

STRENGTHENING SOCIAL PROTECTION TO DELIVER SHARED PROSPERITY IN MALAYSIA

Stephen Barrett and Achim Schmilen
RMK12 Kick-Off Conference, July 1, 2019



WORLD BANK GROUP
Global Knowledge & Research Hub
in Malaysia



AGENDA

A. Basic concepts

B. Social protection in Malaysia

C. Spotlight 1: Social protection during childhood

D. Spotlight 2: Social protection during old age

E. Summary and conclusions

A. BASIC CONCEPTS

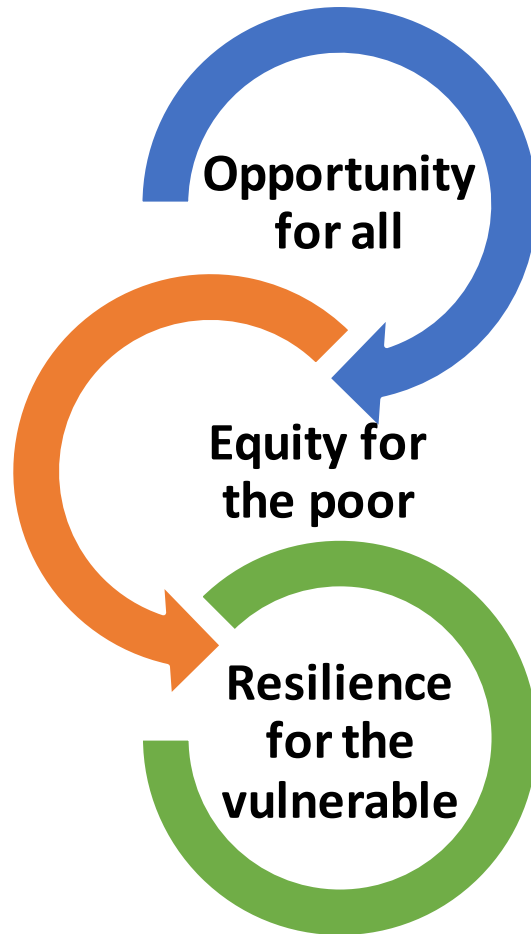
Social Protection Floor

Social protection floors are nationally defined sets of *basic social security guarantees* that should ensure, as a minimum that, over the life cycle, all in need have access to essential health care and to basic income security which together secure effective access to goods and services defined as necessary at national level.

- Access to essential health care, including maternity care;
- Basic income security for children, providing access to nutrition, education, care and any other necessary goods and services;
- Basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; and
- Basic income security for older persons.

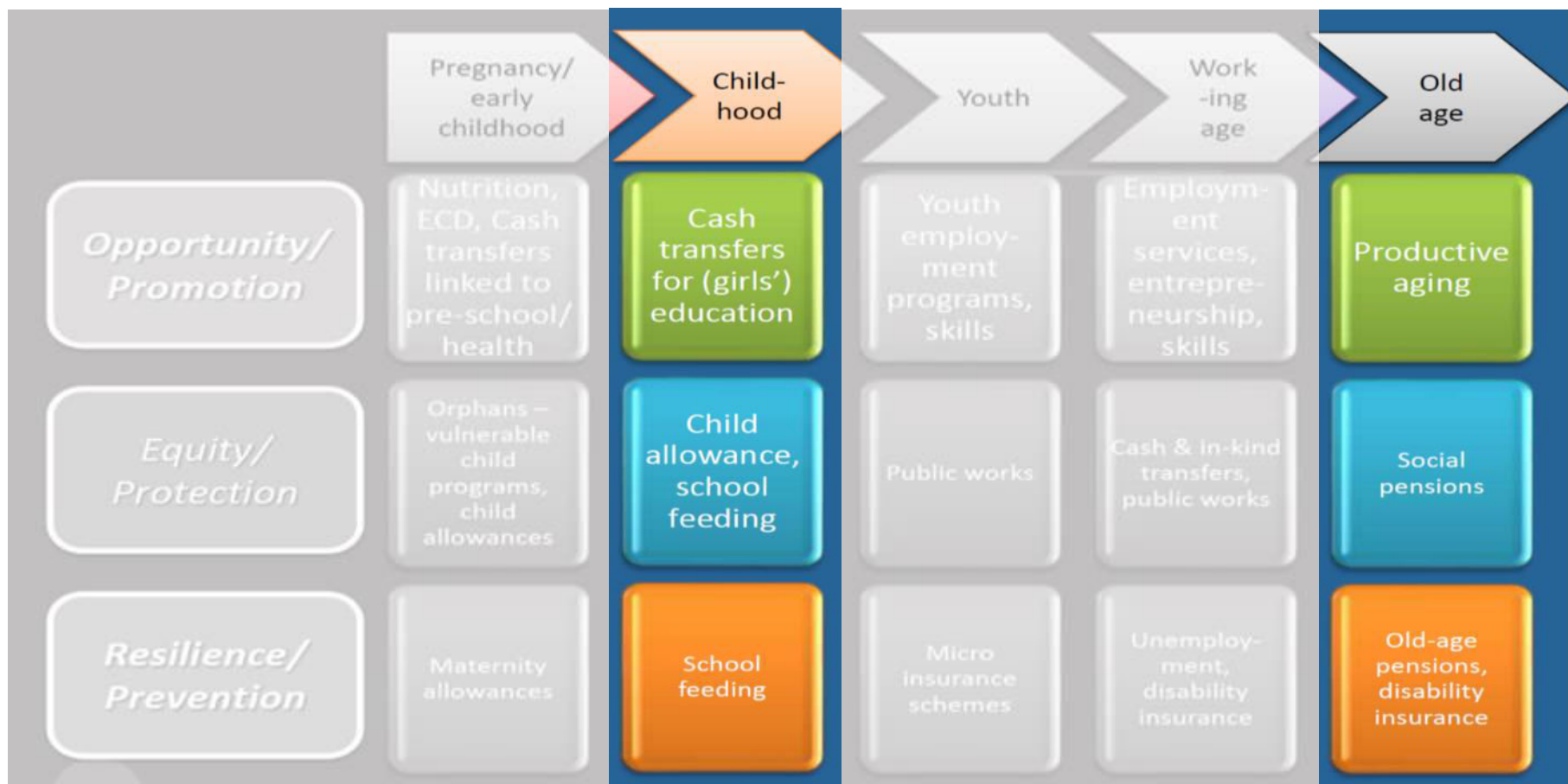
Such guarantees should be provided to all residents and all children, as defined in national laws and regulations, and subject to existing international obligations.

Objectives and scope of social protection



- Promoting human capital and access to productive work
- Includes active labor market programs, short-term training (1AZAM etc.), nutrition benefits, micro-credits etc.
- Protecting against dire loss of human capital
- Includes cash transfers (BSH, DSW), social care services (DSW), disaster relief etc.
- Insuring against impacts of different shocks
- Includes pensions and old-age savings (EPF, KWAP), employment insurance, disability and survivorship insurance e(SOCSO), health insurance etc.

