OLD-AGE FINANCIAL SUPPORT SCHEMES IN MALAYSIA

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Introduction

Presently, population ageing is still not generally viewed as a very serious or an important issue in Malaysia. Nevertheless, within the last decade or so, there has been a growing interest on the subject. Perhaps, it is the need to be proactive that has prompted these discussions.

As an attempt **to** the add value to the many discussions already taking place on the subject, this paper focuses on an aspect of older peoples' lives, that is, their finances. Granted that it takes more than just finance to help older people live their remaining years gracefully and with dignity, finance nevertheless is an important dimension. In Malaysia, there exists several formal old-age financial support schemes, many of which are legacies of British Malaya but have been indegenised through a series of changes. The paper will deal with two of these formal old-age financial support schemes namely Government Pension Scheme and the Employees Provident Fund (EPF). Other support schemes will only be briefly mentioned. The paper will also raises some issues pertaining to the adequacy and coverage of these two schemes.

Discussion on these will be preceded by an overview of the present trend and future sceruuio of population ageing in Malaysia.

Trends of Population Ageing in Malaysia

What constitute old age in Malaysia? If one goes by the age of compulsory retirement from formal or public sector employment, old age starts at 55. If one is to accept the definition adopted by the National Policy for the Elderly, then old age staris ai 60. If one is to take the age a person is regarded officially as a dependent, then an old age starts at 65. Given this flexibility in its definition, it is perhaps with some justification that we talk about "young-old" and "old-old", with the "young-old" as those persons aged between 55 to 64 and the "old-old" being persons above 65 years of age.

However defined, the last two decades saw Malaysia experiencing demographic ageing. There had been an increase in both the absolute number and the proportion of persons defined as old, either "young-old" or "old-old". For example, in 1980, the "young-old" numbered 515,700 constituting 4.5 % of the total population of approximately 11.5 millions. They numbered 605,600 constituting 4.7 % of the total population of approximately 13 millions in 1985 and increased to 721,300 representing 4.9 % of the total population of 14.6 millions in 1990. The number is expected to grow to 1.5 million representing some 7.0% out of an approximate total of 22 millions in 2000. By 2025, this category of old people will swell to almost 4 millions, representing about 14.0 % of the total population of shout 30 millions

Thus it could be seen that though occurring at a slower rate than in the more advanced countries, the move towards demographic ageing in Malaysia appears certain.

Even if we move into greater detail by looking at the 'old-old' who are 70 years and over, similar trend can be discerned. Up to 1990, the over 70 age-cohort represented between 2.0 % to 2.2 % of the total population. But this age-cohort is going to constitute 2.6 % of total population in 2000 and 5.2 % by 2025.

As is happening in other parts of the world, demographic ageing in Malaysia appears to be a function of the Total Fertility Rate (TFR) and, though to a lesser extent, mortality rate. Within a period of 40 years from 1950 to 1990, there had been a visible trend of fertility decline in the total population. There was a decline in the TFR from 6.8 between 1950-55 to 5.9 between 1965-70, and from 4.2 between 1975-1980 to 4 0 between 1985-90. There was also a corresponding drop in the mortality rate. Between 1960-1980, the crude death rate fell by about 45 percent, from 9.5 to 5.2 per thousand in Peninsular Malaysia alone.

The decline in fertility rate took place against a background of rapid socio-economic changes of post-independence Malaysia. As explained by Chan Kok Eng (1992), these, changes includes,

> Men and women... marrying later and having fewer children. Declines in infant mortality made it uaneccessary to have many births to achieve moderate number of surviving children. Social changes enhancing the roles of women, including improved education and employment opportunities, have probably persuaded the postponement of marriage and child bearing, The family planning programmes of both private and public sectors have probably helped to popularize smaller families...

The trend of population ageing is not only visible in the total population, but also in the respective major groups of Malaysia, viz, Malays, Chinese and Indians, but to varying extent and at varying rate. Generally, the process was more rapid among non-Malays, especially Chinese. The decline in TFR among them had been fast. Between 1995 and 1975 the decline was from 7.2 to 3.2. In 1987, TFR for Chinese was only 2.3 compared with 3.5 for die population of Peninsular Malaysia. The TFR among Indians dropped from 6.9 to 3.6 between 1957-1975 and to 3.2 between 1980-1987. Fertility decline among Malays had always been significantly lower: between 1957 and 1975, Malay TFR fell from 6.1 to 4.7 and 4.5 in 1980. Again, to quote Chan Kok Eng.

