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## **Pension Reform with Incentives, not Compulsion: A Framework for Malaysia's Integrated Old-Age Income Protection Under RMK13**

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# SWRC

Policy Paper Series

PP1/2026

PENSION REFORM WITH INCENTIVES, NOT  
COMPULSION:

A FRAMEWORK FOR MALAYSIA'S INTEGRATED OLD-AGE  
INCOME PROTECTION UNDER RMK13

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January 14, 2025

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## 1. EXECUTIVE SUMMARY

Malaysia is entering a period of accelerated demographic ageing, with profound implications for social protection, healthcare, and economic sustainability. The Government has already set the direction through the Thirteenth Malaysia Plan (RMK13), Malaysia's central development framework, which places strong emphasis on inclusivity, resilience, and preparedness for demographic change. Complementing this, a National Ageing Blueprint is being finalised to provide a more detailed roadmap for ageing policy and action.

As the leading research institution on ageing and social wellbeing, the Social Wellbeing Research Centre (SWRC), Universiti Malaya, in collaboration with and funded by the Asian Development Bank (ADB) and the Japan Fund for Prosperous and Resilient Asia and the Pacific (JFPR) presents this policy paper to inform and support the national reform agenda and as a contribution to the implementation of RMK13. The analysis underscores that the current old-age income security system is no longer fit for purpose. It faces deep structural limitations that risk leaving a growing share of elderly citizens behind, particularly informal workers, women, and those with fragmented or low-paying employment histories.

This paper puts forward a comprehensive reform vision, grounded in Malaysia's context and informed by international standards and global best practices. It proposes the development of a consolidated and inclusive multi-tier system of old-age income protection, aligned with the priorities of RMK13, and designed to close coverage gaps, strengthen adequacy, and ensure that every Malaysian can age with dignity, security, and belonging.

### **Strategic Reform Directions**

The Malaysian Government can envision the development of a four-tier old-age income protection system aimed at reducing old-age poverty, closing critical pension coverage gaps, and strengthening income adequacy and protection against longevity risk, while maintaining fiscal sustainability.

To support this vision, a set of integrated and sequenced reforms is proposed, comprising short-term measures that can be implemented immediately, and longer-term options that require further assessment, investment, and system strengthening.

#### Short-Term Measures

The first measure is the introduction of a **Social Old-Age Protection Floor (SOAPF)**, a flat-rate, non-contributory pension aimed at guaranteeing a minimum level of income security for all senior citizens. Funded through a national Solidarity Fund, the SOAPF will unify existing social assistance programmes, eliminate redundancies, and ensure that no elderly Malaysian in need is left without support.

The second measure, which should be implemented as a package with the first measure, is the reform of withdrawal structures in EPF contributory savings schemes, **shifting from lump-sum to phased and periodic disbursements**. A minimum threshold of accumulated savings, proposed at RM100,000, will be paid in monthly instalments over a ten-year period beginning at age 60, with any excess savings remaining accessible. This structure will be synchronised with the SOAPF to ensure seamless protection throughout the full retirement span.

Together, these two measures constitute an implementable and fiscally feasible short-term reform package. Introduced as a coordinated policy shift, they will significantly reduce old-age poverty and enhance income security during retirement years.

### Long-Term Options

To further strengthen retirement adequacy in the long term, two additional features of pension system design are proposed. These options can be considered beyond the RMK13 period, as saving levels of the pension funds improve over time and institutional capacity strengthens.

- **A Life Annuity Mechanism**, where qualifying EPF members use their accumulated savings to purchase a guaranteed lifetime income stream through a publicly managed annuity scheme. This model preserves the contributory nature of retirement savings, avoids cross-subsidisation, and operates alongside the existing provident fund as a decumulation feature rather than a replacement.
- **A Contributory National Pension (CNP)** with explicit solidarity, funded by reallocating a small portion of existing contributions. It would provide a defined benefit based on years of contribution, offering predictable lifelong income and supporting redistribution across income groups, while coexisting with the EPF as an additional contributory layer.

These two models are not mutually exclusive. A third approach combines both, enabling those with sufficient savings to benefit from annuitization while ensuring a base-level contributory pension (CNP) for all long-term contributors. However, all long-term options depend on progressive improvements in wage levels, savings behaviour, and institutional capacity.

This reform pathway represents not just technical adjustments but a paradigm shift in Malaysia's approach to ageing. By embedding inclusivity, solidarity, and sustainability at the core of its old-age income protection system, Malaysia can advance the commitments of RMK13 while complementing the forthcoming National Ageing Blueprint, ensuring that its citizens are empowered to age with dignity, security, and belonging.

## 2. SITUATION ANALYSIS: KEY CHALLENGES AND GAPS

Malaysia's pension and other old-age income security programmes are facing significant strain due to profound demographic and socioeconomic changes. The country's demographic landscape is evolving, marked by an ageing population and increasing life expectancy. This demographic transition signals the end of Malaysia's demographic dividend, necessitating urgent reforms to manage the rising dependency ratio and ensure sustainable income security for the elderly. Additionally, the labour market presents challenges with weak wage structures and significant disparities, leading to unequal coverage and inadequate income replacement levels upon retirement.

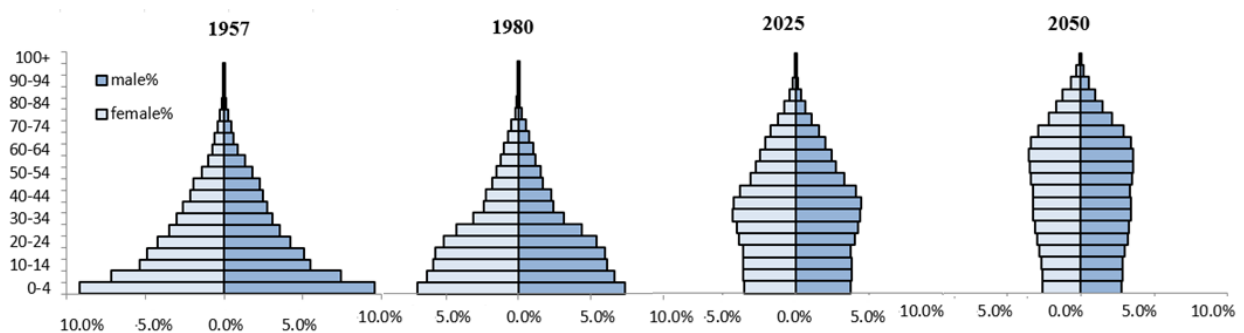
The following sections will provide an in-depth analysis of the socioeconomic and system gaps facing Malaysia's old-age income security system. The first part will address issues such as demographic shifts, labour market dynamics, old-age poverty, and fiscal constraints. The second part will examine challenges, including coverage gaps, gender disparities, benefit adequacy, and the sustainability of pension schemes, issues that are central to the implementation of RMK13.

### 2.1. Socioeconomic Challenges

#### 2.1.1. Demographic challenges

Malaysia's demographic landscape is undergoing profound changes, with significant implications for economic development, social security, healthcare, and policy planning. Most notable is the increasing shift in the population pyramid from a broad mid-section to a flattened shape.

