previous year.

Table 6 Expenditure on Social Welfare Programs (2008-2012)

Item	2008 USD mil	2009 USD mil	2010 USD mil	2011 USD mil	2012 USD mil
Assistance for elderly	24.6	72	133.3	150.7	163.8
Assistance for children	29	53	91.5	99.6	103.1
General assistance	41.2	63.4	70.6	76.5	79.3
Assistance for disabled workers	18.5	32.7	46.1	55.4	63.3
Assistance for disabled, abandoned & neglected patients	1.2	12.5	25.6	55.4	32.2
Assistance for disabled not attempt to work	-----	1.6	7	29.6	17.5
Assistance for disaster victims	0.76	1.9	1.5	12	-----
Tools help and initiation support	0.73	0.79	0.92	1.7	1.9
Launching grant	0.38	0.47	0.5	0.54	1.95
Child maintainance	0.09	0.14	0.17	0.34	0.82
Training apprentice	0.12	0.12	0.06	0.17	0.36
School allowance	0.56	0.8	------	0.09	1.9
Total	117.14	239.42	377.25	482.04	466.13

Source: Financial Assistance by State Welfare, 2008 - 2014 (MEI)

Subsidies

Table 7 below indicates the annual expenditure on government's subsidies. In 2008, according to the Ministry of Finance in its Economic Report 2011/2012, the amount of government's expenditure on subsidies was USD11,093 million and it amounted to USD7,737 million in 2009. This decreased to USD6,599 million for the period of 2010 whereas the expenditure for 2011 tremendously increased to USD11,437 million. For the period of 2012 it significantly raised to USD13,377 million. Social insurance and subsidy provisions are entirely different funding and expenditure strems and trends are not directly connected (caompare Tables 5 and 7).

Table 7 Expenditure on Subsidies (2008-2012)

Year	Expenditure in USD (million)
2012	13,377
2011	11,437
2010	6,599
2009	7,737
2008	11,093

Source: Ministry of Finace, 2011/2012.

Healthcare

According to Table 8, the Malaysia National Health Accounts, annual public expenditure on healthcare accounted for USD521 million, USD580 million, USD1,183 million in 2008, 2009 and 2010, respectively. The statistics indicates that Malaysia's health expenditure has tremendously decreased from 2010 to 2013. The table shows that the expenditure was reduced from USD699 million (2011) to USD588 million (2012).

Table 8 Public Expenditure on Malaysia's Healthcare (2008-2012)

Year	Expenditure in USD (million)
2012	588
2011	699
2010	1,183
2009	580
2008	521

Source: Malaysia's Budget: Revenue and Expenditure (2011, 2012 & 2013).

Zakat

Table 9 below denotes *zakat* collections in the years 2008 to 2012 from 14 states of Malaysia. It was calculated that the total collection throughout Malaysia is of USD600 million in 2012. The average increase in the zakat colection is more than 10% annually. In 2012, Selangor collected a total of USD142million making it the highest collection among Malaysia's states, while Sarawak and Melaka collected the least (USD15 million). At a galance, *zakat* collections in Malaysia also show a steadily rising trend over the years.

Table 9 Zakat Collections by States (2008-2012)

State \ Year	2012 (USD million)	2011 (USD million)	2010 (USD million)	2009 (USD million)	2008 (USD million)
Melaka	15	14	I1	0.9	0.9
Sabah	16	13	10	8	8
Penang	19	18	17	15	13
Sembilan	22	29	16	12	11
Perlis	25	24	12	9	7
Perak	32	29	22	21	18
Pahang	32	29	26	23	16
Kedah	32	32	24	19	18
Terengganu	33	30	24	23	21
Kelantan	33	31	22	21	18
Johor	57	43	39	34	32
Wilayah	127	110	89	78	67
Selangor	142	125	106	89	77
Sarawak	15	9	12	12	11
Total	600	535	430	367	318

Source: Kajian Polititik Untuk Perbahan, 2012.

SECTION 4

Analysis

This section analyses over time various social protection, security and assistance programs, including examining the trends expressed as percentages of Malaysia's GDP for different periods. This section will also make a comparison with selected Southeast Asian countries. The social security programs include the Pension Scheme, EPF, and AFF. The main social insurance scheme to be discussed is the assistance provided by Social Security Organization. The social assistance programs examined are mostly those provided by the Department of Social Welfare.