> The stability of Malay fertility till about 1986 has been attributed to its age and sex structure that was conducive to higher fertility, and this was associated with an increase in third, fourth, and fifth births, despite an increase in marriageable age of Malay females (1992:2).

Even the median ages of marriage between the ethnic groups vary. In 1980, median age of marriage among Chinese was 24.1 years; it was 23.1 among Indians and 22.1 among Malays.

There is also a gender dimension to the greying of Malaysia's population. There are more older women than there are older men. Women exceed men at most age cohorts most of the time. Women exceeded men at 60-64 age cohort in 1980 and are expected to continue exceeding men in 2000 and 2025. Women also exceeded men at the over 70 age cohort in 1980 and continue exceeding men in 1990, 2000 and even more so in 2025. The older women generally outlive older men. In 1980, the average life expectancy at birth for male was estimated at 66.4

year and 70.5 years for females. By 1990, it was 69.5 years for males and 73.9 for females. This is more discernible among oider Chinese females than among older femaies of other ethnic groups (Chan Kok Eng, 1992). The implications of gender differential in ageing include an increase in the incidence of widowhood with advancing age through the death of male spouse and greater need for old age care and support for older women.

Another dimension of ageing in Malaysia is that there is also a regional variation in the phenomenon. Using the proportion of persons aged 55 and older as an index of ageing, the population of Peninsular Malaysia appears to be slightly younger than that of Sarawak but still older than that of Sabah. In 1990, only 5.6 percent of Peninsular Malaysia's population were older than 55 years, whereas it was 8.1 percent in Sarawak and 5.6 percent in Sabah.

Old-age Financial Support Schemes

In pre-industrial and largely rural Malaysia, support and care for the elderly had been with the family. The family, both nuclear and extended, provided the necessary assistance in the ordinary chores of living, but more so in sickness and ill-health. Generally, the caregivers had always been the women. In those days womens' participation in the labour market had been minimal. The male normally provided the financial support. The values and norms of the time demanded that these be strictly adhered to. The practice persists today, but to a much-reduced extent. Rapid industrialization and urbanization that took place soon after the post-independence years has brought about dramatic socio-economic changes never witnessed before. These changes include the increasing participation of women in the labour market and the growing emphasis on nuclear family. These and other developments brought about a reduction in the effectiveness of the extended family system as support and care providers for the elderly.

But while these changes were taking place, there were other developments unfolding almost simultaneously. Some of these developments had effected the lives of the elderly. The mo«t important of these were the introduction of government pension scheme and the Employees Provident Fund (EPF) for these who were in paid employment, aiming at financial security and welfare in their old age. There are other schemes but these two are the major ones. A description of each of these schemes is given in the following pages.

The government pension scheme, also known as Civil Service Pension Scheme, is the earliest formal old-age benefit scheme, a legacy of British Malaya. There are no records to indicate when exactly the scheme was first introduced. But a report by committee of the colonial Federal Legislative Council surmised that the scheme was established only after 1875 for there was no records of its existence prior to that date (Wan Abdul Wahid, 1970:1). The Civil Service Pension Scheme has been enshrined in the 1957 constitution under article 147. As defined by article 133, civil service includes in the military and police force, judiciary and legal service, federal and state administration service, railway and education service.

The basis of the scheme's present day implementation are the Pension Ordinance, 1951 and its amendments as contained in Pension Act, 1980. The scheme provides the basic elements of welfare and security for the employees when they retire or that of their dependents in the event of their death. It also includes protection in the event of accidents and sickness at workplace. Employees in the Malaysian public sector retire compulsorily upon attaining 55 years of age. Compulsory retirement can also take place on other grounds, such as medical, organizational restructuring or renunciation of citizenship. An amendment included in the Pension Act 1980 makes it possible for an employee to opt for early retirement upon attaining 40 years of age. Prior to this, a male employee can opt for early retirement upon reaching 50 years of age and a female upon reaching 45 years of age. A public servant can also be asked to retire in national interest if he/ she is required to serve other services.