Figure 1: Malaysia's population pyramid, selected years

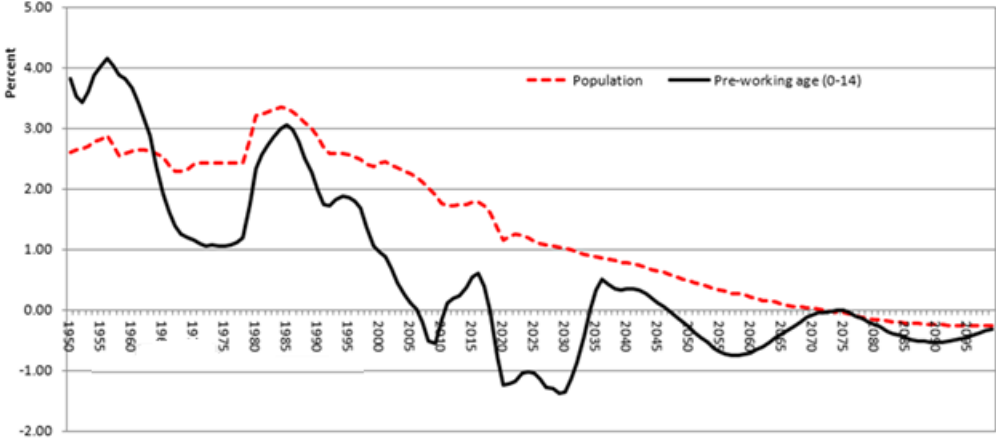


Source: calculation is based on data from (UN, 2024)

While overall population growth in Malaysia is projected to remain positive until 2073, the number of children under 15 years old has been declining since 2007 (UN, 2024). By 2073, when

Malaysia’s population is expected to peak at 46.39 million, the number of children will have decreased from a high of 8.11 million in 2007 to only 6.45 million (UN, 2024).

Figure 2: Annual population growth rates for children and general population, per cent, 1950 - 2100

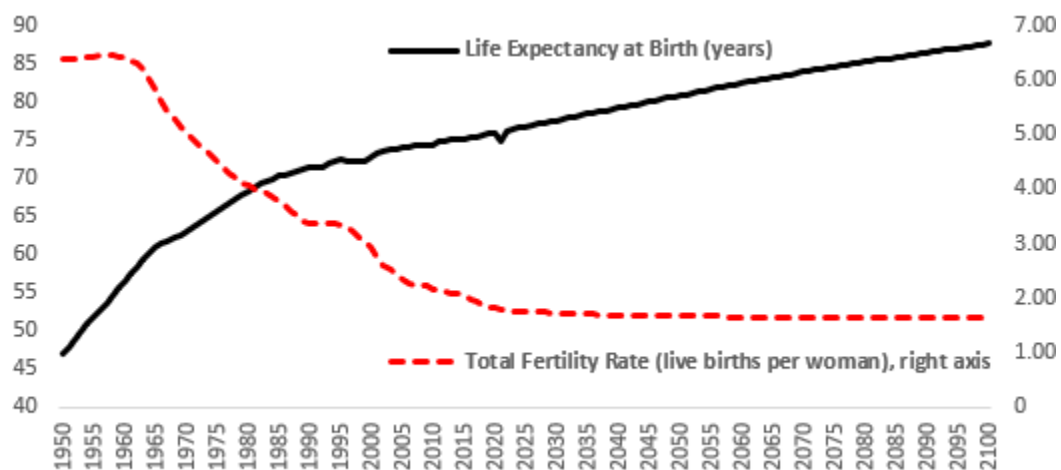


Source: calculation is based on data from (UN, 2024).

This paradoxical trend (growing population when the number of children is declining<sup>1</sup>) can be elucidated by the reduction in fertility rates, leading to fewer children, and a reduction in mortality rates, allowing people to live longer.

<sup>1</sup> Malaysia’s population aged 0–14 (children) entered a phase of absolute decline in 2007, when the total population was 27.00 million and the child population stood at 8.11 million. By contrast, the total population is projected to peak and begin declining only in 2073, reaching 46.39 million, while the population aged 0–14 is projected to decline further to 6.45 million (UN, 2024).

Figure 3: Life expectancy at birth (years), and total fertility rate (live births per woman), right axis, 1950 - 2100



Source: calculation is based on data from (UN, 2024)

This transition marks the end of Malaysia's demographic dividend, a period characterised by a favourable age structure that facilitated economic growth<sup>2</sup>.

Consequently, Malaysia is about to experience an accelerated pace of population ageing. In 2022, Malaysia was projected to have already transitioned into an 'ageing nation,' defined by a post-working-age population (65+) comprising 7 per cent of the total population (UN, 2024). This threshold is expected to double by 2045, signalling the nation as an 'aged nation'. This rapid ageing trajectory, where Malaysia progresses from an ageing to an aged nation in just 23 years, contrasts sharply with historical trends observed in developed nations but is consistent with the broader context of South-East Asia.

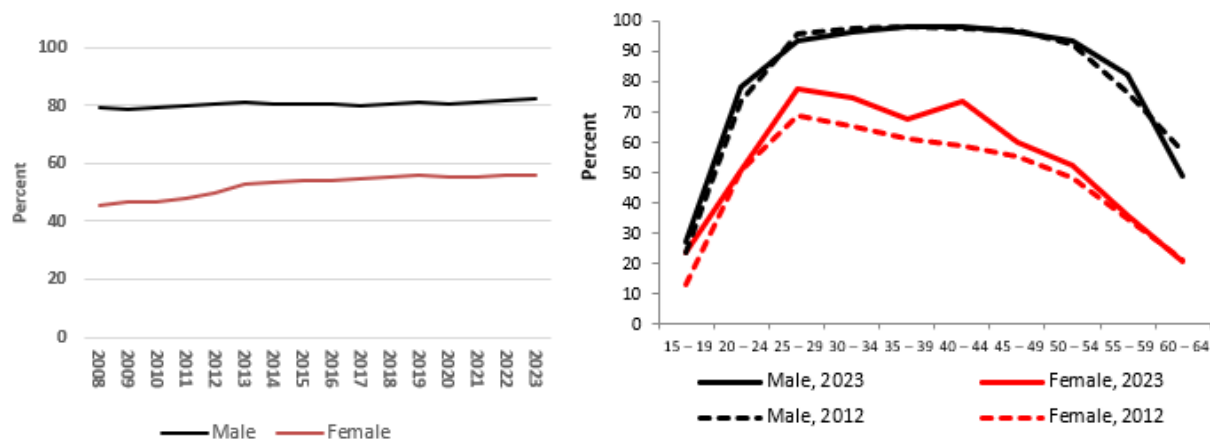
This demographic shift has significant implications for the dependency burden on the working-age population and, by extension, the sustainability of the long-term branches of the social security system: While there were 16 working-age persons to support one senior citizen in 2000, this has been reduced to only 10 working-age persons in 2020 and will further decrease to only 6 working-age persons in 2040. This signifies the immense pressure placed on the long-term branches of social security (old-age income security and health care) as well as on the working-age adults to support senior citizens in the absence of comprehensive public income security for seniors in Malaysia.

<sup>2</sup> The demographic dividend (or demographic window of opportunity) occurs when working-age population expands at a higher rate than the general population. In Malaysia, it began in 1965 and ended in 2020 based on UN data estimates of 2022. However, the latest UN data estimates indicate a new end in 2034.

### 2.1.2. Labour market challenges

The projected reduction in the share of the working-age population requires Malaysia to offset the potential slowdown in growth momentum with a shrinking working-age population relative to the overall population. Over the past 15 years, Malaysia has made some progress in this area, with female labour force participation rising by more than 10 percentage points, from 45.7 per cent in 2008 to an estimated 56.2 per cent in 2023 (Department of Statistics Malaysia, 2024). Nevertheless, this figure remains substantially lower than the male participation rate, which was estimated at 82.3 per cent in 2023 (Department of Statistics Malaysia, 2024). Malaysia still has one of the lowest female labour force participation rates in the region and among countries at a similar level of economic development. Persistently low female labour force participation has direct implications for old-age income security, as it translates into lower pension coverage, shorter contribution histories, and reduced retirement savings among women, as discussed in later sections on coverage gaps and gender disparities in the pension system.