Public Pension

According to the Table 10, Malaysia spent 1.9% of its GDP on pension in 2008 (Prime Minister's Department Malaysia, 2013, 2014). This remained unchanged (1.9%) until 2011. In 2012 the expenditure increased by 0.2% and accounted for 2.1% of Malaysia's annual GDP. The 0.2% increment occurred due to government's revision of the pension scheme - there was an increment in civil servants' salary from 7%-13% (Maybank Research, 2012). Government pensioners with at least 25 years of service received a minimum pension of USD258, an increase of USD32 from the current rate. This increment for 657,000 pensioners cost the federal government USD694 million.

Table 10 Government's Expenditure on Pension as a Percentage of GDP (2008-2012)

Year	Expenditure as a % of GDP
2012	2.1%
2011	1.9%
2010	1.9%
2009	1.9%
2008	1.9%

Source: Department of Statistic Malaysia, 2005/2013.

EPF

According to the available information, payments made to the EPF members in 2008 accounted to 0.92% of country's GDP in 2008. In 2009 and 2010 it remained stable (1.23%). The payment as a percentage of GDP was 1.39% in 2012 while it was 1.33% in 2011. The increment of payment in 2012 to 1.39% (see Table 11) is the reflection of a raise in contribution by the employers (Finance Malaysia, 2012).

Table 11 Payments to EPF Members (2008-2012)

Year	Payments as a % of GDP
2012	1.39%
2011	1.33%
2010	1.23%
2009	1.23%
2008	0.92%

Source: Annual Report of EPF, 2008-2012.

AFF

As can be seen in Table 12, the payments of Armed Forces' Pensions as a percent of GDP was 0.03% in 2008 and it continued to remain relatively constant until 2012. In 2011, payments to AFF's members increased to 0.031% and it slightly (0.025%) decreased in 2012 as well.

Table 12 Payment to Member of AFF (2008-2012)

Year	Payments to AFF as a % of GDP
2012	0.025%
2011	0.031%
2010	0.031%
2009	0.025%
2008	0.03%

Source: Armed Forces Fund, Malaysia, 2008-2012.

Social Insurance

Table 13 below shows the expenditure on social insurance from year 2008 until 2012. The data show that the expenditure remain fluctuated over the years. The highest expenditure made by the SOCSO was in year 2010 which was 0.5% of the country's GDP while the lowest spending on social insurance was in year 2008 which was 0.3%.

Table 13 Annual Expenditure on Social Insurance as a Percentage of GDP (2008-2012)

Year	Expenditure as a % of GDP
2012	0.2 %
2011	0.2 %
2010	0.5 %
2009	0.4 %
2008	0.3 %

Source: Social Security Organization, 2008-2012.

Social Assistance Programs

Table 14 indicates the expenditure on social assistance programs in Malaysia remained relatively lower of its GDP. It was 0.018% in 2008 and slightly went up in 2009 which accounted to 0.038% of the country's GDP. There were significant changes in between 2009 and 2012 as it has been mentioned in the table. The numbers on social assistance spending do not reflect the totals as in Table 6 on social welfare expenditure. Data presented below based on the information received from the Social Welfare Department, Malaysia.

Table 14 Government's Expenditure on Social Welfare as a Percentage of GDP (2008-2012)

Year	Expenditure as a % of GDP
2012	0.062%
2011	0.068%
2010	0.056%
2009	0.038%
2008	0.018%

Source: Asian Development Bank, 2013.

Subsidies

Table 15 shows the public expenditure on the provision of subsidized essential commodities and food products as a percent of GDP in Malaysia. In 2012, the allocation to subsidies was 0.8% of GDP. In 2011, this amount reduced to 0.8% of GDP. In 2010, this amount was 1% of GDP with little increase. Over the following years the allocation of subsidies remained unchanged due to government's determination in continuing the cost of living of its citizens. These subsidies include: Local super rice (USD0.18 for every kilogram), cooking oil (for every kilogram USD0.70), flour (for every kilogram USD0.17), RON 95 petrol (for every litre USD0.26) and diesel (for every litre USD0.27). The price of 14 kg gas cylinder was reduced by more than half (per cylinder USD8.39) in 2012.

In addition, the government continued to provide subsidy for households with electricity bill of USD6.30 per month or less, implemented since 2009 (The Malaysian Insider, 2012). In 2012 the government started to implement reductions and even abolished some of the above subsidies as they appeared to be fiscally unsustainable. Even though the expenditure on subsidies considerably increased in 2010 compared to 2009, expenditure on subsidies as a percentage of GDP did not change; as spending increased at a similar pace as Malaysia's GDP in 2010.

