

*Unemployment-Related Benefits Systems
in Malaysia*

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CONTENTS

	page
Acknowledgements	
Executive Summary	
Part 1 - Introduction	1
Background	1
Objectives and Scope	1
Methodology	2
Part 2 - Unemployment Benefits System in Malaysia	3
Background	3
Unemployment Benefits System	3
Part 3 - Welfare Benefits System in Malaysia	4
Severance Pay	4
Employees Provident Fund	4
Work Injury Insurance	5
Services for the Poor	5
Part 4 - Proposal for a National Retrenchment Scheme	7
Appendices	8
References	13

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EXECUTIVE SUMMARY

1. There is no unemployment insurance or unemployment assistance system dedicated to helping the unemployed in Malaysia.
2. The Government is of the view that it has maintained a suitable investment environment in Malaysia which has enabled Malaysia to achieve full employment since the late 1980s. Hence, there does not appear a need to establish an unemployment insurance or unemployment assistance system dedicated to helping the unemployed in Malaysia.
3. Related welfare benefits in Malaysia include severance pay, benefits for old age, disability, death, employment injury and invalidity. However, no cash assistance is made to the unemployed under the relevant schemes.
4. Malaysia also runs a programme to eradicate poverty. Households which suffer from poverty, whether or not it is caused by unemployment, can apply for assistance under the programme, subject to a means-test. This may secure the basic needs of the unemployed but the programme is not unemployment-specific.

UNEMPLOYMENT-RELATED BENEFITS SYSTEMS IN MALAYSIA

PART 1 - INTRODUCTION

1. Background

1.1 In October 1999, the Panel on Manpower and the Panel on Welfare Services requested the Research and Library Services (RLS) Division of the Legislative Council (LegCo) Secretariat to conduct a study on unemployment-related benefits systems.

2. Objectives and Scope

2.1 The objectives of the study are:

- to examine the experience of China, Taiwan, Malaysia, Malaysia, South Korea, the United Kingdom (UK), and the United States (US) in implementing their unemployment-related benefits systems;
- to outline the research findings of the Organisation for Economic Co-operation and Development (OECD) and the Conventions and Recommendations of the International Labour Organisation (ILO) in unemployment benefits systems; and
- to make an overall comparative analysis of the experience in the above places in implementing their unemployment-related benefits systems, and study current provisions in helping the unemployed in Hong Kong.

2.2 The scope of the research, as agreed by the Panels, covers

- historical development;
- main features and components;
- eligibility requirements;
- types of benefits and amounts;
- duration of payment of benefits;
- tax treatment of the benefits;
- source of funds for the benefits; and
- administration of the unemployment-related benefits systems.

2.3 In this report, we focus on the experience of Malaysia. Although Malaysia is a member country of the International Labour Organization, it has not ratified any of the three conventions concerning unemployment benefits¹.

2.4 This report is part of the series of studies discussing unemployment-related benefits systems. There are 11 separate research reports (RP13/99-00 to RP23/99-00) on this subject.

2.5 In this research, "unemployment-related benefits" refer to unemployment benefits and related welfare benefits. Unemployment benefits comprise unemployment insurance and unemployment assistance. Unemployment benefits are available to the unemployed only. In other words, these benefits are not available to people who are not unemployed. The recipient must be currently unemployed, able to work, willing to work and looking for work. Where there are no unemployment benefits or where these benefits are exhausted, welfare benefits may be made available to provide subsistence for those in need. These related welfare benefits, as defined in the 1996 OECD study of "benefit systems and work incentives", include family benefits, housing benefits, child-care benefits and social assistance. They are made available to all citizens subject to a means-test, and are not specifically targeted at the unemployed.

3. Methodology

3.1 This study involves a combination of information collection, literature review and analysis. Requests for the necessary information have also been obtained from the Malaysian Ministry of Social Welfare and National Unity, Ministry of Human Resources, the Malaysia Trades Union Congress (MTUC) and the Malaysian Employers Federation. This research report is based on the information obtained from these sources.