Figure 4: Labour force participation rates by gender and age group, 2012-2023



Source: based on data from (Department of Statistics Malaysia, 2024) and (UN, 2022)

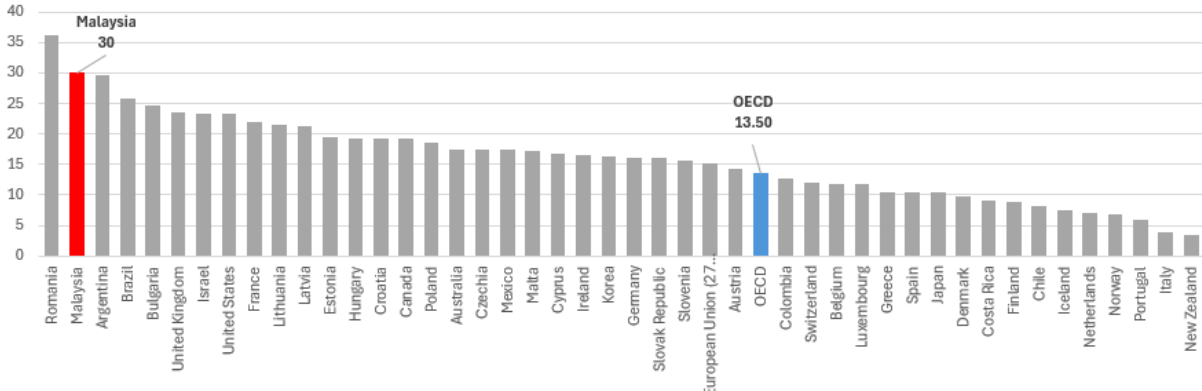
Yet, labour force participation patterns reveal a pronounced decline among men in their late 50s and early 60s, reflecting a sharp exit from formal employment associated with the statutory retirement age. This institutionalised withdrawal occurs despite evidence that many older Malaysians retain substantial health capacity to continue working beyond age 60. Recent estimates indicate significant untapped work capacity among older persons, particularly among men and urban residents, suggesting that labour force participation at older ages is constrained more by retirement norms and labour market rigidities than by health limitations (Mansor, Awang, & Park, 2024). At the same time, a segment of older individuals, especially those in informal or low-protection employment, are compelled to continue working into very old-age due to inadequate income security, as discussed later. This coexistence of premature labour market exit and

necessity-driven late-life work highlights structural inefficiencies in the labour market and has important implications for pension adequacy, contribution density, and the design of policies to support longer and more flexible working lives, as discussed later in the report.

Beyond participation patterns, the interaction between labour market attachment and earnings dynamics further shapes old-age income outcomes. Lower and more uneven wages, particularly among women and other groups with discontinuous employment histories, translate into lower pension contributions and weaker retirement savings accumulation under Malaysia’s contribution-based pension system, an issue examined further in later sections on pension adequacy and gender disparities. In terms of wage differentials between male and female employees, female salaried employees earn on average 7.88 per cent less than male salaried employees (in 2023, female monthly median wage of RM2,464 compared with male monthly median wage of RM 2,675) (Department of Statistics Malaysia, 2024). Wage disparities are more visible across other dimensions such as state, urban-rural and skills, to name a few. This disparity can be grossly captured by the difference between the monthly mean salaries and wages, which was RM 3,441 in 2023, and the median value, significantly lower at RM 2,602 for the same year (Department of Statistics Malaysia, 2024). This difference reflects the higher earnings of the top half earners push up the mean. In terms of geographical disparity, wage earners in Putrajaya enjoyed the highest median monthly wage (RM 4,443), followed by Kuala Lumpur (RM3,469) and Selangor (RM3,235). Meanwhile, Kelantan recorded the lowest median wage at RM 1,750, followed by Perlis at RM 1,820 and Terengganu at RM 1,845 (Department of Statistics Malaysia, 2024).

Further, a marked wage difference can be observed between high-skilled and low-skilled wage earners, with a monthly median wage of RM 4,565 and RM 1,599 for high-skilled and low-skilled wage earners, respectively, in 2023 (Department of Statistics Malaysia, 2024). This problem is compounded by the fact that this low pay incidence (percentage of the workforce earning less than two-thirds of the median wage) is significantly high in Malaysia, estimated at over 30 per cent, more than double the OECD’s 14 per cent low pay incidence rate (IMF, March 2024).

Figure 5: Incidence of Low Wages, 2023 (or latest year)



Source: OECD data 2024 and (Department of Statistics Malaysia, 2024)

More worrying is the fact that Malaysia's labour share of income has been in decline over the past few years, from 35.6 per cent of GDP in 2016 to only 32.4 per cent of GDP in 2022- making Malaysia's labour share of income the lowest among advanced economies and peer countries (IMF, March 2024).

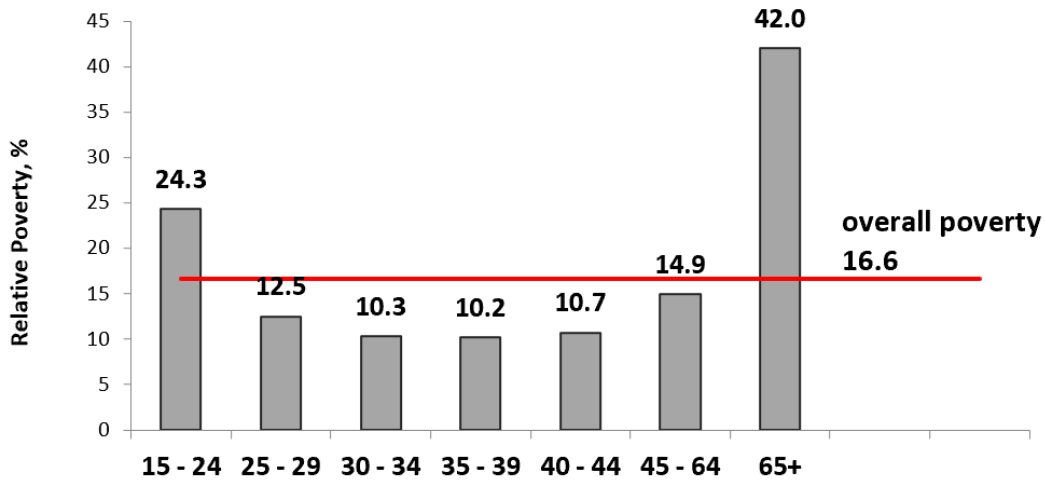
An important consequence of these labour market disparities (male vs. female, urban vs. rural, T20 vs. B20 etc.) and the overall low wage levels is the inadequate and differential levels of old-age protection. Specifically, Malaysia's over-reliance on an insurance model (based on labour market participation and income level), with limited government interventions, results in lower coverage rates and inadequate benefits for most Malaysians and especially vulnerable groups (female citizens, workers in the self-employed, the low wage earners, and/or those with disrupted contributory records). Many countries intervened to correct such situations by establishing a complementary tax-funded, basic old-age social pension (discussed later).

### 2.1.3. Old-age poverty

Malaysia has achieved a tremendous improvement in its poverty profile. Between 1970 and 2022, the incidence of absolute poverty decreased from almost 50 per cent of the population in the 1970s to only 0.42 per cent in 2016. However, a new methodology for calculating absolute poverty provided a revised rate of 7.6 per cent for the same year, 2016. Nevertheless, the incidence of absolute poverty continued its trend of decline, reaching a rate of 6.2 per cent in 2022 (Department of Statistics Malaysia, 2023).

Like many countries, poverty in Malaysia has an age dimension. The proportion of seniors in absolute poverty is slightly higher than the national average poverty rate. It is to be highlighted that poverty among senior citizens is very sensitive to the poverty line used. For instance, using a relative poverty line, the incidence of relative poverty among senior citizens is the highest and stands at more than 2.5 times higher than the national average.