Table 15 Government's Expenditure on Subsidies as a Percentage of GDP (2008-2012)

Year	Expenditure as a % of GDP
2012	0.8%
2011	0.9%
2010	1.0%
2009	1.0%
2008	0.9%

Source: World Bank, 2014.

Healthcare

As shown in the Table 16, public expenditure on healthcare averaged at 3.7% between 2008 and 2012. For the year of 2012, the expenditure slightly increased to 3.9%; while in 2011 it was at 3.8%. Between 2011- 2012, Malaysia's healthcare experienced a drop in its budget allocation (Quek, 2012). While the government is determined to improve access to healthcare for its citizens, the past few years have brought a rash of healthcare issues into the spotlight—the recent extension of Full-Paying Patient scheme in public hospitals, announcement of better promotional exercises for government healthcare workers especially for doctors, highly trained specialists, dentists and pharmacists to minimize crossover. The government encourages insurance rather than assistance, which means the government intends to bring a cost cutting into public healthcare due to rapid increse on the Federal Government Operating Expenditure from year 2000 until 2013 (Mahathir, 2014).

Table 16 Public Expenditure on Healthcare as a Percentage of GDP (2008-2012)

Year	Expenditure on Healthcare as % of GDP
2012	3.9%
2011	3.8%
2010	4.0%
2009	3.9%
2008	3.4 %

Source: World Bank, 2014.

As per the available information on social expenditure of Malaysia, it can be seen that the total expenditure as a percent of country's GDP remains constant. It was found that the total expenditure accounted to approximately 8% of the country's GDP since 2008 and remained relatively stable up to 2012 (See table 12).

Table 17 Social Expenditure as a Percentage of GDP at a Glance from 2008-2012

Year / Item	2012 As a % of GDP	2011 As a % of GDP	2010 As a % of GDP	2009 As a % of GDP	2008 As a % of GDP
Pension	2.1%	1.9%	1.9%	1.9%	1.9%
EPF	0.92%	1.23%	1.23%	1.33%	1.39%
AFF	0.03%	0.025%	0.031%	0.031%	0.025%
Social Insurance	0.2%	0.2%	0.5%	0.4%	0.3%
Social Assistance	0.018%	0.038%	0.056%	0.068%	0.062%
Subsidies	0.8%	0.9%	1.0%	1.0%	0.9%
Healthcare	3.9%	3.8%	4.0%	3.9%	3.4 %
Total of GDP's %	8%	8.1%	8.7%	8.6%	8%

Source: Based on estimated figures on different social expenditures, 2008-2012

Zakat

Table 18 shows the percentage distribution of *zakat* for each state for the period 2007 to 2010. Each column in this table indicates the *zakat* collection of each state and its distribution among its beneficiaries. In some states, such as Negeri Sembilan, Perlis and Sabah, and also the Federal Territory of Kuala Lumpur, the percentage distributed is greater than 100% which means that amount of *zakat* distributed exceeded the amount of zakat collected during the relevant year. The *Zakat* Collection Centre (ZCC) of Penang consistently distributed more than it collected in this period. There is no clear explanation on the reason for rates of distribution of greater than 100%, but one possible reason that can be offered is that the excess amount could have included a carry-forward balance from the previous year's collection that remained undistributed. However, this justification is less likely to explain Penang's situation because the state's ZCC has been distributing more than 100% for three consecutive years.

Overall, except in 2007, Kelantan consistently reports the highest distribution of *zakat* for the poor and needy. Perlis, Kuala Lumpur and Pahang were the lowest in 2007, 2008, 2009 and 2010, respectively. As can be seen from Table 17, the total *zakat* collection has increased significantly over recent years. This may be due to factors such as the increasing ease of making payments as *zakat* can now be paid online, an increase in the efficiency of *zakat* management, the privatization of *zakat* institutions, and the escalation of the incomes of *zakat* payers (Hairunnizam et. al, 2008). In situation where some *zakat* institutions are experiencing shortage of *zakat* fund, while some having surplus, the latter can transfer some of the fund to the former (Lubis, Yaacob, Omar, Dahlan, & Rahman, 2011).

