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SOCIAL SECURITY:
CONCEPT AND REALITY WITH REFERENCE TO MALAYSIA

Abstract

Social security has been recognised as a fundamental human right. Yet large sections of the world's population are excluded from social security schemes of various designs. The notion of social security has been conceived with the objective of preserving the quality of life of the individual and his or her dependents as a result of old age and contingencies such as injuries, occupational diseases, invalidity, the need for health and medical attention and death. Currently, social security schemes are based on social insurance, general or ear-marked taxes and social assistance. The main challenge to achieving the noble objectives of social security is financial sustainability and social cohesion supported by political will. This paper discusses the concept and intentions of social security schemes and its challenges. It also provides a brief assessment of the social security system and social security gaps in the case of Malaysia.

INTRODUCTION

Human development has often been measured in terms of the quality of life of individuals and their communities. The quality of life of the individual and his or her dependents is invariably connected to the individual's income and his or her capacity to earn. Hence, when the income or the capacity to earn an income is affected, the quality of life of the individual and his or her dependents is jeopardised in a negative way, often dropping into a state of deprivation. In this context, inevitably efforts at socio-economic development have developed social policies and programmes at addressing this fundamental issue of human development. These efforts have not only produced a range of methodologies but that the extent to which the people's quality of life is assured differs.

Maintaining the quality life of the individual and his or her dependents has become the primary focus of policies and programmes which come under the subject of social security. Social security schemes have achieved various degrees of success in preserving the quality of life of those affected by contingencies such as accidents, occupational diseases, death and including old age. However, these schemes, with its noble intentions have also faced severe challenges particularly with respect to the schemes' sustainability which is determined to a great extent by the schemes' designs and related public policies. This paper discusses the notion of social security in the context of Malaysia's current social security system.

SOCIAL SECURITY: CONCEPT AND ISSUES

The inherent diversities of human societies have always contained an unequal distribution of abilities and opportunities, both physical and intellectual, which result in unequal socio-economic situations at the individual and societal level. Human history has recognised such inequalities as well as accepted that there is a need to provide assistance to the under-privileged, both on a short term as well as long term basis. Thus, the strong should take care of the weak and the able must take responsibility in caring for the less able or disabled. The need to address social exclusion (Estivil, 2003; Silver, 1994) caused by old age and contingencies forms the bedrock of social security schemes. Social security schemes have not only grappled with the effectiveness of social programmes in terms of the efficiency of the delivery systems but also its financial sustainability. Over time, different modalities have also emerged.

Social security schemes are designed to protect the real consumption of individuals and their families against a sudden fall in living standards in the event of old age and contingencies such as unemployment, disability, sickness, incapacitation, death or retirement.

Therefore, social security schemes involve both short run phenomena such as unemployment or minor sickness, as well as long-term phenomena such as death, retirement or incapacitation as a result of accidents or sickness and disease. Within the framework of Article 23 of the Universal Declaration of Human Rights (United Nations, 1948); Convention No. 102 (Social Security (Minimum Standards)),” of the International Labour Organisation (International Labour Organisation, 1952) and other international instruments, Social Security refers to *"an insurance system for human beings, without any discrimination and in all situations of their lives, aimed at protecting the members of society against any contingencies during their life time (health, housing, retirement, maternity, employment injuries, invalidity, family charges, unemployment, vocational training, recreation and death".*

According to this definition, Social Security represents both a system and an instrument of the State (that is to say, the Government and Society together, through social acts), to ensure the fulfilment of human needs and ascertaining the distribution of wealth through the principles of solidarity, adequacy and equity. The need to have the greatest possible number of workers protected by the social security system and to guarantee the optimization of services have led some sectors to realize that a comprehensive and integrating approach accounting for contextual realities must be implemented. The International Labour Organisation, under its Decent Work Agenda, has identified seven forms of security, that is, labour market security; employment security; work security (occupational health and safety); job security; skill reproduction security; income security; and representation security.

Dealing with the Social Security issue, means to realize the importance of demographic characteristics, the conception of growth as an element either hindering or fostering sustainable development, the need to generate dignifying jobs and at the same time to face the unemployment threat, to widen the coverage of the systems and maximize their benefits and finally to face the dilemma regarding the public versus private management of such systems. These factors are fundamental for guaranteeing the existence of a system which demands wider coverage and greater efficiency from the social protection system in times of crisis. The debate on the financing of Social Security is related to not only the need to widen the coverage and the benefits, but also to the question of how to effectively respond to demands, within the framework of prevailing economic conditions.