Figure 6: Incidence of relative poverty by age group of head of household, Malaysia, 2022

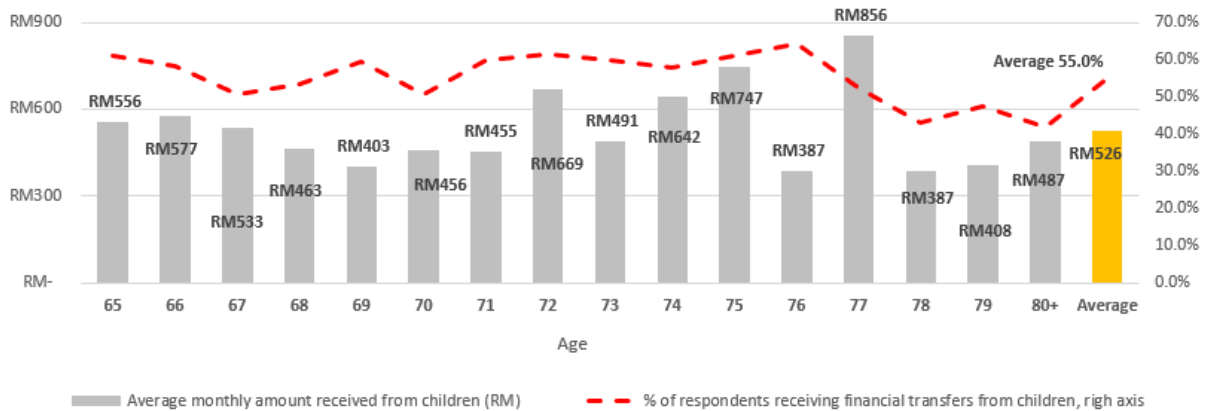


Source: based on data from (Department of Statistics Malaysia, 2023).

This indicates a high vulnerability among senior citizens as many non-poor are hovering around the poverty line. Other studies highlighted similar findings.

The alarming level of old-age poverty in Malaysia has left a significant number of older Malaysians dependent on financial assistance from their children. This dependency is starkly illustrated by findings from the Malaysia Retirement Survey (MARS) conducted by the Social Wellbeing Research Centre (SWRC) at Universiti Malaya. The survey showed that over half of the elderly respondents (55.0 per cent) rely on financial transfers from their children, with an average monthly contribution amounting to RM 526 (Social Wellbeing Research Center (SWRC), 2023).

Figure 7: Average monthly amount of financial transfers received from children and percentage of respondents receiving financial transfers from children (right axis), 2022



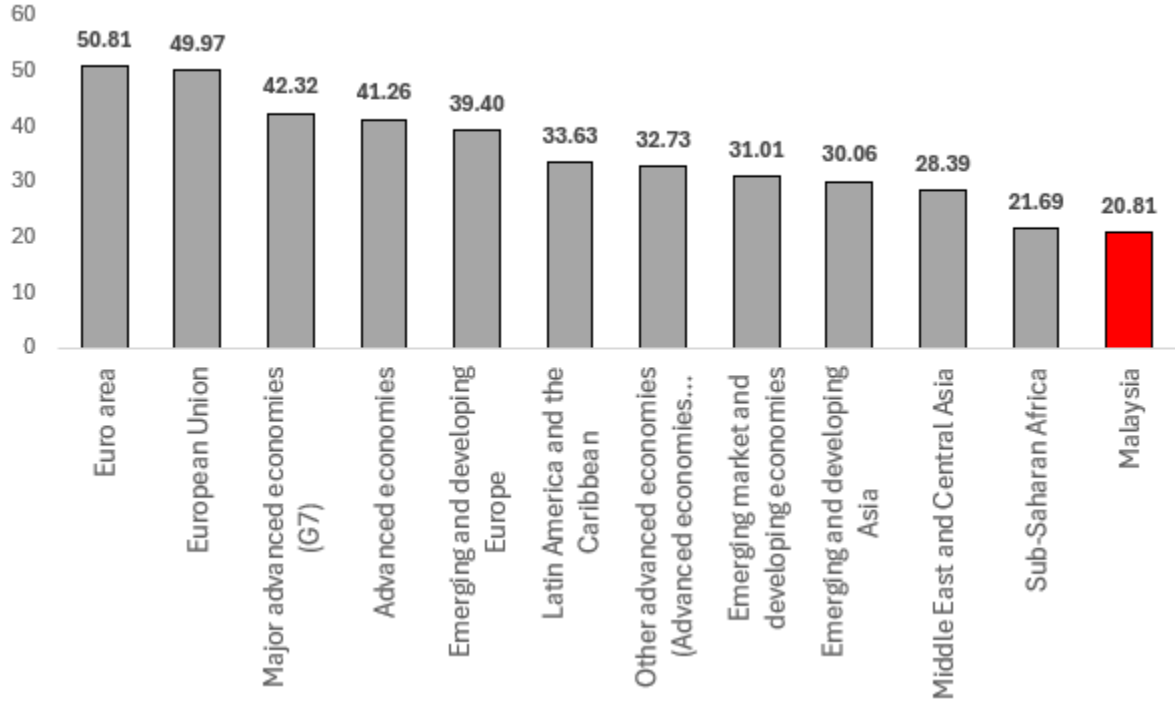
Source: based on data from (Social Wellbeing Research Center (SWRC), 2023)

The dual role of supporting both ageing parents and dependent children places a significant financial and emotional strain on Malaysian working adults. Many in this generation already face the challenge of balancing the costs of their children's education and upbringing with the medical and living expenses of their elderly parents.

2.1.4. Weak Public Spending

With the rapid demographic transformation discussed earlier, Malaysia is expected to have heightened public spending to effectively address the profound implications of its ageing population, including the surging demand for healthcare services and pensions, but also to invest in education and skills development to mitigate the adverse effects of increased old-age dependency. Nonetheless, despite the pressing need for augmented public expenditure, Malaysia's current level of spending remains comparatively very low. In 2023, public expenditure stood at RM 397.14 billion (Ministry of Finance, 2023), representing only 20.81 per cent of GDP for that year, positioning Malaysia among the lowest in terms of public spending relative to its economic development level.

Figure 8: Public spending as a per cent of GDP, Malaysia and country groups, 2023

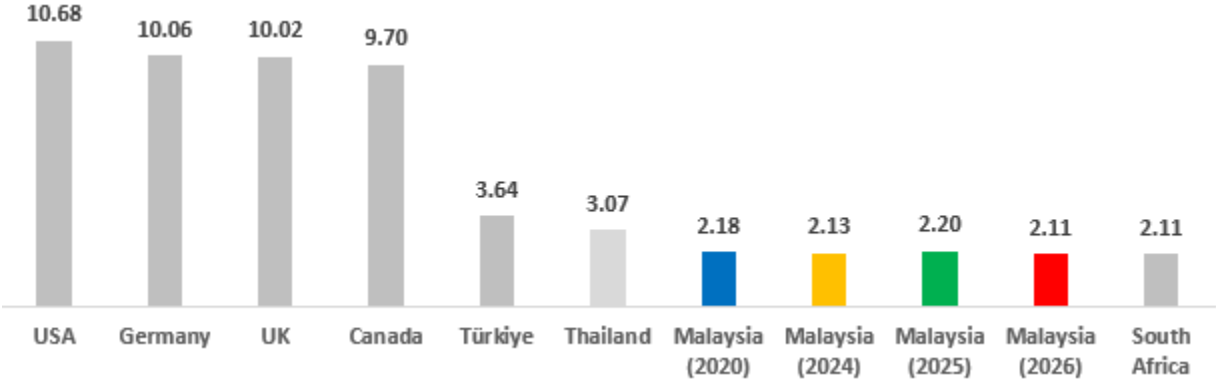


Source: based on data from IMF (2023) and MoF (2023)

This starkly low level of public investment underscores systemic challenges in adequately funding essential sectors such as education, healthcare, and social protection. Insufficient allocations in these critical areas hinder the country's ability to address inequalities and promote inclusive

growth. Therefore, Malaysia faces persistent obstacles in nurturing its human capital base and achieving sustainable socio-economic development targets.