Table 18 Percentage of Distribution to Poor and Needy Recipients and the Percentage of the Total Distribution for the Years 2007-2010 Relative to Collection

State	2007		2008		2009		2010	
	%Distribution/ Collection	%Distribution / to poor & needy	%Distribution/ Collection	%Distribution/ to poor & needy	%Distribution/ Collection	%Distribution/ to poor & needy	%Distribution/ Collection	%Distribution/ to poor & needy
Johor	59.8%	33.8%	73.8%	31.6%	87.2%	33.8%	90.2%	38.8%
Keda	98.3%	48.9%	79.2%	46.2%	82.9%	41.4%	85.9%	42.5%
Kelantan	60.5%	59.0%	37.1%	81.9%	88.4%	61.7%	90.8%	67.6%
Meleka	81.1%	26.3%	79.5%	35.5%	103.6%	40.8%	92.3%	45.3%
Sembilan	106.3%*	34.3%	98.4%	33.2%	97.2%	33.2%	95.1%	30.5%
Pahang	47.4%	28.6%	38.4%	34.6%	65.1%	17.1%	72.5%	21.4%
Penang	80.9%	50.4%	109.2%*	49.4%	106.3%*	51.1%	102.1%*	48.4%
Perak	42.3%	65.6%	64.3%	69.9%	77.0%	58.2%	95.9%	66.8%
Perlis	69.4%	23.2%	65.8%	30.8%	105.9%*	31.2%	80.7%	25.8%
Selangor	58.1%	45.7%	77.9%	33.3%	97.3%	38.2%	98.1%	38.5%
Terengganu	19.7%	58.4%	54.1%	46.9%	70.4%	61.7%	80.6%	56.5%
Sabah	107.5%*	58.4%	81.4%	57.7%	85.0%	56.0%	79.2%	62.4%
Sarawak	50.2%	48.1%	48.0%	39.1%	70.2%	29.1%	61.1%	32.0%
Kuala- Lumpur	69.7%	33.0%	79.3%	25.7%	101.6%*	22.1%	70.9%	33.8%

Sources: Department of Zakat, Wakaf and Hajj (JAWHAR), Prime Minister Department, and Laporan Zakat PPZ-MAIWP (2007-2010).

*Note: Asterisk * shows that the percentage of total distribution exceeded the total collections.*

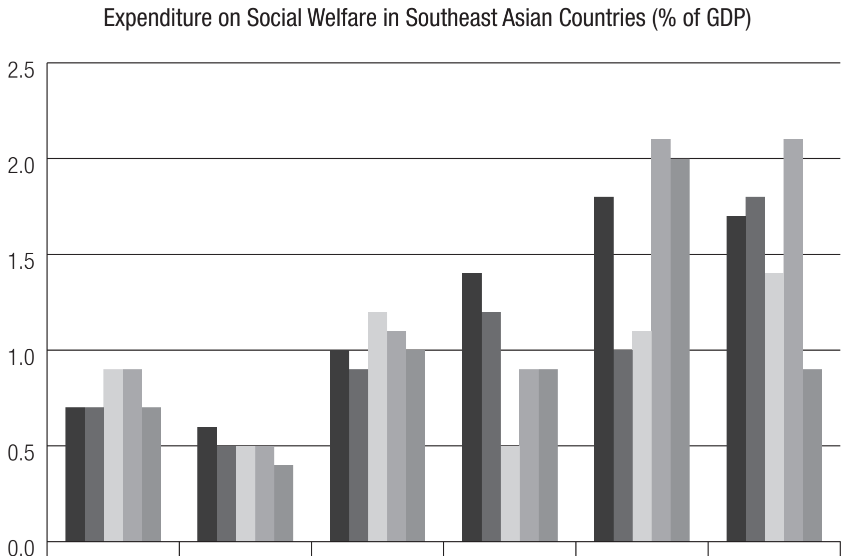
Comparison on Social Security Expenditures between Southeast Asian (SEA) Countries

This section compares the trends in the public expenditure on social security programs in SEA countries; which includes social welfare programs, social insurance, subsidies and healthcare expenditure. Public expenditure on pension, EPF and AFF were not included since the data of other countries were not available. SEAs' expenditure on subsidies and employees' compensation have been estimated based on the percentage of those countries' annual expense (% of GDP) and GDP.

Expenditure on Social Welfare

Figure 2 is based on statistics obtained from the Asian Development Bank database (2013). However, the percentage on social assistance spending in this figure does not reflect the totals as given in Table 6 on social welfare expenditure. These latter data are based on the information received from the Social Welfare Department, Malaysia.