There is a guaranteed minimum pension rate of RM180 per month on condition that an employee has served not less than 300 months or 25 years. The maximum amount payable to an employee upon retirement is equivalent to one-half month of his/her last drawn salary. An employee who retires on medical ground will be entitled to a minimum of one-fifth of his/ her last drawn salary if he/she has served not less than 120 months or 10 years. The same benefit applies to an employee who has been requested by the Government to serve in non-governmental organization, and also to employees who died in service. For an employee who died in service, his/ her dependent will be entitled to a pension payment of not less than one-fifth of his/her last drawn monthly salary. An employee who retires at 55 will be entitled to a monthly pension for the rest of his/her life. Upon his/ her death, his/her dependants will benefit. They will continue receiving the benefits until they lose that right, which occurs under the following circumstances: remarriage in the case of spouse or upon reaching the age of 21 in the case of children.

Apart from the monthly pension payment, a government retiree is also entitled to gratuity and 'golden hand-shake'. Gratuity is one lump-sum payment payable at the point of retirement, calculated on the principle of a percentage of last drawn salary and the number of months served. "Golden handshake" is a facility accorded to public servants to accumulate up to a maximum of 90 days of their annual leave in exchange for cash payment at the end of their service, and is calculated on the basis of:

(i) last drawn salary, inclusive of all allowances
(ii) the accumulated leave represent leave not taken on the ground of exigencies of service.

The EPF of Malaysia is the oldest national provident fund scheme and also the first to be implemented in the region. It was set up in 1951 by virtue of the Employees Provident Fund Ordinance. It has its history in the several provident funds that were in existence previously set up by employers in the then thriving plantation and mining industries for their respective employees. The need to standardize the retirement benefits for daily paid workers resulted in the 1951 Enactment. In the beginning the main objective was to the provide low paying workers outside the government sector with financial protection when they retire, or in the event of disability or death if these occur earlier. Though formed officially in October 1951, EPF received its first contribution only in July 1952 and limited its coverage to the then British Malaya. It required all workers aged 16 and above, earning less than RM40Q per month and working in organization that employed at least ten workers to contribute to the fund. Over the last forty years, the EPF has been continually changed through a series of legislative measuies. The changes are related to its scope of application, contribution rate, and benefits. For example, in 1964 the scheme was extended to workers earning up to RM500 per month working in organizations that employ three or more workers. In December 1967, its coverage was extended to Sabah and Sarawak. In 1977, the scheme allows the self employed to voluntarily make contributions to the fund. Today it covers not only employees in the private sector, but also employees in the public sector who are required by law to contribute to the fund in their ten years of service before they can be placed on pensionable scheme.

A significant change was introduced on 1 November 1994, pertaining to the structure of member's account. The structure provides for every members account to be. separated into 3: Account I, Account II and Account III. 60% of a member's contribution is kept under Account 1; 30% in Account II and 10% in Account III. No withdrawal is allowable from Account I until the member attains the age of 55 unless in cases of death-leaving the country or incapacitation from further employment. The rationale for this ruling is to ensure every member has sufficient cash savings for his retirement. A member can withdraw his/her savings from account II for buying or building a house. Further withdrawals are allowed every five years from the previous withdrawal for the purpose of reducing or paying off the balance of the 'housing loan. He or she can also use part of the saving in this account by withdrawing when he attains 50 years of age, if he still has some balance in this account. Account III is to be used for paying medical expenses of critical illnesses, and to take care of medical expenses not covered or partially covered by the members' employer. Thus medical treatment is not only limited to the member, but also the members' spouse, children, parents and siblings. When a member attains 55 years of age, the three accounts are merged and he has a choice of any of the folowing modes of payment: lump-sum; periodic payment, annual dividend or part lump-sum payment of the balance in periodic payment. Thus it could be seen that the structure allows for savings to be used as both retirement and pre-retirement benefit.