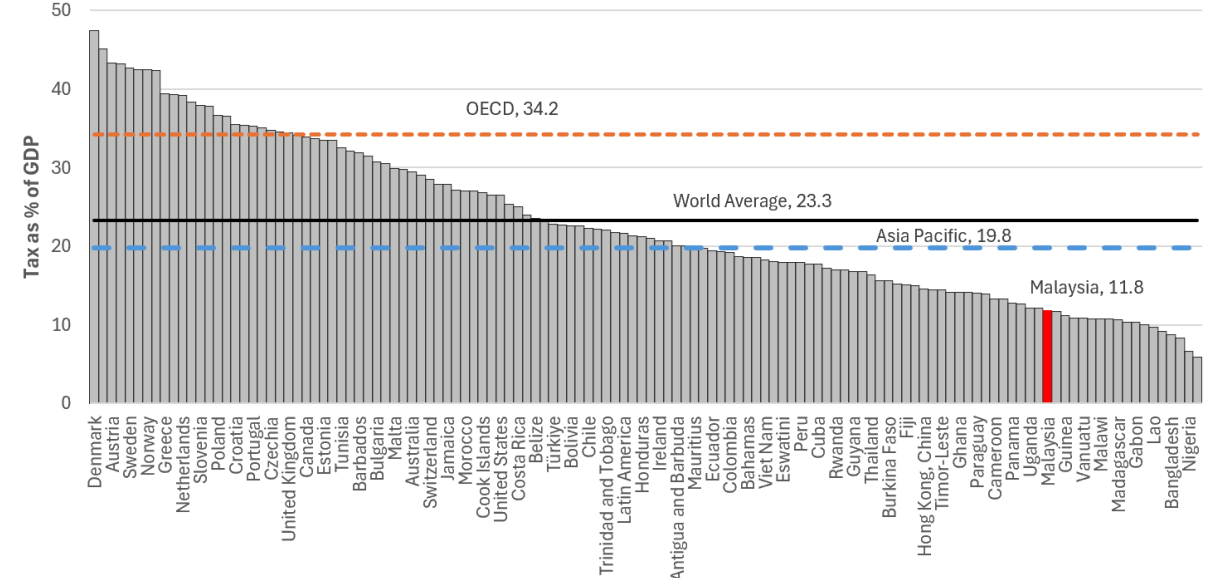
Figure 9: Public health care expenditure as a per cent of GDP, selected Countries, 2020 (unless stated otherwise)



Source: based on Data from the World Bank (2024)

Malaysia's ability to efficiently allocate resources toward public expenditure is severely hampered by its limited revenue generation capacity. Malaysia's tax-to-GDP ratio significantly lags behind countries of similar developmental status. In fact, Malaysia's ratio is nearly one-third of the average OECD ratio (34.2 per cent) and even falls below the average ratio observed in African countries (15.57 per cent) (OECD, 2023).

Figure 10: Tax to GDP ratio, 2021



Source: based on data from (OECD, 2023)

## Poverty Alleviation Programmes in Malaysia

While there has been no comprehensive evaluation of Malaysia’s public anti-poverty programmes, the persistently high level of relative poverty among senior citizens, as shown in Figure 6, provides a broad indication of their limited impact. This high incidence of relative poverty, affecting 42 per cent of senior citizens, persists despite the existence of numerous anti-poverty programmes in Malaysia, totalling over 61 programmes spanning more than 15 ministries and agencies (Ministry of Finance, 2023). Most social assistance programmes are administered by the Welfare Department (JKM), which serves as the lead agency for social support programmes, alongside a number of smaller, specific-purpose interventions implemented by other ministries and agencies.

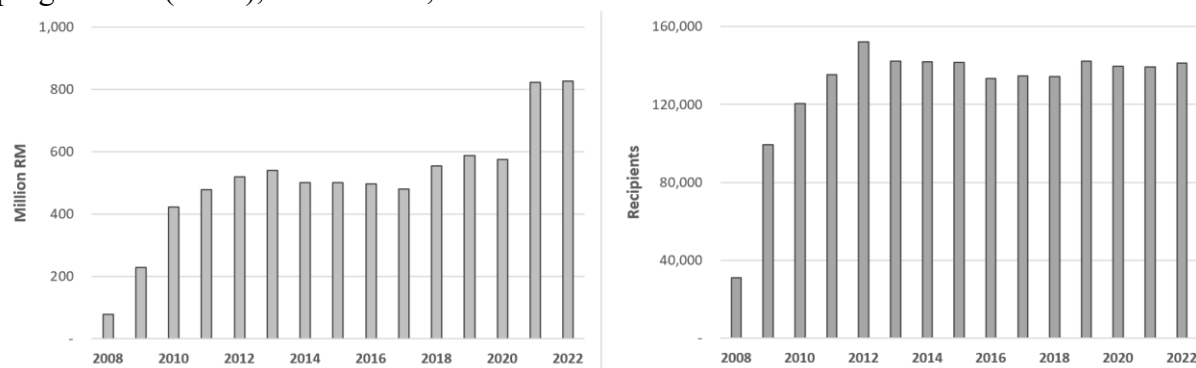
JKM currently provides several social assistance programmes, including Bantuan Warga Emas (BWE), which offers monthly cash assistance to eligible older persons (Table 1). The high poverty rates among senior citizens discussed earlier persist despite a substantial expansion of the BWE programme, whose beneficiary coverage increased by 4.55 times between 2008 and 2022 and currently reaches 141,114 older beneficiaries (MWCDF, 2023). Over the same period, budget allocations to the BWE programme increased by 10.6 times, accounting for 33.35 per cent of the total expenditure across JKMs 11 social assistance programmes in 2022.

Table 1: MWCDF’s social assistance to old-age citizens

Name	Benefit	Eligibility Criteria & Conditions
Senior Citizen Aid (Bantuan Warga Emas, BWE)	RM 600 per month per old-age citizen	<ul style="list-style-type: none"> <li>-No fixed income to sustain livelihood</li> <li>-No family or no family members providing support</li> <li>-Means-tested according to the investigation officer</li> <li>-Senior citizen not residing in JKM-operated institutions</li> <li>-Age 60 +</li> </ul>

Source: (MWCDF, 2023) and (Ministry of Finance, 2024)

Figure 11: Expenditure (left graph) and recipients (right graph) of JKM’s old-age social assistance programmes (BWE), Million RM, 2008 - 2022



Source: based on data from (MWCDF, 2023).

The levelling off of spending after the peak in 2012, as shown in Figure 11, was largely due to the introduction of BR1M (now STR) in that year, which significantly reshaped the social assistance landscape in Malaysia. The expansion of STR moderated reliance on JKM-administered programmes, including the BWE, by providing a parallel and broader cash transfer channel to low-income households and older persons. While initially introduced as one-time cash payments to ease cost-of-living pressures following subsidy reductions, STR has since expanded in coverage and evolved into a more regular transfer mechanism. Table 2 below summarizes the key features of the STR cash transfer programme as of 2023, including its provisions for senior citizens.