Figure 2 Expenditure on social welfare (as a percent of GDP) in some selected SEA countries



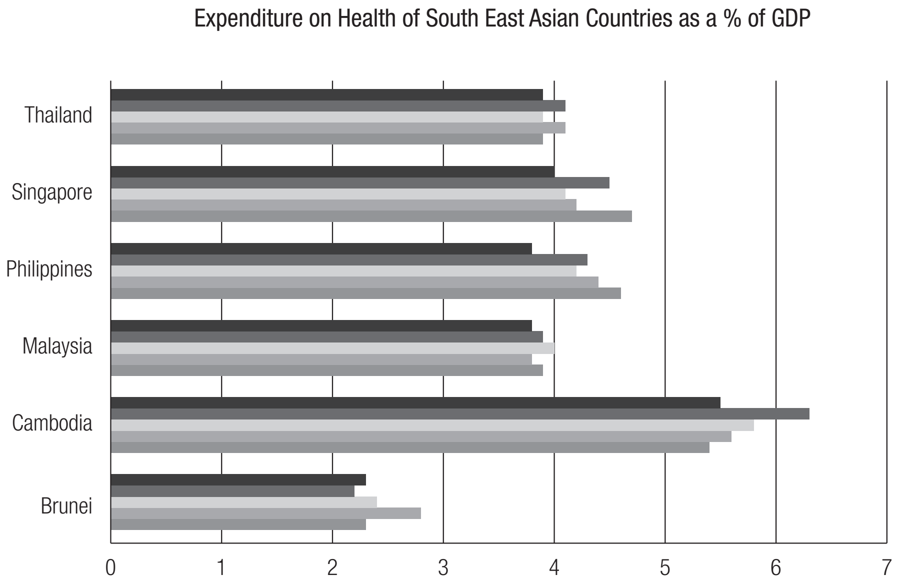
	Brunei	Cambodia	Malaysia	Philippines	Singapore	Thailand
2012	0.7	0.6	1	1.4	1.8	1.7
2011	0.7	0.5	0.9	1.2	1	1.8
2010	0.9	0.5	1.2	0.5	1.1	1.4
2009	0.9	0.5	1.1	0.9	2.1	2.1
2008	0.7	0.4	1	0.9	2	0.9

Source: Asian Development Bank, 2013.

Expenditure on Healthcare

Figure 3 below shows expenditure on healthcare as a percentage of GDP is relatively higher compared to the other SEA countries. Moreover, Malaysia's healthcare expenditure has been, as a percentage of GDP, relatively constant over the period 2009 to 2012. Health expenditure in countries including Cambodia, Philippines and Singapore was relatively higher than Malaysia. However, gross health expenditure as a percentage of GDP has been at a lower level (except in 2010) in Malaysia during the period since 2008.

Figure 3 Expenditure on healthcare (as a % of GDP) in some selected SEA countries



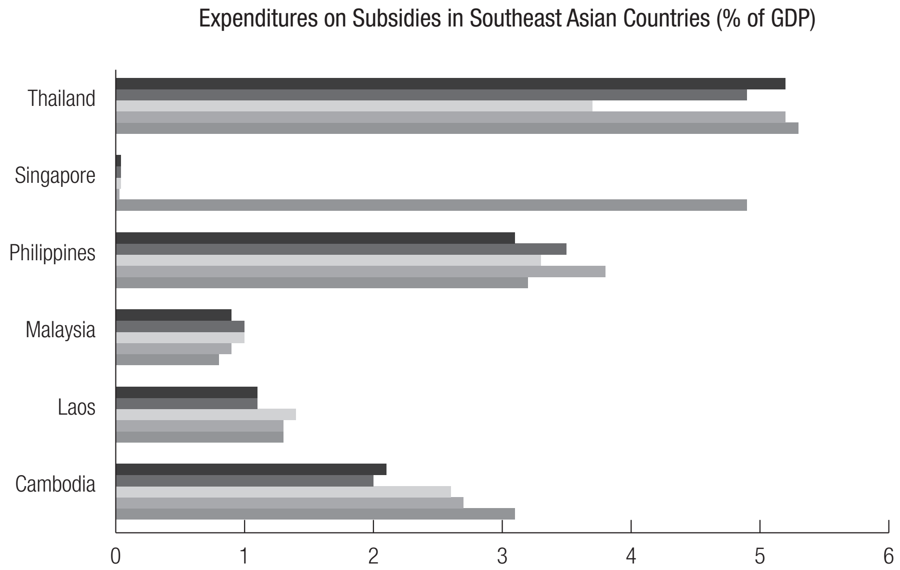
	Brunei	Cambodia	Malaysia	Philippines	Singapore	Thailand
2012	2.3	5.5	3.8	3.8	4	3.9
2011	2.2	6.3	3.9	4.3	4.5	4.1
2010	2.7	5.8	4	4.2	4.1	3.8
2009	2.8	5.6	3.8	4.4	4.2	4.1
2008	2.3	5.4	3.9	4.6	4.7	3.9