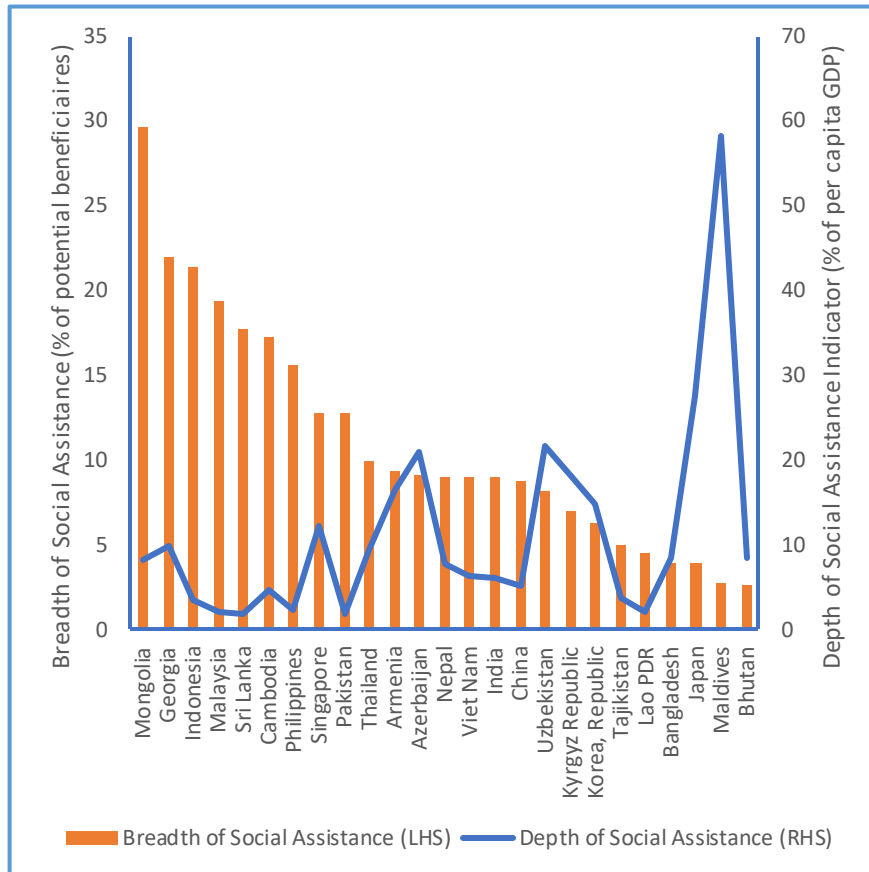
Lifecycle approach to social protection



B. SOCIAL PROTECTION IN MALAYSIA

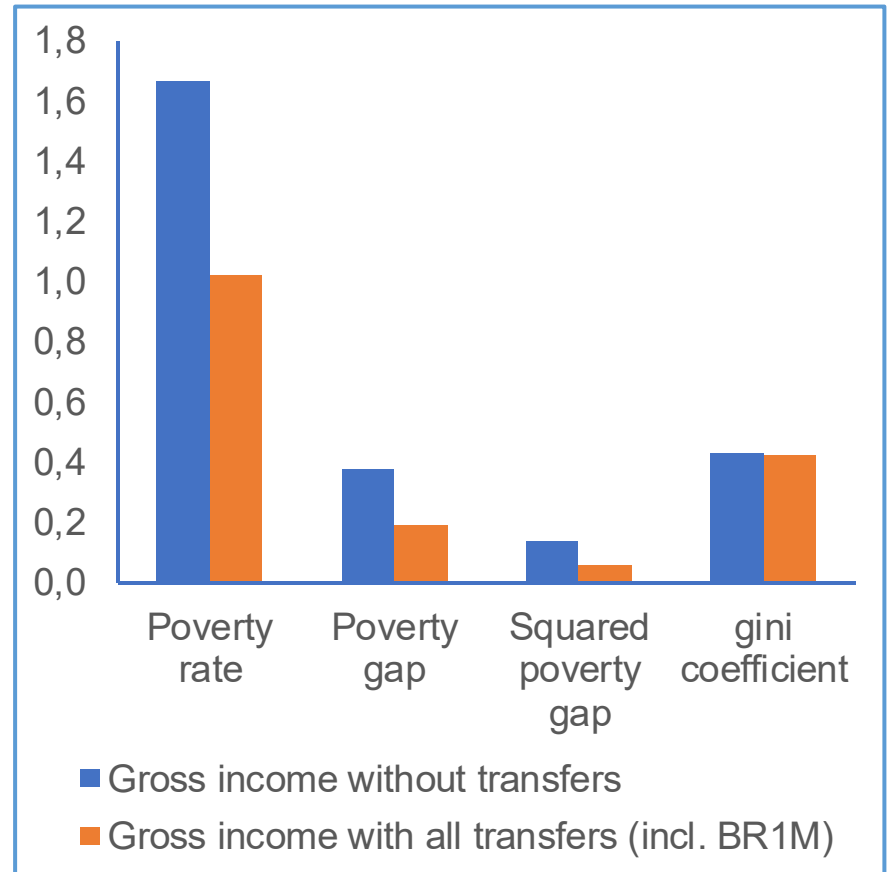
Malaysia's social safety net system remains relatively underdeveloped and of limited impact

Breadth and depth of social assistance



Source: ADB

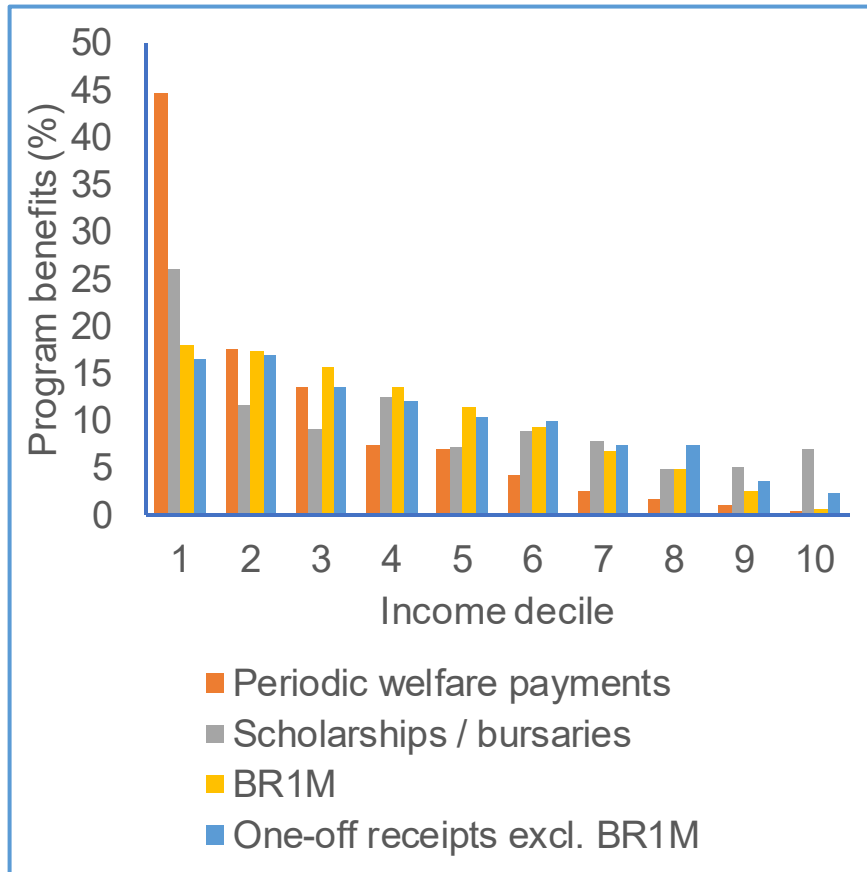
Poverty and inequality before and after transfers