3.2 In this report, we use the 1999 average exchange rate of RM1 = HK\$2.04 to convert the Malaysian Ringgit into Hong Kong dollar.²

¹ Ensuring Benefit or Allowances to the Involuntarily Unemployed Convention, 1934 (No. 44), Social Security (Minimum Standards) Convention, 1952 (No. 102), and Employment Promotion and Protection (Unemployment) Convention, 1988 (No. 168).

² Census and Statistics Department, *Hong Kong Monthly Digest of Statistics*, February 2000, p. 117.

PART 2 - UNEMPLOYMENT BENEFITS SYSTEM IN MALAYSIA

4. Background

4.1 In 1999, Malaysia had a population of 22 million, of which nine million were active labour. The unemployment rate ranged from 2.4% to 3.2% for the past five years. The government estimates the figure to be 3% in 2000. There were 270 300 persons unemployed in 1999. Table 1 shows unemployment statistics of Malaysia for the past five years.

Table 1 - Unemployment in Malaysia

	1995	1996	1997	1998	1999
Labour force ('000)	8 256.6	8 641.4	9 038.2	8 880.9	9 010.0
Unemployment Rate (%)	3.1	2.5	2.4	3.2	3.0
Unemployed Persons ('000)	256.0	216.0	216.9	284.1	270.3

Source: Economic Reports, Ministry of Finance, Malaysia

4.2 The Malaysian Gross Domestic Product (GDP) growth rates ranged from seven to nine percent in the past ten years. The GDP at current prices in 1999 was RM299.68 billion (HK\$611.35 billion) while the per capita GDP was RM13,622 (HK\$27,789).

5. Unemployment Benefits System

5.1 There is no unemployment insurance or unemployment assistance dedicated to helping the unemployed in Malaysia.

5.2 The Government is of the view that it has maintained a suitable investment environment in Malaysia which has enabled Malaysia to achieve full employment since the late 1980s. Hence, there does not appear to be a need to establish an unemployment insurance or unemployment assistance system dedicated to helping the unemployed in Malaysia.

PART 3 - WELFARE BENEFITS SYSTEM IN MALAYSIA

6. Severance Pay

6.1 In Malaysia both the employers and the employees regard severance pay as a form of unemployment-related benefit.

6.2 All workers whose earnings do not exceed RM1,500 a month and all manual workers irrespective of their earnings are covered under the Employment Act 1955 which provides for severance pay. Severance pay in Malaysia is known as retrenchment benefits, or termination and lay-off benefits, which are paid at the following rates:

- 10 days wages for each year of service for employment shorter than two years;
- 15 days wages for each year of service for employment longer than two years but shorter than five years; and
- 20 days wages for each year of service for employment of five years or longer.

6.3 It is expected that the severance pay would be sufficient to meet the basic needs of an unemployed worker until he finds the next job. However, it should be noted that severance pay is not equivalent to unemployment insurance or unemployment assistance as defined in paragraph 2.5 above. Payment of severance pay does not require the employer or the recipient employee to have made prior contributions; neither does it require the recipient employee to be able to work, willing to work and looking for work in order to receive payment. Severance pay is made to an employee solely on the basis of termination of contract by the employer.

7. Employees Provident Fund

7.1 This fund provides benefits for old age, disability and death. It also provides members of the fund who have savings in their accounts to pay for medical treatment of critical illness or to pay for the medical treatment of their spouse, children and parents. However, it does not provide cash assistance to any employee who is temporarily and involuntarily out of work and who is looking for work at the same time. Details of the Employee Provident Fund are at Appendix I.

8. Work Injury Insurance

8.1 In Malaysia work injury insurance is treated as a kind of employment-related benefit. The Social Security Organization (or SOCSO), a statutory body, administers payment of benefits under the Employment Injury Scheme and Invalidity Pension Scheme. These schemes provide benefits to workers in cases of employment injury and invalidity. Hence, although these two schemes are not unemployment-specific, an unemployed worker who was injured or who has become invalid during his immediate past employment may receive benefits under these schemes. Details of these two schemes are at Appendix II.