Source: World Bank, 2014.

Expenditure on Subsidies

Figure 4 below shows expenditure on subsidies as a percentage of GDP in some selected SEA countries. Malaysia's expenditure on subsidies as a percentage (%) of GDP is relatively low (0.8%) in 2012 compared to the other SEA countries. However, the trend of the expenditure is relatively constant. Singapore's gross expenditure on subsidies has increased tremendously (4.9%) more than Malaysia in 2012. The high growth countries such as Vietnam, Philippines and Thailand also considerably spent for subsidy provision over the years.

Figure 4 Expenditure on subsidies (as a % of GDP) in some selected SEA countries.



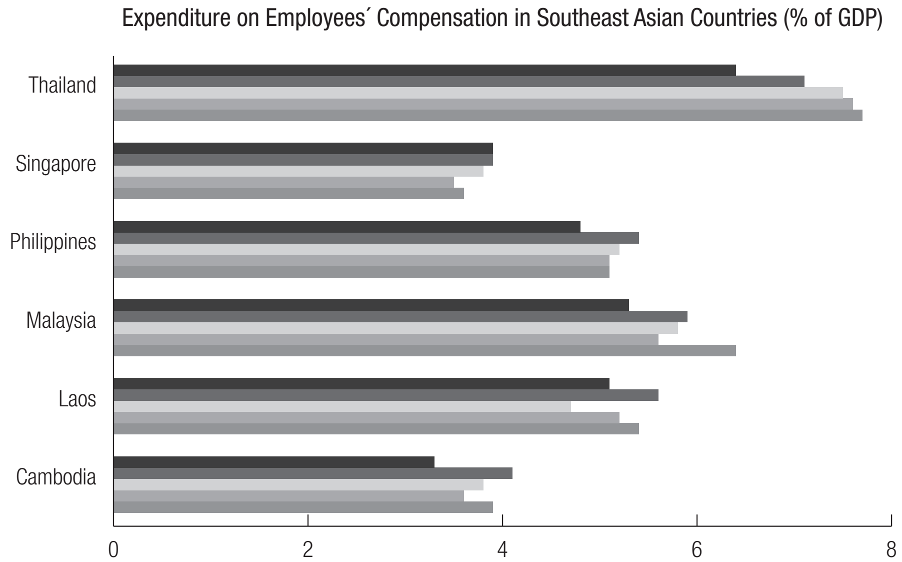
	Cambodia	Laos	Malaysia	Philippines	Singapore	Thailand
2012	2.1	1.1	0.9	3.1	0.04	5.2
2011	2	1.1	1	3.5	0.04	4.9
2010	2.6	1.4	1	3.3	0.04	3.7
2009	2.7	1.3	0.9	3.8	0.03	5.2
2008	3.1	1.3	0.8	3.2	4.9	5.3

Source: World Bank Database updated on 10/10/2014.

Expenditure on Employees' Compensation

Figure 5 below shows the expenditure on employees' compensation as a percentage of the GDP of some selected SEA countries. Net expenditure on employees' compensation is high in some of the SEA countries, including the Philippines (4.8%), Laos (5.1%) and Thailand (6.4%) in 2012. However, Malaysia is also one of the SEA countries which spent substantially among the all its counterparts over the years and it was 5.3% in 2012. Thailand reported the highest share of expenditure to GDP (6.4%) in 2012.