Apart from the government pension scheme and the EPF, there are other means the elderly in Malaysia receive financial and other assistance. For the poor elderly, the Department of Social Welfare provides services like financial assistance, and institutional services in Old Persons' Home. The private sector and several voluntary organizations are also offering services of this nature. Private insurance as an old-age financial support scheme is also popular with a section of the elderly. For those in the. scheme they subscribe either to a whole life or endowment policy. Employment as a source of income for the elderly is important only for a considerable a percentage of the elderly population, particularly the professionals in ur ban. Statistic for 1990 indicated only 52.4% of the 55 - 59 age group was employed and 44.4% for the 60 - 64 age group. The number of elderly male in the labour market is bigger than the elderly female. For example, 72.7% of the male in 55-59 age gioup wore still in the labour market in 1990 as compared to

33.1% female in the same age bracket, and it was 62.6% for men in 60-64 age bracket as compared to females in the same age bracket. For a fairly large number of the elderly, remittance from working children constitute an important source of income

Old-age Financial Support Schemes: Issues

Several issues have been raised pertaining to old-age financial support schemes in Malaysia. In this paper discussion will be limited to coverage of the scheme, adequacy of benefit and the retirement age.

In Malaysia, many categories of workers are still not covered by any old-age financial schemes. These are largely the self-employed small scale traders, farmers, fishermen and casual labour. Though provisions are made since 1977 that self-employed workers can voluntarily contribute to the EPF, many still do not take advantage of it. Vijaya Kumar (1997) reported that, as at December 1996, there were only 11,800 active self-employed members with the EPF. Of the approximately 8 million contributors to the HPF in 1996, slightly more than 4 million are active contributors. This represents only slightly above 50% of the total labour force in the country. Since the rest of these workers are not covered by any formal old-age pension scheme, many have to rely on savings, income transfers from their children or even social welfare assistance. Those who are on any form of private insurance scheme may be quite well taken care of.

Related io coveiage, is the issue of compliance. Though it is required by law for employers to make contiibutions to EPF, cases of non-compliance is fairly common. In 1994, more than 23,000 cases of employers or approximately 10% faiied to make contributions towards their employee's old-age fund. In 1995, there was a decline in number, but is still significant at more than 14,000 cases, representing some 5.6% of the total number of employers. Some may argue that statistically these are quite insignificant. But security in old-age is not strictly and purely statistical.

When it was first started in the early 1950's, workers contributed 5% of their salary to the EPF while the employers contributed *5%*. This rate remained unchanged until mid - I970's. Changes in 1990 required that workers contribution be increased to 9% and 'hat of employers to 31%. By 1995, it was further increased to 11% for the workers and 12% for the employers.

The question is whether such contributions provide adequate old-age benefit. The answer is not simple. Individuals vary in their perception of what is adequate for them. While it works well for those in the higher income bracket, it might not be so for those are in the iower brackets. It might be worth noting that in Singapore, the employees contribute 20 *%* to the Central Provident Fund.

As for the government pension scheme, every year about 18,000 employees retire from the service at the age of 55. Of these, 5% retire at the personnel and managerial level, 3.4 % at semi-professional and technical level, 28.8% at clerical and secretarial level and 41.9% are from the semiskilled and unskilled group. The bulk of the retired workers from the semi-skill and unskilled group receive a pension of about RM 300-350 per month, which is below the poverty line of RM500 per month. This is certainly a cause for concern.

Employees in public sector retire compulsorily upon reaching 55 years of age.

However, given the scenario of very rapid socio-economic changes, the policy of retiring compulsorily at that age needs to be relooked. With improvement in the overall qualify of life, Malaysians live longer There have been changes in life expectancy over the years. In 1995, life expectancy for women has been 72 years and men 69 years. The greater longevity implies longer post-retirement years and therefore the need to ensure that the elderly do not sutler inianciaily wii.ii the cxiendeu years of life. Though finding job is difficult at advanced age of 55 and above, but as shown earlier a significant proportion of those in the age group are still in the labour market. It can be surmised that these are largely the seif-employed and those in the rural agricultural sector where there is no retirement age. Additionally, it needs to be stressed that persons above 55 still have contributions to make towards development.

Conclusions

Viewed globally, it can be said that the Malaysian government has adopted a very sympathetic and magnanimous attitude to the problem of the aged. Within the last three decades, there had been several legislations that either directly but mostly indirectly related to the welfare of the aged. Amongst ihg latest of these actions that Eire directlv related to elderlv include the adoption of the National Welfare Policy in 1990 which identifies the elderly as one of its main target groups; the declaration of October 1 as Senior. Citizen’s day 1992; and the creation of National Policy for the Elderly in 1995. Improving the old-age security systems by taking into account some of issues raised above will definitely go a long way in helping the elderly to continually live with dignity and thereby maintain their level ol social integration.

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