Table 2: Eligibility and benefit level for the STR cash transfer, 2023

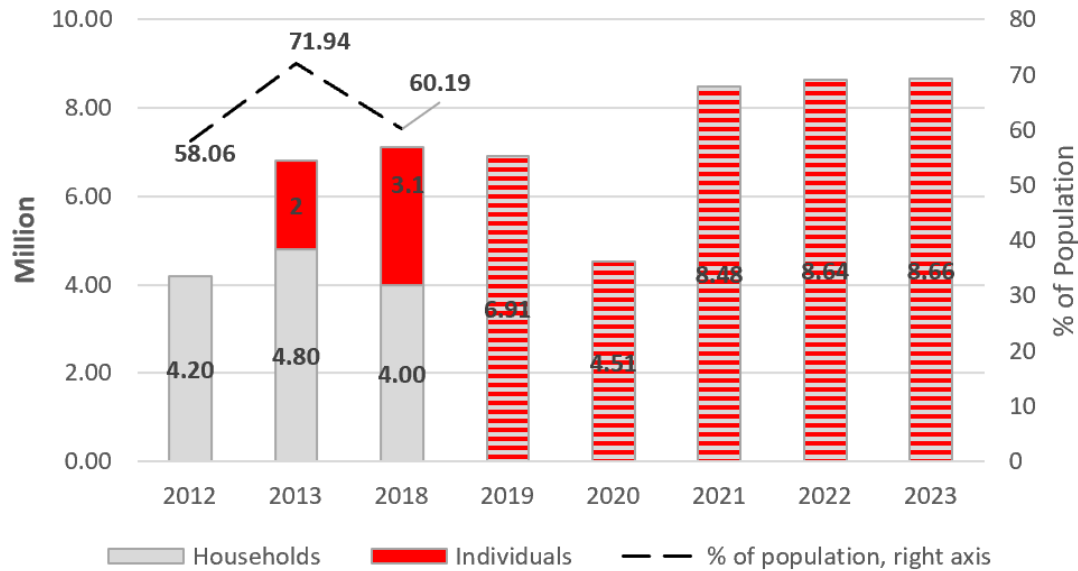
Target	Criteria	Benefit per year
Low-income households, individuals and children	<ul style="list-style-type: none"> <li>- Household income &lt;RM5,000</li> <li>- Individual income &lt;RM2,500</li> <li>- Children: <ul style="list-style-type: none"> <li>- aged 18 and below;</li> <li>- or aged 19 and above and still studying full-time in tertiary education institutions, except for disabled children for whom the benefit is not limited by age</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Household with income &lt;RM2,501: <ul style="list-style-type: none"> <li>No children: RM1,000 cash</li> <li>1-2 children: RM1,500 cash</li> <li>3-4 children: RM2,000</li> <li>5 children and more: RM2,500</li> </ul> </li> <li>- Household with income RM2,501-RM5,000: <ul style="list-style-type: none"> <li>No children: RM500 cash</li> <li>1-2 children: RM750 cash</li> <li>3-4 children: RM1,000</li> <li>5 children and more: RM1,250</li> </ul> </li> <li>- <b>Single senior aged 60 years and above</b> with individual income &lt;RM5,001: RM600 cash</li> <li>- Single individuals aged 21-59 years and persons with disabilities aged 19-59 years with individual income &lt;RM2,501: RM350 cash</li> <li>- Additional STR / Sumbangan Asas Rahmah (SARA): <ul style="list-style-type: none"> <li>STR recipients (poor and hardcore poor status under eKasih or JKM): RM1,200/RM600 cash</li> <li>STR household recipients (not poor and hardcore poor status under eKasih or JKM): RM300</li> <li>STR single and senior citizen recipients (not poor and hardcore poor status under eKasih or JKM): RM150 cash</li> </ul> </li> <li>- STR Bereavement Scheme: RM1,000</li> </ul>

Source: Ministry of Finance (2023) and Inland Revenue Board of Malaysia (2024).

Most recent administrative data showed that a total of 8.66 million households and individuals received STR payments in 2023 (Ministry of Finance, 2024). The decomposition between households and individual recipients has not been provided since 2019; estimating the percentage of coverage to the population for these latest years is therefore not possible. For the years in which disaggregated data were available, it is estimated that the coverage fluctuated between 58.06

per cent and 71.94 per cent of the overall population (Bank Negara Malaysia, 2018). This is significantly higher than the intended population of the bottom 40 per cent.

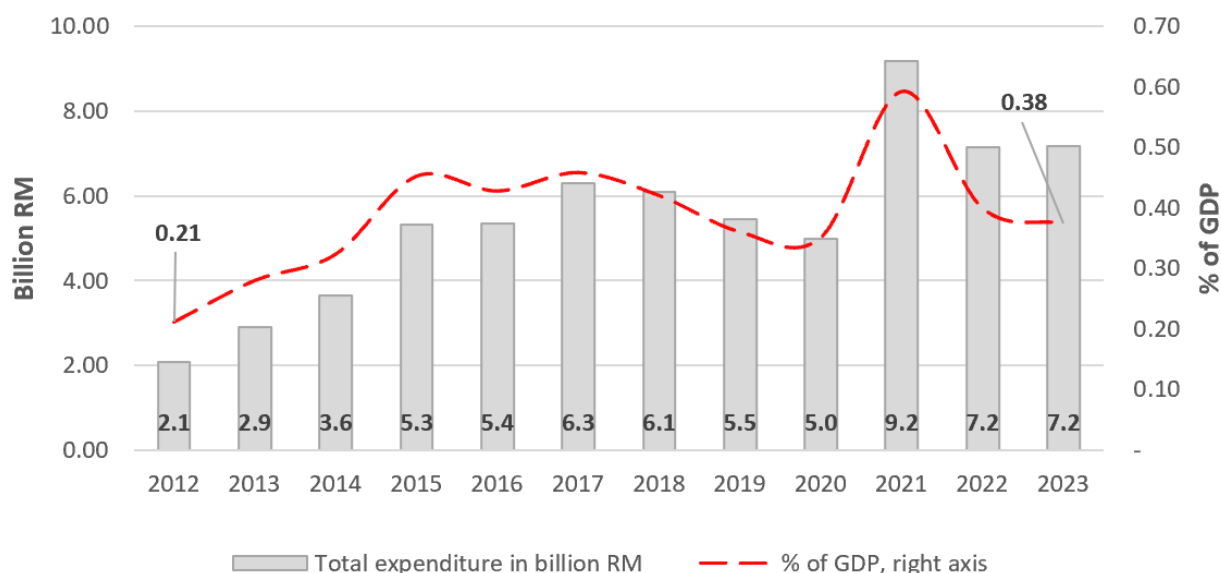
Figure 12: STR coverage in million and as a share of the overall population (right axis) for selected years



Source: Ministry of Finance (2024) and Bank Negara Malaysia (2018).

Spending on STR has expanded significantly since its introduction, totalling RM7.2 billion (0.38 per cent of GDP) in 2023 (Ministry of Finance, 2024). Both JKM’s social assistance and STR increased in 2021-2022 due to the COVID-19 pandemic expansionary fiscal policy adopted by the Government of Malaysia.

Figure 13: Allocations to STR in RM billion and as a percentage of GDP, 2012 – 2023



Source: Bank Negara Malaysia (2018) and Ministry of Finance (2024).

While STR allocations have expanded significantly over time, high aggregate coverage does not necessarily imply that all eligible households are effectively reached. Available evidence suggests that, despite STR achieving wide population coverage exceeding 70 per cent in recent years, targeting and identification challenges persist, resulting in both exclusion and inclusion errors. For example, recent evidence from low-cost housing communities in Kuala Lumpur indicates that around one-third of households living in extreme poverty do not receive STR, despite meeting eligibility criteria (UNICEF, 2024). At the same time, some non-eligible households receive benefits, reflecting inclusion errors that are common in poverty-targeted programmes. Importantly, evidence also shows that many of these non-eligible recipients report insufficient income to meet basic living costs, highlighting the widespread exposure to economic vulnerability beyond narrowly defined poverty thresholds. These challenges, which are not unique to Malaysia<sup>3</sup>, underscore the structural limitations of poverty targeting.