Figure 5 Expenditure on employees' compensation (as a % of GDP) in some selected SEA countries



	Cambodia	Laos	Malaysia	Philippines	Singapore	Thailand
2012	3.3	5.1	5.3	4.8	3.9	6.4
2011	4.1	5.6	5.9	5.4	3.9	7.1
2010	3.8	4.7	5.8	5.2	3.8	7.5
2009	3.6	5.2	5.6	5.1	3.5	7.6
2008	3.9	5.4	5.4	5.1	3.6	7.7

Source: World Bank Database updated on 10/10/2014

SECTION 5

Conclusion

In a recent report, the Asian Development Bank commended Malaysia's commitment to its needy citizens. Compared to other SEA countries, the data showed that Malaysia spent close to 8% of its GDP on social protection programs. Malaysia was ranked eighth out of 35 Asia-Pacific countries on the basis of its Social Protection Index (Asian Development Bank [ADB], 2009 Report, 2013).

Although *zakat* is not mandatory in Malaysia, the relative systematic administration of collection and distribution have made many in the country make their contributions. These contributions are made to the relevant state religious department or to make the payment directly to deserving individuals, particularly the very poor, those without the capacity to meet their basic needs and to those in distress. However, the practice of *zakat* collection has not been recognized as a social expenditure by any of the international bodies estimating social/public expenditure so far.

While the social expenditure in Malaysia is considered by some to be inadequate, transfer payments within the extended family have acted as an 'informal shock absorber' in times of economic downturn. Adult children who earn a steady income normally try to send some money to support their ageing parents or needy relatives, implying that solidarity and justice are important values in the Malaysia's society (Mohd, 2009). A customary reliance on family support, a socio-cultural norm, remains an ideologically important element of the traditional welfare system in contemporary Malaysia. Family support in Asia is a part of an 'Oriental Culture' or 'Confucian Welfare State' in which societies are portrayed as consisting of coherent families with strong mutual support between family members, and a harmonious society is assumed to be built on cooperation between different ethnic groups, races, genders, and classes (Jones,1993). The above observation by Jones is also visible in Malaysia.

In developing countries such as Malaysia, the family and community-based institutions like mutual benefit societies, have traditionally catered for needy people. For example, the agricultural and the fishing sectors rely strongly on their respective cooperative societies for financial, social and moral support in cases of misfortune. However, these informal support systems are not considered by international bodies such as the OECD to be in scope for the estimation of a country's social or public expenditure (Ragayah & Haji, 2005). In addition, the DSW prefers institutional support to be the last resort for taking care of the elderly. NGOs are invited to contribute to complement the government's care for the elderly. There are elderly homes and day care centres run by both government organizations and NGOs. In addition, the local community and private individuals are also encouraged to looked after and provide financial support to the elderly (Mohd, 2009). However, these initiatives/expenditure are not included in official figures, thus, are also not considered in this technical paper.

Present day Malaysia is at the crossroad between balancing welfare and private insurance. As an example, the 1 Malaysia People's Aid Scheme (BR1M) programs introduced in 2011by the government is a form of subsidy. On the other hand, the ADB noted that Malaysia's government encourages its citizens towards obtaining individual insurance. Therefore, the neediest individuals will not necessarily receive an adequate level of social protection expenditure (Asian Development Bank, 2013).

While the Malaysia's government has only succeeded in persuading a small 7% of the workers in the informal sector to contribute to the EPF, the study conducted by Mohd (2013) concludes that, in general, a large percentage of workers of the informal sector do save for old age, whether or not they are currently being protected by any formal old age program or not. One of the possible reasons for the reluctance of workers in the informal sector to invest in the EPF is that these workers believe that the benefits from the EPF are inadequate to finance their retirement expenses. In other words, they believe that investing in other funds, including saving in banks or other financial institutions, could provide a higher return than is offered by the EPF. Moreover, banks guarantee their depositors' money. For Muslims, they often prefer to save in Tabung Haji, a pilgrimage account. These findings suggest a simple solution for the government to increase the use of the EPF ensuring that the EPF is able to provide a higher return and that the confidence of the contributors to the EPF is enhanced (Mohd, 2013). More contribution leads to more EFP so that return also will be higher.

Medical insurance is a fairly recent development in Malaysia and it is not yet a significant source of financing. It appeals more to the urban people who have the financial capacity to pay the premiums. In view of speculation that the government may be considering introducing a national healthcare financing scheme, which would include mandatory medical insurance for all Malaysians the use of medical insurance may become much more widespread. At present, private medical and health insurance (MHI) is gaining in coverage, due in part to a broadening range of MHI products offered and providers who are able to offer these services (Asher, Oum & Parulian, 2010). All the above are reasons justify why the government is encouraging its citizes to purchase private medical insurance to reduce its financal burden. Therefore, it believes it could reduce its expenditure to healthcare.