9. Services for the Poor

9.1 The Ministry of Social Welfare and National Unity runs a programme to relieve destitution. Under the Destitute Person Act 1977, a family is categorized as poor if the household monthly income of the family is less than RM460 (HK\$938). Families who suffer from poverty due to unemployment, amongst other causes such as old age, illness and disability, may apply for assistance under this programme. According to available statistics, the number of people who would be categorized as poor in Malaysia is around 5.5% (1.2 million) out of the total population of 22 million.

9.2 The poverty eradication programme provides the following assistance, which may be in cash or in kind:

Table 2 - Services for the Poor

Federal Scheme	State Scheme**
• Assistance for children	• Public assistance
• Assistance for the elderly	• School aids
• Allowance for the disabled workers	• Job training apprenticeship allowance
• Launching grants	• Natural disaster relief
• Assistance for artificial aids / spectacles	
• Public assistance*	
• School aids*	
• Assistance to youth* (apprenticeship)	
• Natural disaster relief	

Remarks: * available only in Federal Territory of Kuala Lumpur

** except Federal Territory of Kuala Lumpur and Labuan

Source: Homepage of Ministry of Social Welfare and National Unity, Malaysia

9.3 We have asked for details about the above programme but we have been unable to receive a reply from the Ministry of Social Welfare and National Unity as of the date of the publication of this report.

PART 4 – PROPOSAL FOR A NATIONAL RETRENCHMENT SCHEME

10.1 In February 1998 the Malaysian Trades Union Congress (MTUC) proposed the establishment of a National Retrenchment Scheme (NRS) to provide benefits to unemployed workers who do not receive any compensation from their employers. This proposal was made against the background of half of the claims to severance pay having been denied in 1998 owing to bankruptcy of the employer. The proposed NRS shows some characteristics of an unemployment insurance scheme, such as being contributory in nature, and with qualifying conditions on the eligibility of the recipients and the duration of payment of benefits. Payment are detailed as follows:

- Both employers and employees are each to contribute RM1 (HK\$2.04) per month;
- Only unemployed workers can receive benefits after having been unemployed for more than three months;
- An unemployed worker may receive the benefits until he finds a new job; and
- Once a retrenched worker receives a job offer but refuses to accept it, he would no longer be entitled to the benefits.

10.2 The Malaysian Employers Federation (MEF) opposed the proposed NRS because it considered that the present legislation provided sufficient protection to the unemployed and that it would be unfair for all employers to shoulder the misfortune of a few employers. In addition, the MEF considered that the proposed NRS would increase labour cost, which in turn would increase production cost, and would discourage investment in Malaysia.

10.3 In early 1999, the Malaysian Cabinet directed the Ministry of Human Resources to study the possible implementation of the NRS, reversing an earlier decision to reject the proposal. Having completed the study in July 1999, the Ministry of Human Resources announced that the proposal would be shelved for some time as the economy had shown signs of picking up and that there appeared no imminent need to establish any unemployment insurance scheme. No definite decision has been made on the proposal since.

Appendix I

Employees Provident Fund

1. Under the Employees Provident Fund (EPF) Act 1951, it is compulsory for all employers and employees to contribute towards this Fund. The employer's contribution is 12% and the employee's contribution is 11% his monthly wages. General supervision is by Ministry of Finance and management is by a tripartite governing Board, consisting of representatives of the employer, the employee and the Government.

Exemptions

2. The following categories of workers are exempted from the EPF Act:
- Expatriates;
 - Domestic servants;
 - Self-employed workers (but can elect to contribute);
 - Out-workers (persons who do cleaning, alteration repair works, etc.);
 - Persons detained in custody, e.g. prisoners;
 - Pensioners.

Withdrawal of EPF

3. Withdrawal of EPF can be made in four circumstances:
- Upon the death of a contributor, his nominee can make a claim to EPF;
 - Any contributor who attains the age of 55 years (old age benefit);
 - Any contributor who leaves the country permanently;
 - Any contributor on medical grounds subject to approval by a medical board.