Source: World Bank calculations based on HIS 2014

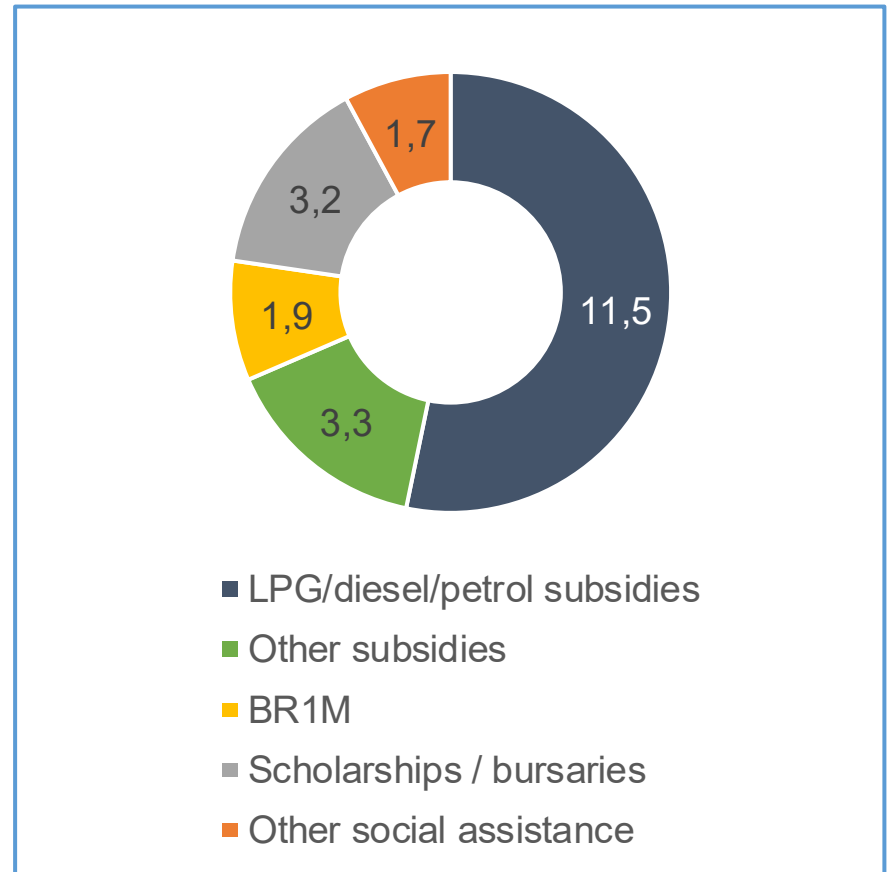
Spending is concentrated on untargeted subsidies or programs that are only moderately progressive

Distribution of Program Benefits, by Income Decile



Source: World Bank calculations based on HIS 2014

Public expenditure on social protection (% of budget, 2013)



Source: Holzman, Ismail, and Jaafar, 2014

Institutions, policy and delivery systems are fragmented

Fragmentation is due to several reasons:

- Proliferation of small and often similar types of programs across and within agencies, especially for promotional and livelihood programs;
- Involvement of agencies which are not typically “core” SP institutions in operation of major programs;
- Incomplete consolidation of functions commonly within a single agency in middle and high income countries, e.g. EPF and SOCSO;
- Fragmentation of front-end service delivery, which makes the SP system onerous for clients and administratively inefficient.

C. SPOTLIGHT 1: SOCIAL PROTECTION DURING CHILDHOOD

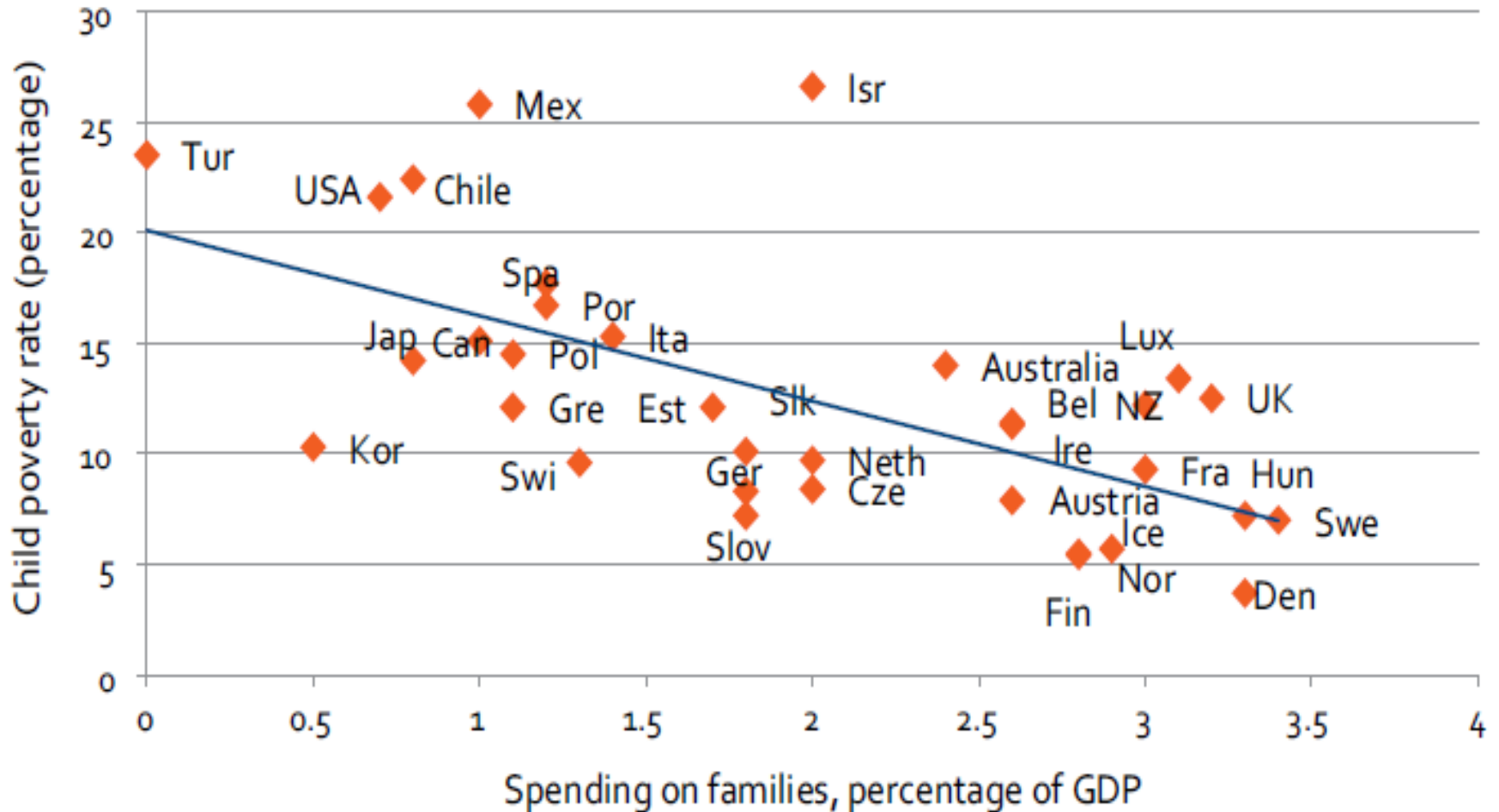


SPOTLIGHT 1: SOCIAL PROTECTION DURING CHILDHOOD

- The needs of children cannot be postponed
- Young working families often struggle to provide children with a strong start in life
- Sustains investment in children's wellbeing, irrespective of shocks
- Ageing population demands focus on maximizing the productivity of the young
- Compensates for policy reforms: social insurance expansion and subsidy reform
- Increases effectiveness of investments in other sectors (health, education)
- Societies naturally averse to child deprivation and lack of opportunities: undermines social cohesion and trust
- Opportunities to reach families with information



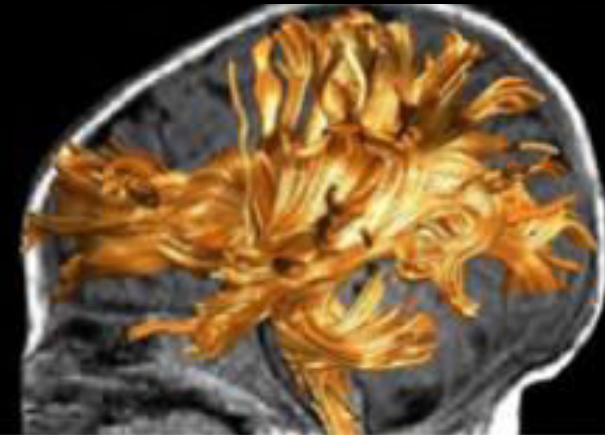
CHILD POVERTY AND INEQUALITY OF LIFE CHANCES IS A POLICY CHOICE: EVIDENCE FROM THE OECD



THE NEED TO STRENGTHEN CHILD SENSITIVE SOCIAL PROTECTION IN MALAYSIA

- Enormous progress made: absolute poverty nearly eradicated
- 1.7% of children <15 yrs still in absolute poverty: 40% located in urban areas
- 21% of children in relative poverty
- Poverty based on adjusted cost of living potentially higher
- Family investment in children crowded out in context of low wages, high living costs and social security contributions
- 20.5% stunted; 11.9% wasted: malnutrition correlated with family income (NHMS, 2016)
- Childhood nutrition underpins physical and cognitive development and thus long-term productivity
- Insecure and low incomes consistently identified as a barrier to secondary school enrolment (PADU, 2017) and driver of child marriage (UNICEF, 2018)

Brain scan for normally developing child



Brain scan for severely stunted child



STATE OF SOCIAL PROTECTION FOR CHILDREN IN MALAYSIA

Malaysian tax-benefit system has virtually no impact on relative poverty rates, particularly among children.