With wider developmental activities, rising government‘s operating expenditure and external debts, Malaysia’s government can help its citizens and needy through effective social protection programs. Social protection programs can be instrumental to minimize the the impact of economic shocks on health and education, and maintaining social equilibrium and preventing social unrest. The first concern would be the need for a multi-tier social security system for Malaysia which would contains a four pillar frame work for an effective implementation of social protection programs. A non-contributory revenue based social protection provided by the government comes under the first pillar. The programs under this category included are: Family allowances and social assistance or social welfare payments for long-term unemployed and poor people, people with disabilities, single parents or other needy groups.

The second pillar is the social insurance where individuals contribute a portion of their income into personal accounts for future income protection. The programs provide for income replacement and benefits in kind for the contingencies of unemployment, sickness, maternity, employment injury and pensions for the long term contingencies of old age, invalidity and survivorship.

The third pillar is the voluntary private insurance and intended to provide additional coverage to those who can afford the payments. The servive providers initiate to provide with retirement benefit, disablement, medical coverage and life insurance policies to the population. Initiatives are often coupled with the needs of the individuals and their financial situation. Governments would provide with technical support, regulatory outline for the efficient administration and tax waiver to encourage private agencies and assist citizens who can opt to invest on third pillar additional insurance.

For Pillar 1, the pension system that provides coverage for civil servants, the size and scope of the scheme are limited since it covers only a small percentage of the population in Malaysia's context. The primary social protection pillar is the EPF, a defined contribution scheme that has a wider coverage and scope, although it has both advantages and disadvantages. The other schemes are SOCSO, workmen compensation, voluntary savings schemes as in the *Amanah Saham* (is a unit trust fund for Malaysian *Bumiputeras* (sons of the soil) savings schemes, designed for various target groups. Pillar 3 a voluntary pillar that covers private saving schemes and private investment such as in the unit trusts, suffers from a lack of data. Therefore, it is difficult to estimate the size and the extent of coverage. However, those who subscribe to Pillar 3 are also likely to be employed in the formal sector, for which a social protection scheme is already in place. Pillar 4 which refers to informal family support, and to other financial or non-financial support, has the same limitation in data (Asher, Oum & Parulian, 2010).

The lack of the first pillar will reduce the effectiveness of poverty eradication programs in the future due to the challenges imposed by economic and policy changes. Therefore, Malaysia needs to carefully consider how to translate ambitious goals into effective outcomes. The second concerns the need for professionalism in designing and managing the second pillar providing protection for both short term and long term contingencies. There is a need to upgrade the administration of all the social security organizations, including provident and pension fund organizations (Zurairi, 2013).

Sim & Hamid (2010) suggested the need for a coordinated approach to social protection. In the path of progress towards a multi-pillar system, it will be essential to ensure that:-

i) There should be a coordination between ministries, departments and organizations providing services as some agencies enforce the provisions, others make cash payments and others provide services to clients.

ii) Currently, different rules and standards apply to private sector schemes on the one hand and civil service schemes on the other. Often the same provident or pension fund organization acts as a service provider as well as supervisor or regulator of the exempted provident and pension fund plans.

iii) The responsibility for different elements of a social security system is diffused with little coordination. There is therefore a strong case for considering establishing a regulator for the pension sector. The regulator should not only require professionalism from all social security organizations, provident and pension fund organizations, whether public or private, but also ensure that progress towards a multi-pillar system proceeds in a rational and sustainable manner. This will not be an easy task and political economy considerations will undoubtedly play an important role.

Consequently, there is the need to publicise the principles of social protection and their importance to the general population. There is an apparent lack of knowledge in the general public of:-

- The protection systems available to them
- The mechanism by which these systems work and
- The long term benefits of such systems

The commitment to implementing social safety nets and social security systems needs to be shown through the development plans. Long term political commitment to consistently develop and upgrade systems of social protection is needed and can be achieved alongside economic development. Social protection cannot be postponed for it is the protection of the future developed from today (Sing, 2007).

As a conclusion, a more effective and promising role must be assumed by the significant entities. The Ministry of Women, Family and Community Development; Public Pension Scheme; EPF; AFF; and SOCSO should lead this process. Malaysia's government needs to review its present systems and consider what policy changes are necessary to implement better social security protection provisions in each domain, with the final objective of having an adequate social expenditure for the nation.

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