In response to these challenges, current modalities have centred on three main approaches:

(a) Funding through general tax revenue or ear-marked taxes;
(b) Social pooling through social insurance, that is, mandatory contributions from the target group(s);
(c) Private insurance schemes and pension plans which have a commercial element; and
(d) Social assistance programmes financed by the government budget.

Most countries are practising a mixture of the above approaches. These schemes either adopt a defined contribution or defined benefits approach within a pay-as-you-go system. Many of the schemes in developed countries have very comprehensive and generous benefits. However, in the last decade, the financial sustainability of these schemes have been seriously challenged resulting in a shift of focus from defined benefits to defined contributions. A flurry of reforms was initiated primarily to address the issue of sustainability while at the same time maintaining the minimum standard of living for those affected.

In recent years, the original notion of social pooling has also been questioned. Although social pooling is a noble effort to address a social problem, by and large, individualism has also led to calls for benefits to be received by everyone, for example, irrespective of whether the individual has suffered the contingencies of injury or occupational diseases. In addition, the dole mentality of some recipients has also led to calls for individuals to be responsible for their own socio-economic wellbeing. In response to this, some countries have initiated individual accounts in its social security schemes. This is a departure from the notion of social pooling and solidarity and impinges on the principle of equity and access and the consequent disparities may further increase prevailing social distress. This may have dire consequences as the right to social security has been recognised as a basic human right (Langendonck, J.V., 1994). Schremmer (2005) has highlighted that "*income* *security through risk pooling in well designed publicly managed social security schemes"* is still the best option.

Social security reform is a continuous process, often responding to prevailing demographic and economic conditions. Countries may learn from each other and share experiences but not transplanting alien and probably unsuitable systems from another socio-economic context. Social cohesion backed by a political will and capacity are necessary in order for social security schemes to overcome social exclusion.

As in a number of countries, Malaysia has a mixed system of social security comprising state and private schemes, statutory labour laws' obligatory requirements on the part of employers as well as state social assistance programmes.

State Administered Schemes

At the time of writing, there are four social security schemes administered by government agencies, that is, the Employment Injury and Invalidity Pension Schemes under the Social Security Act, 1969 and a mainly retirement scheme under the Employees Provident Fund Act, 1951 and the Workmen's Compensation Act, 1952 which provides coverage for foreign workers in Malaysia under an insurance scheme paid by employers.

The Social Security Organisation (SOCSO), which was established under the Employee's Social Security Act 1969, ensures timely and adequate assistance to workers who have suffered injury, occupational diseases, invalidity or death as covered by the provisions of the Act. SOCSO offers two social insurance protection schemes, namely, the Employment Injury Insurance Scheme and the Invalidity Pension Scheme. The Act covers local and permanent resident workers earning up to RM 3,000 per month. For those above the ceiling, they can opt for coverage with the mutual consent of the employers. Both employers and employees are subject to the principle of 'once in, always in'. Employers contribute 1.75 percent of a worker's monthly wage (1.25 percent for the Employment Injury Scheme and 0.5 percent for Invalidity Scheme) while the workers contribute 0.5 percent of his/her monthly wage for the Invalidity Scheme. The Employment Injury Insurance scheme provides an employee with protection for industrial accidents, occupational diseases and commuting accidents. Benefits provided are Medical Benefit, Temporary Disablement Benefit, Permanent Disablement Benefit, Constant Attendance Allowance, Dependant's Benefit, Funeral Benefit, Rehabilitation Benefit and Education Benefit. SOCSO's Invalidity Pension Scheme provides an employee with 24-hour coverage in the event of invalidity or death resulting from whatever cause. Benefits provided are Invalidity Pension, Invalidity Grant, Constant Attendance Allowance, Survivors Pension, Funeral Benefit, Rehabilitation Benefit and Education Benefit.

Since 1st April 1993, foreign workers who are not permanent residents of Malaysia are covered under the Workmen's Compensation Act 1952. This Act aims to assist workmen who had lost their capacity or ability to work due to injury suffered in the course of their employment. Under this Act, his/her employer compensates the injured workman or his/her dependants and the employer, in turn is required to insure for him/herself in respect for such liability. Since 1st November 1996, the Foreign Workers Compensation Scheme was established under the Workmen's Compensation Act 1952. Under this scheme, employers have to insure their foreign workers. If employers fail to provide insurance coverage for each worker, they can be fined or jailed or both. The benefits under the scheme include 24-hour daily coverage, ex-gratia payment for injuries leading to death, a compensation payment if a worker dies or if he/she is permanently disabled and a repatriation cost in the event of death or permanent disablement.