Very low coverage of adequate child-sensitive instruments: Children's financial Assistance scheme covers only 4% of children in relative poverty

Do existing benefits disincentivize labour market participation, particularly among women?

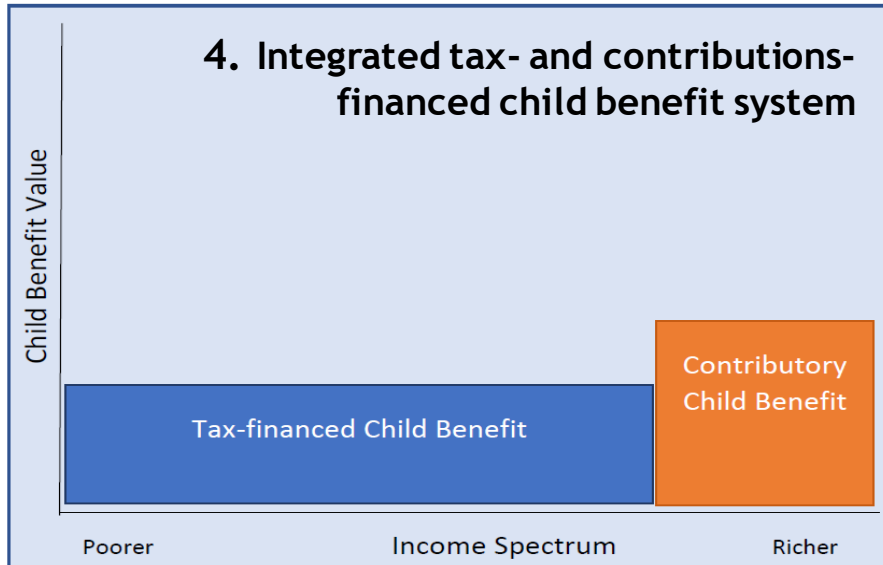
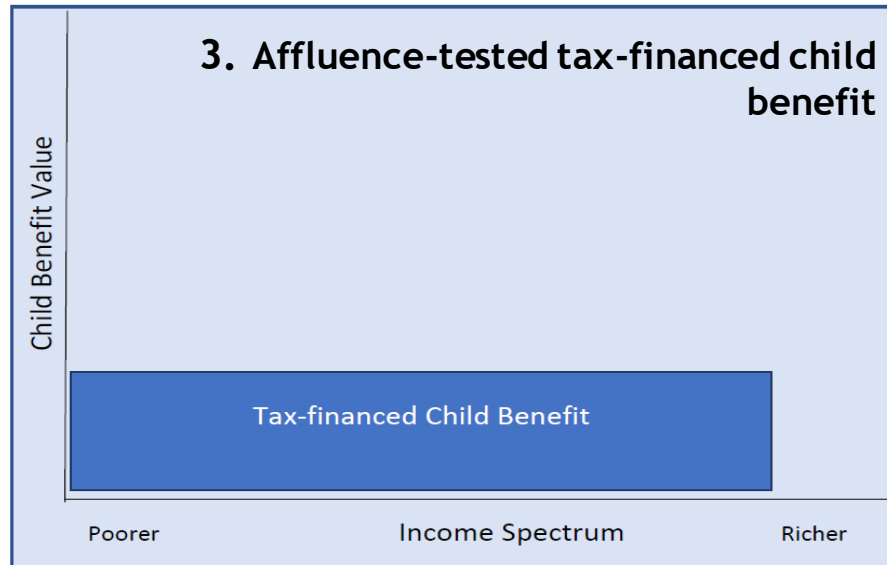
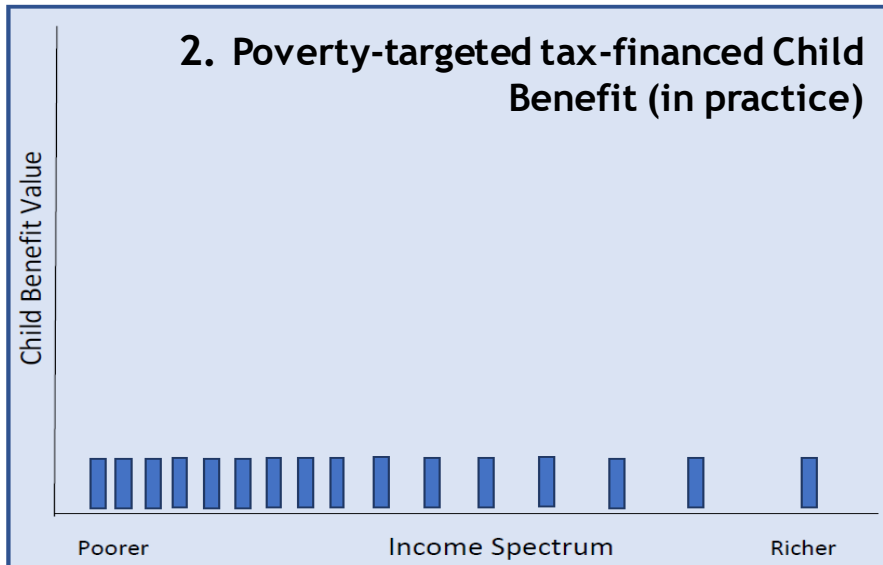
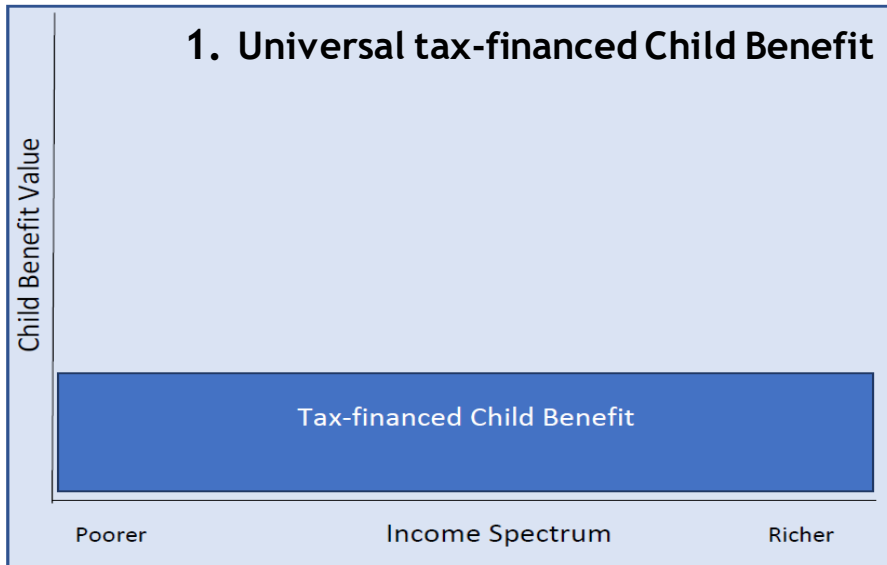
Inadequate linkages to social welfare system