Qualifying conditions for withdrawal of EPF contributions

4. Four conditions must be fulfilled before withdrawal of the EPF can be made:

- The contributor must have contributed to the EPF for at least five years;
- The first category of old age benefits, which is equivalent to 60% of his contribution, cannot be withdrawn until age 55;
- The second category of housing benefits, which is equivalent to 30% of his contribution, can be withdrawn for purposes of purchase of a first residential house or a shophouse cum residential unit; the balance may be withdrawn at age 50;
- The third category of medical benefits, which is equivalent to 10% of his contribution, can be withdrawn for medical purposes including critical illnesses such as treatment of cancer, heart problems, etc. approved by the tripartite governing Board.

Appendix II

Social Security Organization (or SOCSO): Employment Injury Scheme and Invalidity Pension Scheme

1. The Social Security Organization (SOCSO) Act 1969 requires firms with one or more employees whose individual earnings do not exceed RM1,000 (HK\$2,040) a month to register with SOCSO.

Exemptions

- Any persons whose wages exceed RM2,000 a month but who has never been covered;
- Any person whose employment is of a casual nature and not for purposes of the industry;
- Domestic servants;
- Employees who have attained the age of 55 years only for purposes of invalidity but if they continue to work they should be covered under the Employment Injury Insurance Scheme;
- Foreign workers;
- Government servants;
- Self-employed.

Qualifying Conditions

- Minimum contribution of 24 months. For those who have made at least 12 monthly contributions, they are entitled to Invalidity Grant.
- Be less than 55 years of age at the time of invalidity or death.
- Invalidity must be determined by the Medical Board or Appellate Medical Board.

	Employment Injury Insurance Scheme	Invalidity Pension Scheme
Contribution		
Employer's contribution	1.25% of employee monthly wage	0.5% of employee monthly wage
Employee's contribution	Nil	0.5% of employee monthly wage
Coverage		
	Industrial accidents; Occupational diseases; Travelling accidents	Invalidity or death from whatever cause
Benefits		
	Temporary Disablement Benefit Min. RM10 (HK\$20)/day, Max. RM52 (HK\$106)/day	Invalidity Pension Min. RM250 (HK\$510)/month Max. RM1,268 (HK\$2,587)/month (50% - 65% of his average monthly wage, depending on the total number of contributions)
	Permanent Disablement Benefit Min. RM10 (HK\$20)/day; Max. 90% of the average assumed daily wage	--
	Dependant's Benefit Min. RM10 (HK\$20)/day; Max. 90% of the average assumed daily wage	Survivor's Pension Min. RM250(HK\$510)/month Max. RM1,268 (HK\$2,587)/month (50% - 65% of his average monthly wage, depending on the total number of contributions)

	Employment Injury Insurance Scheme	Invalidity Pension Scheme
	<i>Medical Care</i> According to Government Hospital rates or SOCSO's Panel Clinic	--
	<i>Funeral Benefit</i> Lump sum payment of RM1,500 (HK\$3,060)	<i>Funeral Benefit</i> Lump sum payment of RM1,500 (HK\$3,060)
	<i>Constant-Attendance Allowance</i> 40% of the daily rate of permanent total disablement benefit; max. RM500 (HK\$1,020)	<i>Constant-Attendance Allowance</i> 40% of the daily rate of Invalidity Pension Max. RM500 (HK\$1,020)/month
	<i>Rehabilitation Benefit</i> Facilities for vocational and physical rehabilitation	<i>Rehabilitation Benefit</i> Facilities for vocational and physical rehabilitation
	<i>Education Benefit</i> A dependant child of an insured person receiving permanent Disablement benefit/Dependant Benefit/Invalidity Pension/Survivor's Pension, below 21 years of age who is studying in a local institution of higher learning	<i>Education Benefit</i> A dependant child of an insured person receiving permanent Disablement benefit/Dependant Benefit/Invalidity Pension/Survivor's Pension, below 21 years of age who is studying in a local institution of higher learning

Source: Ministry of Human Resources, Malaysia home page at <<http://www.jaring.my/ksm/scheme/sso.htm>>

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