## 2.2. System Gaps in the Contributory Pension System

Malaysia has a range of public old-age social protection arrangements, including contributory and non-contributory schemes. Contributory formal social protection schemes include the Civil

<sup>3</sup> For instance, Mexico's Oportunidades excluded 70 per cent of the poorest 20 per cent of eligible households while Brazil's Bolsa Família had an exclusion error of 59 per cent (Fiszbein, Schady, & Ferreira, 2009). Exclusion and inclusion errors in Bangladesh, Indonesia, Rwanda and Sri Lanka ranged between 44 per cent and 55 per cent when 20 per cent of the population was covered and between 57 per cent and 71 per cent when 10 per cent was covered (Kidd & Wylde, 2011). In China's Minimum Livelihood Guarantee Scheme (also known as Diabo), cities using more targeting were less likely to reduce poverty (Ravallion, 2007).

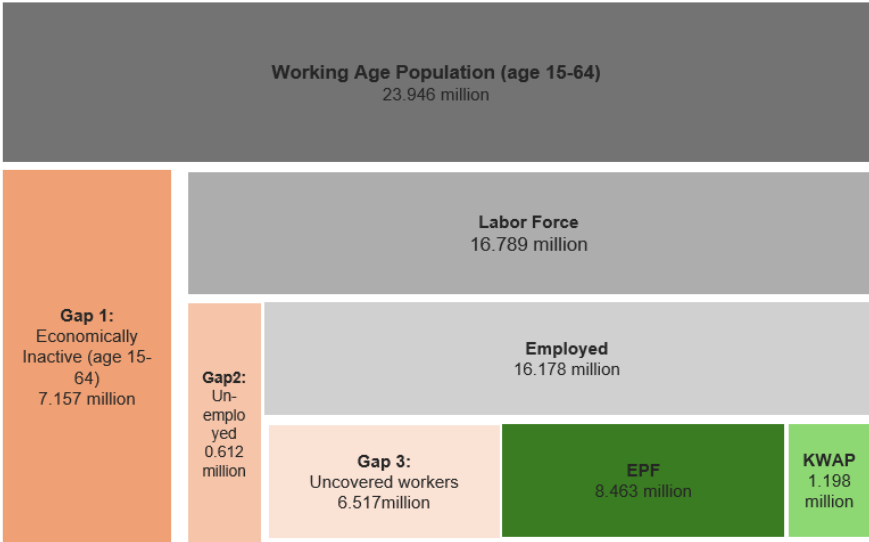
Service Pension Scheme (KWAP), the Employees Provident Fund (EPF), and the Armed Forces Fund (LTAT). Non-contributory arrangements, or social assistance, primarily target low-income groups and are administered by JKM and the Ministry of Finance (MoF). Additionally, Zakat, the Islamic welfare institution, collects and distributes cash and in-kind assistance to specified needy categories at the state level.

Despite the diversity of these schemes, the overall system has significant gaps and suffers from key weaknesses:

2.2.1. Significant coverage gaps

The system of old-age income security in Malaysia prioritises two population groups at opposite ends of the income scale: the first group includes salaried employees in the formal sector (public and private), particularly those in stable full-time employment relationships, who enjoy a relatively good protection in terms of contingencies covered (with limitations of adequacy discussed later). The second group, vulnerable individuals living in poverty are targeted with many programmes under the social assistance arrangements. Apart from these two groups, coverage of other groups of workers, especially to persons in more unstable forms of wage employment and the self-employed, is not automatic, and therefore, significant coverage gap (gap 3 in Figure 14) exist despite efforts that have been exerted to extend coverage of the formal contributory arrangements. Furthermore, overreliance on labour market participation as a prerequisite for coverage creates additional gaps. Economically inactive (gap 1 in Figure 14) and unemployed individuals (gap 2 in Figure 14) lack the accumulation records needed for old-age income security, leaving them vulnerable to poverty in their senior years.

Figure 14: Three coverage gaps in old-age income security in Malaysia, 2023



Source: based on data from (Department of Statistics Malaysia, 2024), (UN, 2022), (EPF, 2024), and (KWAP, 2024)

These coverage gaps are substantial. In 2023, 13.735 million working-age individuals, or 57.36 per cent of this population, were not covered by either the EPF or KWAP. As these individuals age without any form of income security, they are at significant risk for old-age poverty. These gaps largely explain the disproportionately high incidence of poverty among senior citizens (Figure 6).

From a policy formulation perspective, it is crucial to address these coverage gaps individually, recognising their unique drivers to design effective interventions. For instance, current efforts to extend coverage through EPF's voluntary schemes<sup>4</sup> primarily addresses the gap for those who are engaged in income generation activities (gap 3 in Figure 14).

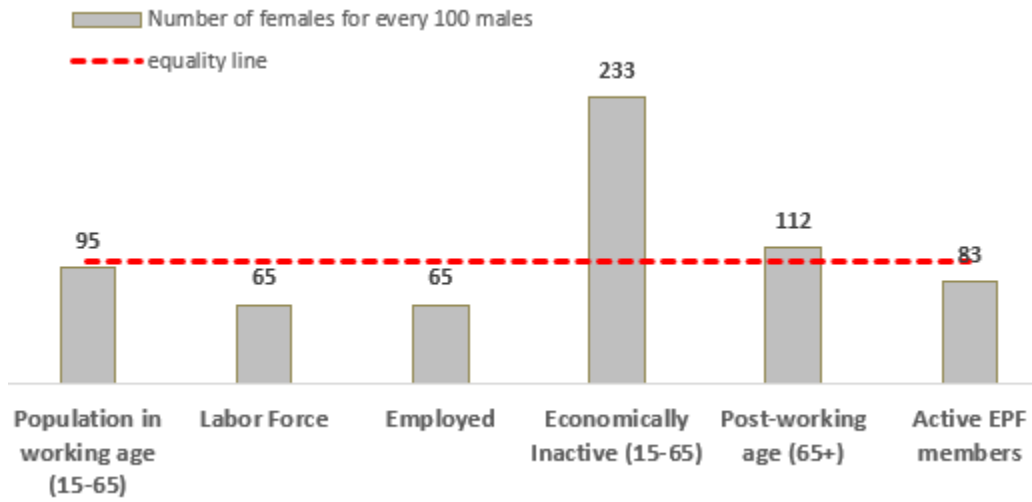
### 2.2.2. Gender and age dimension to the coverage gaps

An important consequence of the discriminatory labour market discussed earlier is the resulting differential coverage of social protection between males and females. Malaysia's old-age income security system continues to rely predominantly on an insurance-based model centred on provident fund arrangements, where access and benefit levels are closely tied to labour market participation and earnings, with only limited reliance on solidarity-based pension mechanisms. While large-scale cash transfer programmes have expanded in recent years and now cover a majority of the population, these transfers are not designed to provide adequate or predictable income security in old-age. As a result, women, who have lower labour force participation rates, more discontinuous contributory records, and greater engagement in informal employment, remain systematically disadvantaged. Accordingly, for every 100 active male contributors to the EPF, there are only 83 female contributors. At the same time, demographic patterns show that women face a higher longevity risk, with 111 women aged 65 and above for every 100 men, making them more vulnerable to old-age income insecurity.

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<sup>4</sup> Beginning 2010, the EPF has introduced the Skim Simpanan Persaraan 1 Malaysia (SP1M), later in 2018 has become known as i-Saraan. The initiative is to support retirement savings for self-employed individuals and gig economy workers. The 2022 Budget enhanced this by announcing a minimum 15 percent government match for voluntary contributions and extending eligibility to those aged 55 to 60. The 2023 Budget increased the annual voluntary contribution limit from RM60,000 to RM100,000 and raised the matching contribution ceiling to RM300. Additionally, members aged 40 to 54 with less than RM10,000 in EPF savings received an extra RM500 to their EPF Account 1. The 2024 Budget further boosted the i-Saraan program by increasing the government incentive limit to RM500 per year, with a lifetime cap of RM5,000.