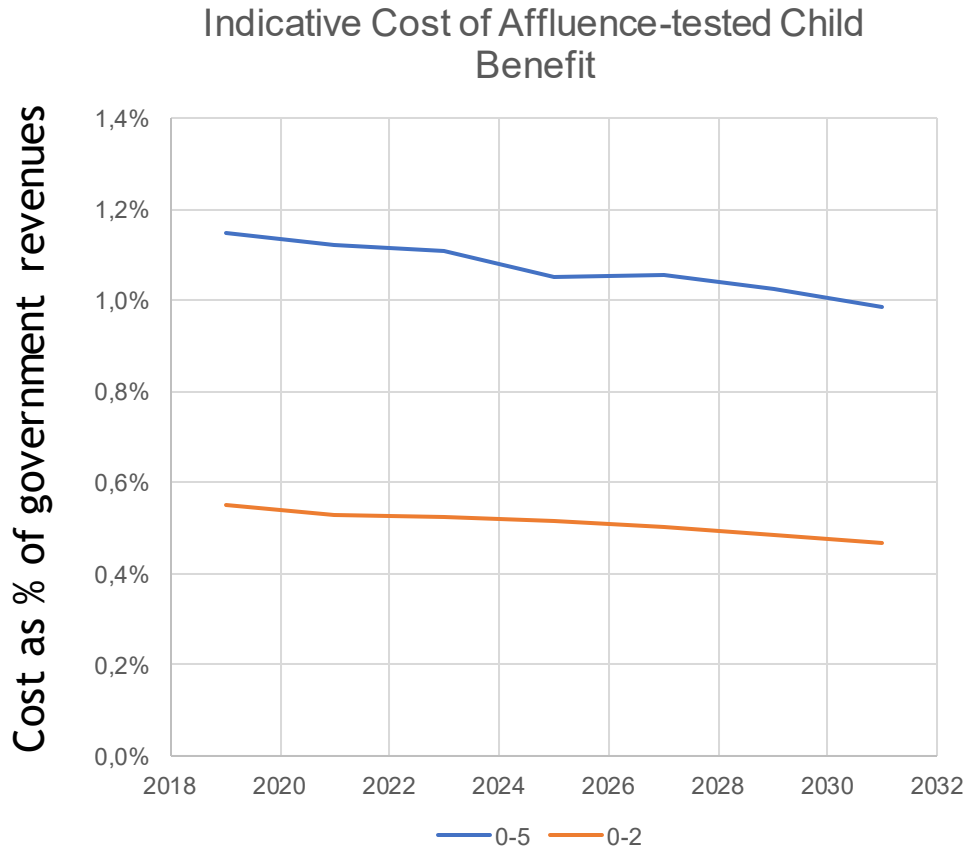
Administrative barriers to access result in exclusion of eligible families with children

Stigmatisation of the 'poor' undermines confidence, positive mindsets and breeds dependency

OPTIONS FOR EXTENDING CHILD BENEFITS FOR CHILDREN AND YOUNG FAMILIES

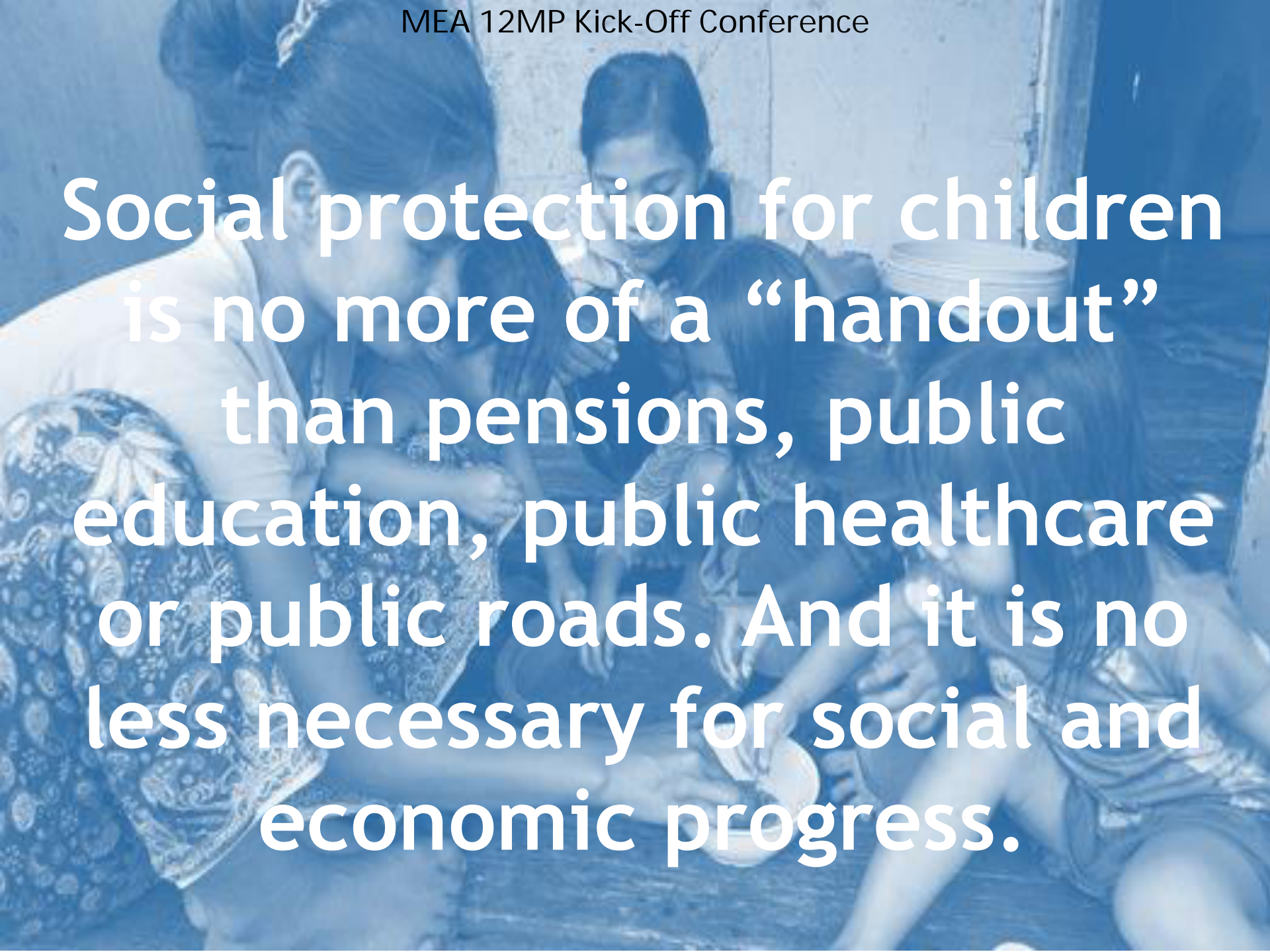


INDICATIVE COST OF AN AFFLUENCE-TESTED CHILD BENEFIT



Assumptions:

- a) 80% of children eligible
- b) Official population projections
- c) Government revenues grow at recent historical rates (+4.9%)
- d) RM 100/month per child
- e) Benefit levels indexed at historical GDP/capita growth rate to retain relative value: +3.8%
- f) Administrative costs: 5% of overall budget in Y1 and indexed at historical inflation rate

A blue-tinted photograph showing a woman in a patterned sari feeding a child. Another woman and child are visible in the background. The image is overlaid with white text.