The Employees Provident Fund (EPF) Act, 1951 provides a compulsory savings scheme that seeks to protect the rights of employees to retirement savings and to enhance the value of their savings for post-employment financial security and well-being. The statutory rate of contribution for employer is 12 percent of the employee's monthly wage while employee's contribution is 11 percent of monthly pay. The EPF also provides for withdrawal schemes for medical, housing and trust funds even prior to retirement age to cater to the present-day needs of society. In addition, the EPF provides Physical or Mental Incapacitation Withdrawal Scheme for members who are disabled from continuing to work. Under this scheme, they can take out all their savings immediately. Upon the death of a member who was still contributing to the Fund, his savings are automatically given to whomever the member had nominated as his beneficiary. If there is no beneficiary, the next-of kin will receive the money. As part of its social responsibility, the EPF also pays death and disability benefits. The EPF scheme was originally conceived as a forced savings scheme for old age with monthly contributions from the worker and his/her employer. As a result of evolving social pressures, contributors are now allowed to withdraw their savings for specific purposes.

Labour Laws

Various labour laws in Malaysia specify the obligations of employers with respect to worker benefits such as those related to termination, maternity, and sickness. The principal labour laws on these matters are the Industrial Relations Act, 1967, the Employment Act, 1955 for Peninsular Malaysia, the Labour Ordinances of the states of Sabah and Sarawak. The formula for the quantum of benefits is specified in the relevant laws. In addition, certain groups such as those in the plantation sector are accorded certain minimum housing and medical benefits under the Workers' Minimum Standards of Housing and Amenities Act, 1990.

Private Commercial Insurance

Malaysia has a fairly well developed private insurance industry which is tightly regulated by the central bank. A wide range of insurance products are available, providing coverage on risks of loss of life, personal accidents, fire, loss of property and health for both general medical and critical illnesses. Innovative products are continually being designed by insurance companies. However, these insurance products are driven by a profit-making motive. Hence, the scope of the protection may be restrictive and the benefits are in accordance with the level of premium charged. Access depends on its affordability and the financial capacity of the individual or the willingness of employers to voluntarily subscribe to these schemes.

Social Assistance

The Malaysian government has an extensive programme of social assistance, particularly in the provision of public health and social welfare services through government agencies. Besides direct social assistance programmes through various government institutions, the government also provides grants to non-government organisations in the provision of social welfare services

SOCIAL SECURITY POLICY CONSIDERATIONS FOR MALAYSIA

The extant coverage of the social security schemes, labour legislations and social assistance programmes in Malaysia has obvious gaps. Generally, the formal schemes cover contributors only up to the age of 55 years old. Thus, the aged will have to depend on either their savings or social assistance programmes, both for daily subsistence or medical expenses. There are no formal family or child assistance social security schemes. Other than the payment of termination benefits required by the labour laws, there is no unemployment insurance. Minimum wage exists only for workers in certain occupations based on the recommendations of wage councils established under the Wages Councils Act, 1947 (Malaysia, 1947). In addition, formal social security schemes have largely excluded the self-employed group. Where, the informal sector forms a substantial economic sector, it may be concluded that a substantial section of the population encounters difficulties in maintaining their standard of living in times of economic distress. Among the critical pressures on the population's standard of living is the provision of health care. Currently, the health care system is largely based on public funding of services provided by public health institutions. This has placed a burden on the government budget. Extension of the coverage for social security is critical in ensuring social inclusion.

Public issues or problems require public solutions. Social security is a matter in the public domain and hence requires not only involvement of the traditional tripartite parties, that is, employees, employers and the government but also contributions from civil society as a whole. This is because NGOs (non-government organisations) have augmented government institutions in the provision of social services. Therefore, there is a need to improve coordination among the various service providers in order to avoid duplication and misallocation of scarce resources. In addition, the principle of equity also requires an equitable distribution of the benefits.

Social pooling requires sacrificial giving of those who have. As noted in the beginning, such noble intentions are not matched by the reality of individualism. Thus, the formulation of social security policies requires political will. Worker and employer groups frequently hold divergent positions, particularly with regard to the rates of contribution and the benefits to be paid out. Public policy will have to rise above partisan interests if it is to attain the noble goals of social security.

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