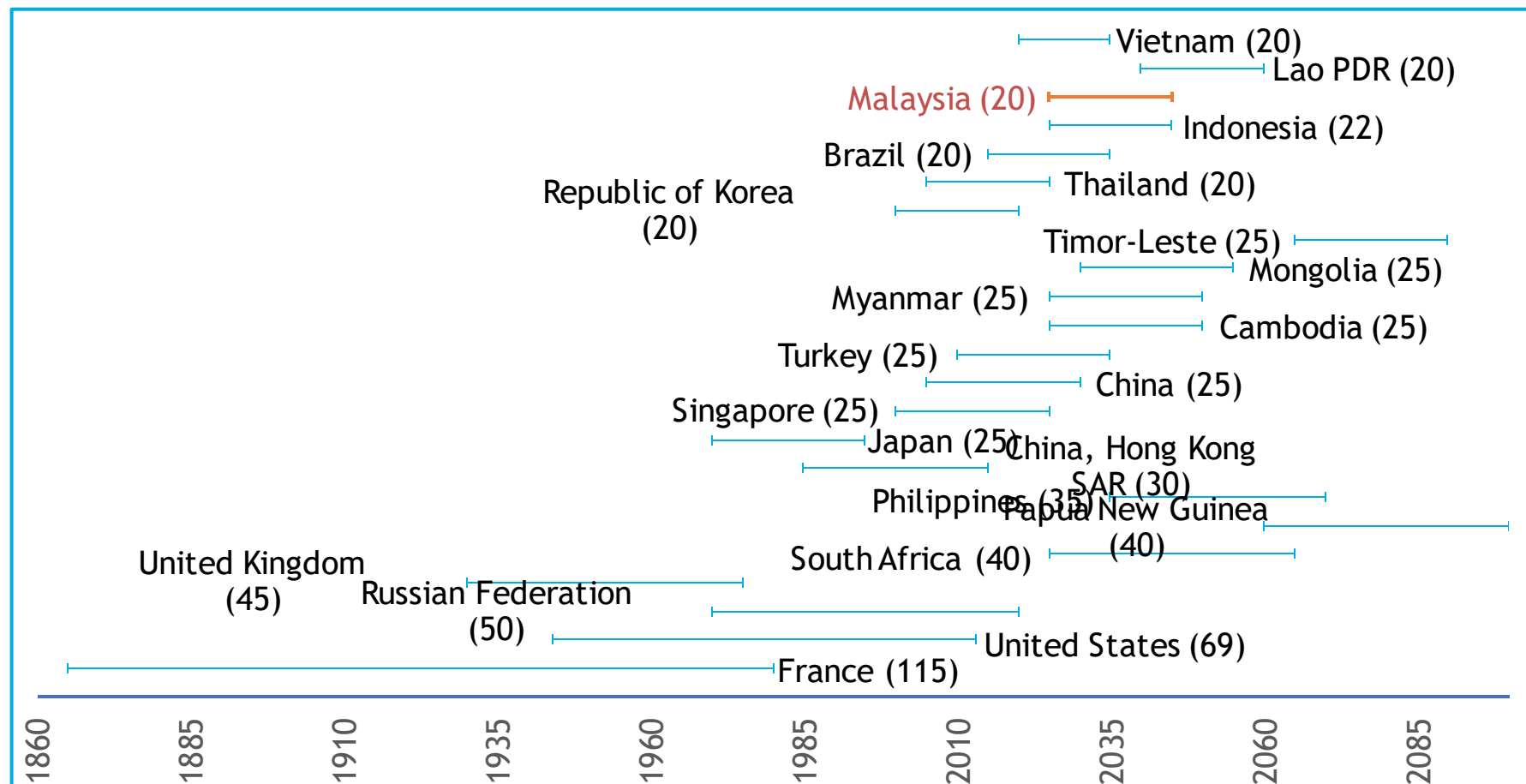
Social protection for children is no more of a “handout” than pensions, public education, public healthcare or public roads. And it is no less necessary for social and economic progress.

D. SPOTLIGHT 2: SOCIAL PROTECTION DURING OLD AGE



Background: The transition to an aging society is faster in Malaysia than almost anywhere else

Years to move from 7 to 14 % population share 65 years and older



Basic principle: Balance pension systems' coverage, sustainability and adequacy

Coverage

- Aim over the long-term to provide savings and social insurance vehicles for all workers and poverty protection to all elderly.

Affordability

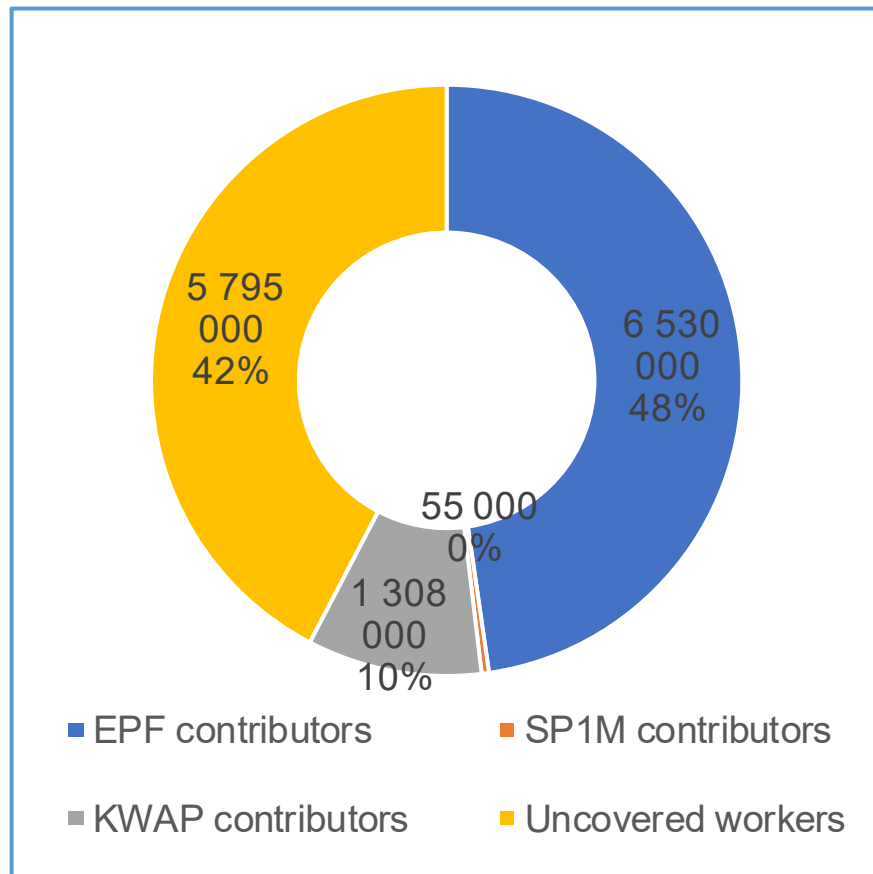
- Be affordable to employers and employees as well as the self-employed and informal sector workers.

Sustainability

- Be sustainable for the Treasury and the overall economy over the long-term.

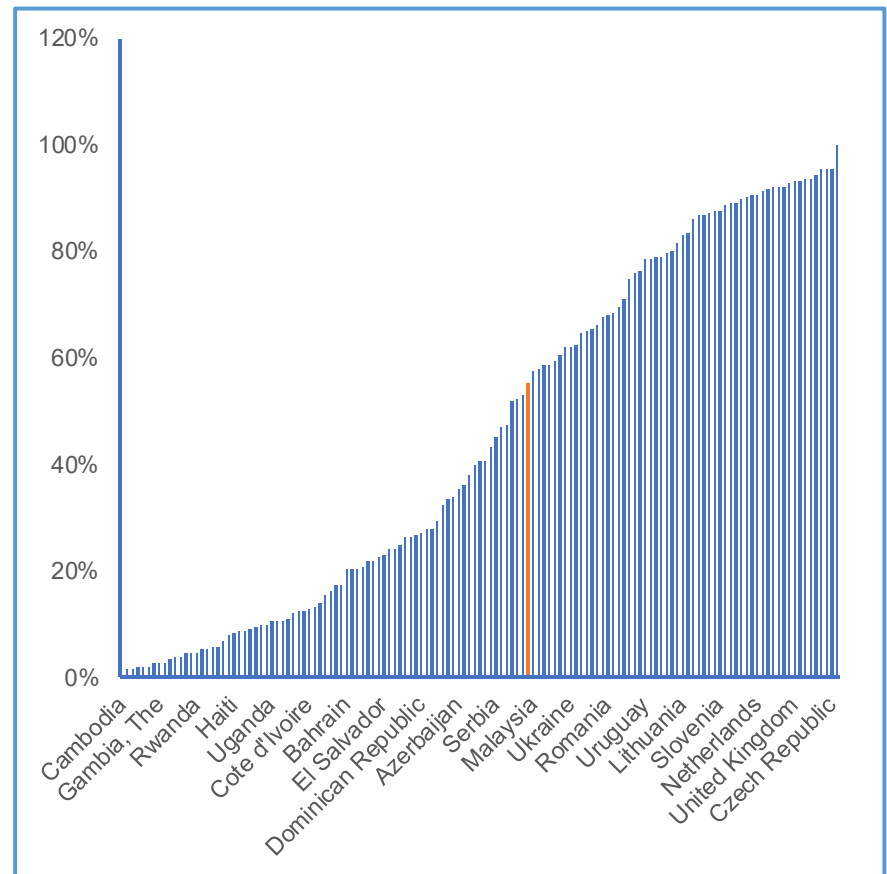
Challenges: insufficient coverage...

Coverage of EPF, KWAP and SP1M (% of labor force, 2013)



Source: KWAP and EPF administrative data and LFS 2013

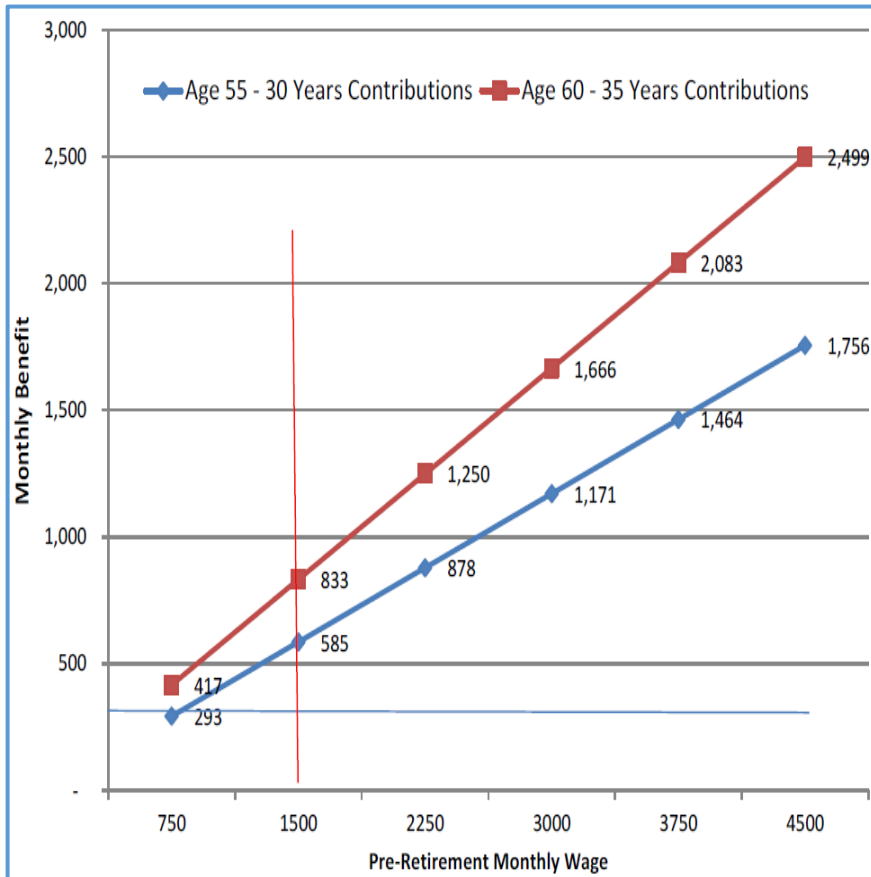
Active pension contributors (% of labor force, latest years)



Source: World Bank Pensions Database, 2014

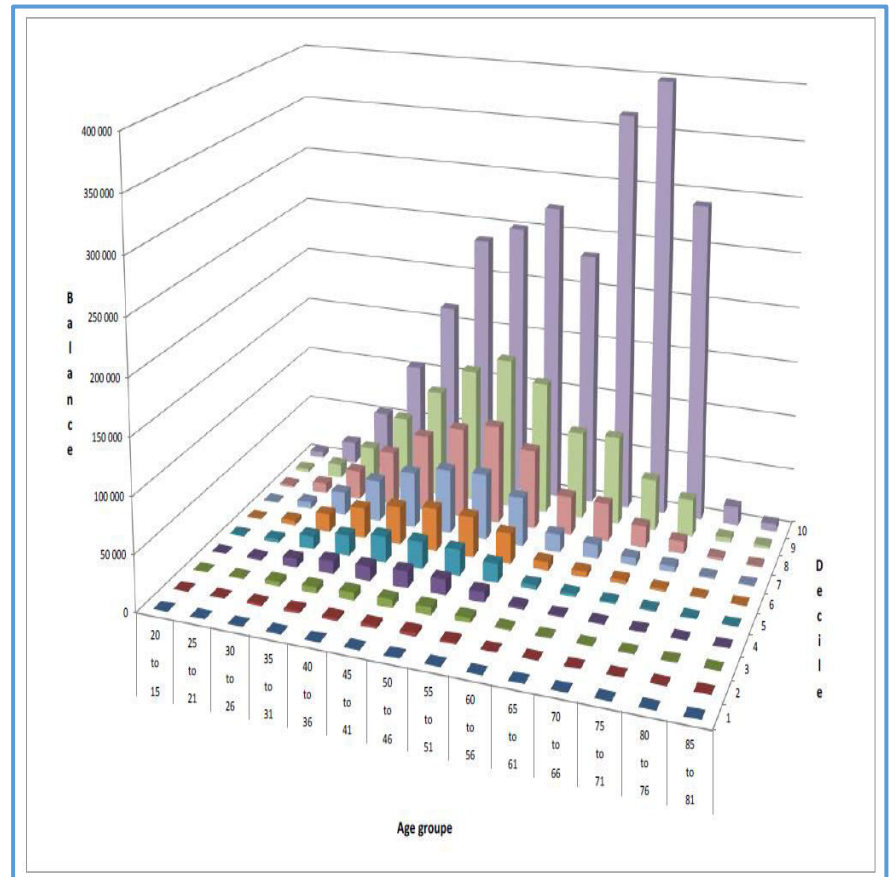
...and insufficient adequacy

Projected benefits in 2050 for cont. contributors (present value, 2015)



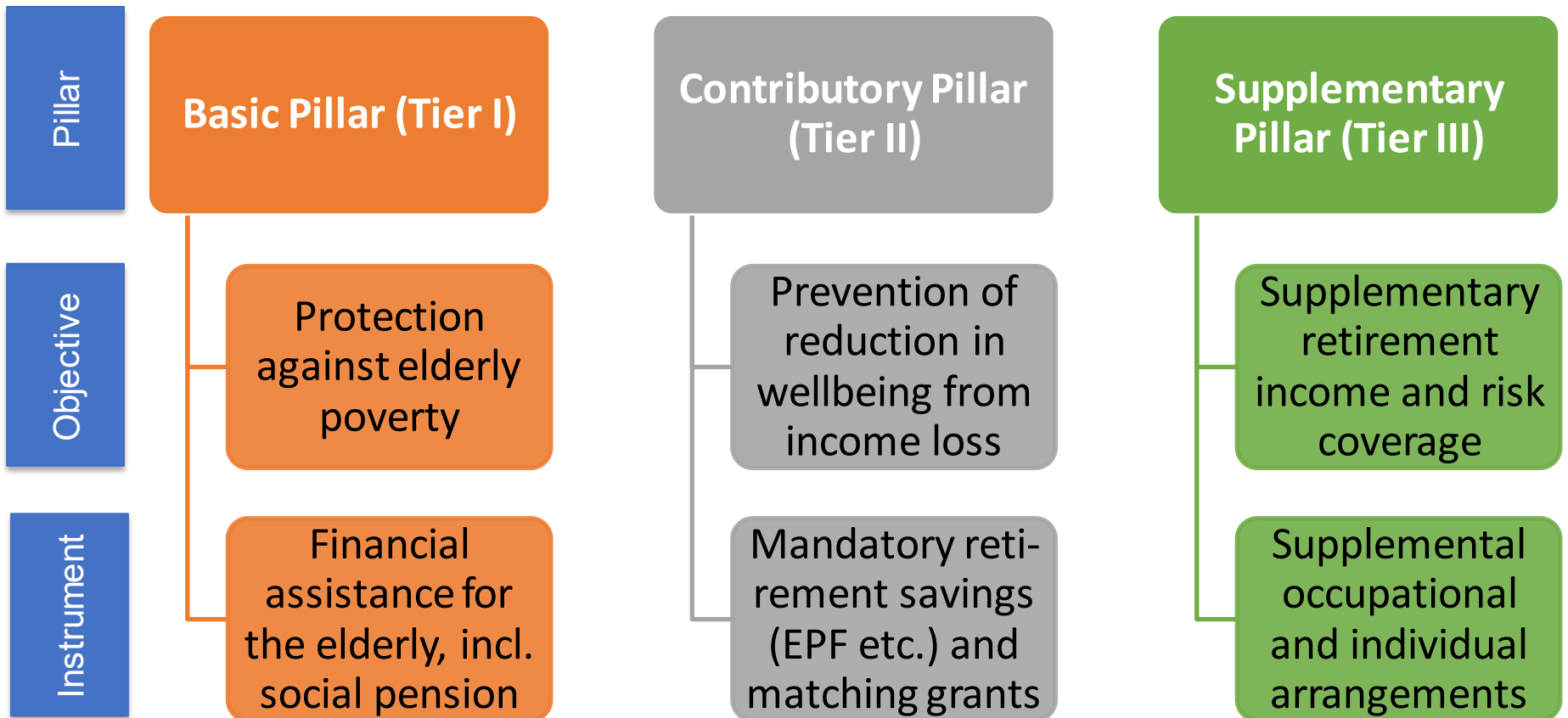
Source: World Bank calculations based on UN population projections

Mean balance of EPF accounts by age group and decile in RM, 2012



Source: Holzman, Ismail, and Jaafar, 2014

Stylized vision for integrated old-age poverty and income protection



Policy options (I): Increase the existing pension systems' adequacy, sustainability & implementation

- ❖ **Consider parametric reforms to the EPF scheme**
 - increasing the age for benefit eligibility to age 65 over time;
 - introducing a cap on covered wages subject to contributions.
- ❖ **Provide phased-withdrawal or indexed annuitized benefits for EPF accounts**
- ❖ **Evaluate the sustainability of public sector pension finances & ways forward**
- ❖ **Move different social insurances to a single client interface**
- ❖ **Strengthen compliance monitoring and enforcement and consider establishing a special unit of compliance officers.**
 - Additional enforcement measures could be considered such as linking business license or government contract authorization to certifications of compliance with tax and social security contribution requirements.

Policy options (II): Consider the introduction of a social pension

- ❖ **Non-contributory old age assistance in the form of a “social pension” can help protect the elderly.**
- ❖ **Financing through budget transfers.**
- ❖ **Coverage and benefit level expanded compared to BOT program.**
- ❖ **Key question whether social pension should be universal or targeted, and – if targeted – how tightly:**
 - Universal above a certain age?
 - Targeted to B40 per LHD/BSH approach?
 - Pension-tested?
- ❖ **Design parameters (eligibility age, indexation, targeting and benefits) need to weigh the fiscal costs.**

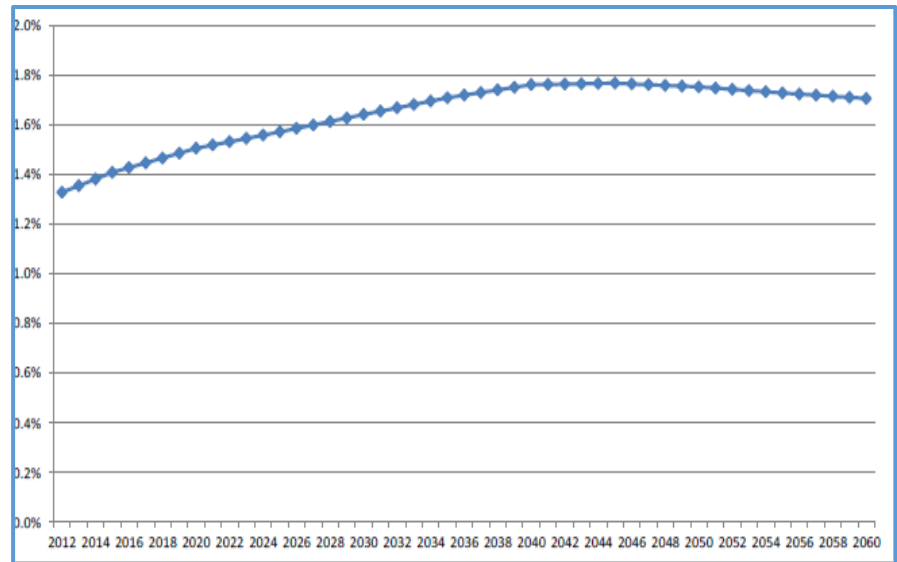
Stylized fiscal cost of social pension (as of 2012)

Eligibility	Benefit level	Fiscal cost (% of GDP)
Bottom 20%	RM300/month	0.11%
Bottom 20%	RM300/month	0.22%
Bottom 40%	RM300/month	0.44%
Universal (60+)	RM300/month	1.10%
Bottom 20%	50% of median income	0.36%
Bottom 40%	50% of median income	0.73%

Policy options (III): Scale up the matching of voluntary pension contributions

- ❖ Matching grants can strengthen incentives to contribute in work and provide safety in old age.
- ❖ Design needs to weigh benefits and coverage against fiscal cost:
 - Matching percentage
Balance costs and incentives to participate (potentially 1:1)
 - Maximum benefit level
Ensure benefit \geq social pension (consider an offset mechanism)
 - Targeting
Universal or B40 households
 - Funding model
Place subsidies in EPF accounts to align w/ regular contributions

Stylized fiscal cost of matching contributions (as of 2012)



Source: World Bank staff calculations based on HIS (2012)

Note: Assumptions include: (i) matching contribution is initially RM440 per month; (ii) contribution is provided on a 1:1 match; (iii) real wages grow 1.5% per year; (iv) real returns on pension assets are 3.0% per year; (v) individuals work and contribute for 35 continuous years; (vi) benefits are received at age 60; (vii) life expectancy at age 60 is based on the 2014 estimate from WHO (unisex life tables) and assumes same life expectancy throughout projection period; (viii) matching contribution is only provided to contributors to EPF in bottom 20% of household income distribution; (ix) benefit is calculated as a percent of GDP in 2012 and increased or decreased only to reflect projected size of labor force; and (x) labor force as proportion of working age population age 25-59 remains constant during projection period.

Policy options (IV): Develop support for aged care

- ❖ **Implement proactive policy measures and balance the role of markets, families & individuals**
 - Develop and test different financing models for long-term care
 - Develop an appropriate regulatory framework for contracting non-state providers of care services to enforce basic service standards and incentivize better quality service provision;
 - Strengthen monitoring and enforcement of standards in order to build on the results-based philosophy already present
- ❖ **Rely on aging in place, with strong home- and community-based care**
- ❖ **Expand provision and capacity of aged care providers**
 - Devote resources to expand service provision through PPPs
 - Increase the number of social workers and provide skills development and on-the-job training

E. SUMMARY AND CONCLUSIONS

Summary and conclusions

- (1) Social protection plays a key role in promoting equity and social cohesion in all advanced capitalist economies
- (2) Extent of relative poverty and vulnerability is directly related to strength of social protection system and is therefore a policy choice
- (3) Social protection does not inherently reduce work incentives: design matters. Well-designed programmes can increase productivity.
- (4) Social protection in Malaysia is relatively under-developed, inefficient and ineffective
- (5) Focus needs to shift from 'handouts' to the 'poor' to providing income security for all across the life-cycle through a mixture of contributory and tax-financed mechanisms
- (6) In the context of an ageing population, we need to ensure income security for the elderly while also investing in the children that will support them in the future

THANK YOU!



WORLD BANK GROUP
Global Knowledge & Research Hub
in Malaysia



CONNECT WITH US



wbg.org/Malaysia



[@WorldBankMalaysia](https://www.facebook.com/WorldBankMalaysia)



[@WB_AsiaPacific](https://twitter.com/WB_AsiaPacific)



blogs.worldbank.org/category/countries/malaysia