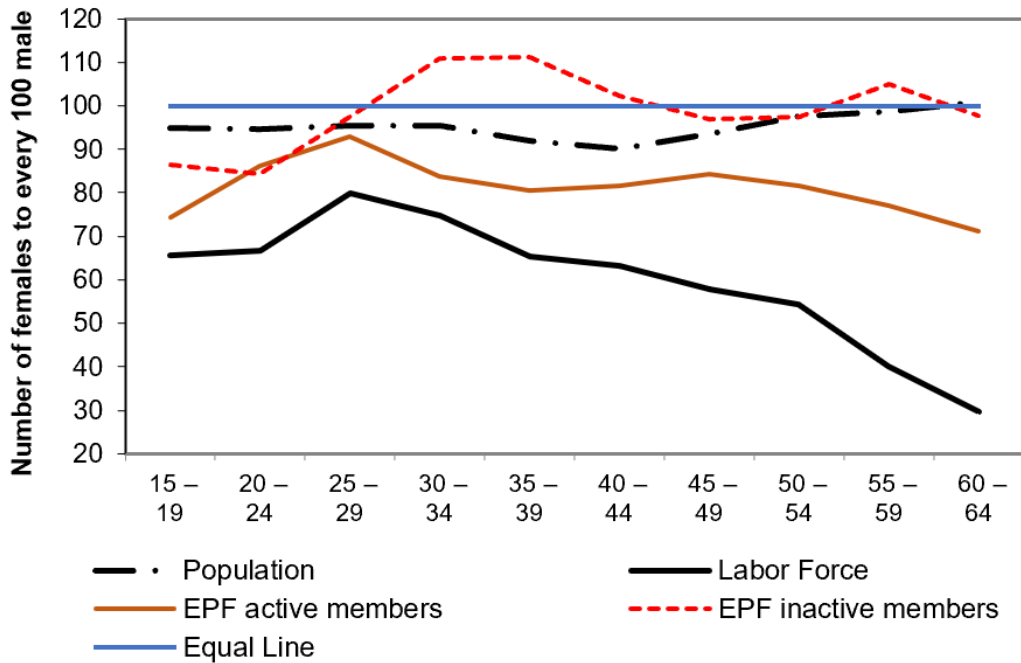
Figure 15: Gender and age dimension to the coverage gap, 2023



Source: based on data from (Department of Statistics Malaysia, 2024), (UN, 2022), (Department of communication, 2020), and (EPF, 2024)

This can also be seen in the next figure, which shows that EPF’s active membership mirrors the general labour force pattern, where the sex ratio (female to male) peaks at age 25 before it starts declining and remains throughout the labour productive years.

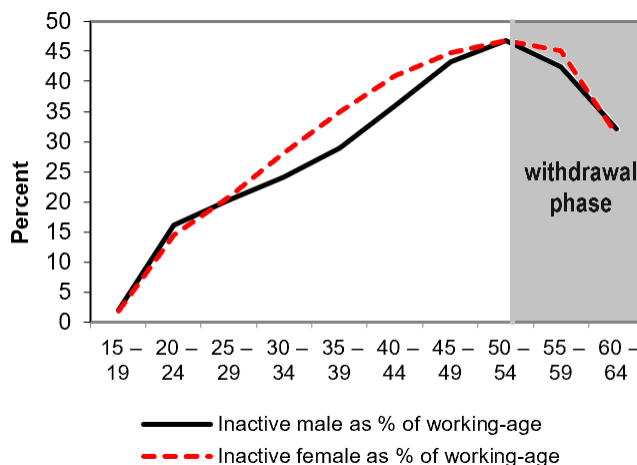
Figure 16: Number of women to 100 men by labour force status, 2022.



Source: calculation is based on data from (EPF, 2024), (Department of Statistics, 2022) and (UN, 2022).

In addition to the gender dimension, the coverage gap has an age dimension as coverage of both sexes declines as members get older. Figure 17 shows that contribution inactivity among members in EPF increases with age. While the female increase in inactivity can be partially attributed to maternity and child caring period, male contribution inactivity likely resulted from an increased informality in the labour market and not due to unemployment<sup>5</sup>.

Figure 17: Inactive EPF members as a percentage of working age population, 2022.



Source: calculation is based on data from (EPF, 2024) and (UN, 2022).

This increase in informality in the labour market by age is puzzling and counterintuitive<sup>6</sup>. A possible justification might be that the high contribution rates (totalling 24 per cent of income), create incentives for some employers and employees to misclassify employment relationships and/or disguise employment.

### 2.2.3. Adequacy Gaps

Pension adequacy involves a combination of objective and subjective measures. Objective measures usually consider metrics like the replacement rate and the ability of pensions to cover essential needs. Subjective measures account for beneficiaries' perceptions of how well their pensions maintain their living standards and recognise their lifetime contributions to society. Beyond the pension benefits, factors such as the cost of healthcare, food, housing, and transportation are crucial in determining adequacy. In any measure used, objective or subjective, the majority of those who are covered by EPF (private sector employees) and KWAP (civil servants) are far from achieving a decent level of old-age income security.

<sup>5</sup> Labour force surveys showed that unemployment in Malaysia declines by age (Department of Statistics Malaysia, 2024).

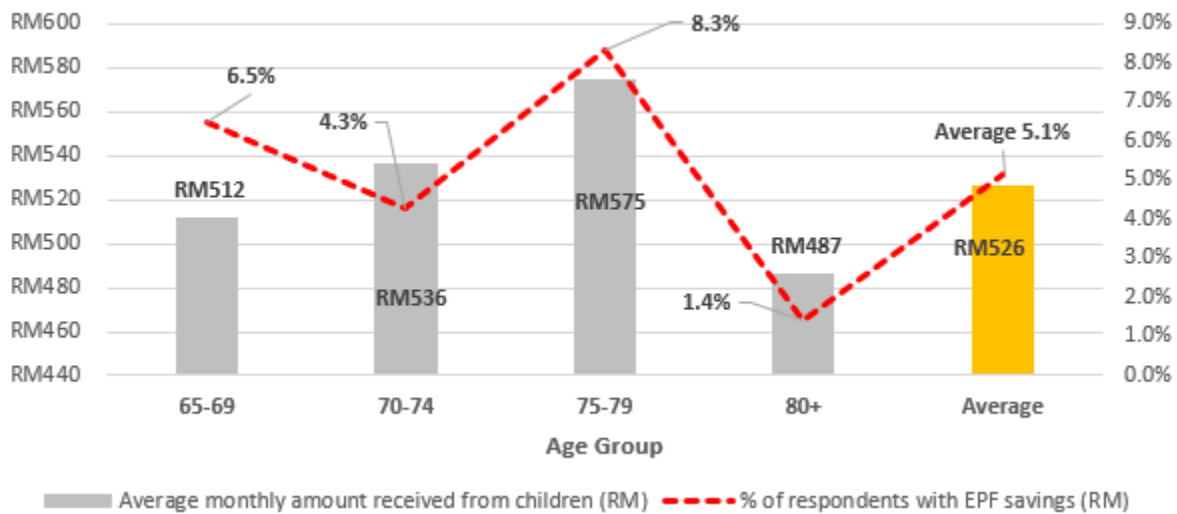
<sup>6</sup> One would expect younger generation would engage more in informal labour arrangements and as they get older, they land in more stable careers.

**Firstly, EPF adequacy issues:** EPF statistics show that more than one-third of EPF contributors withdraw their retirement savings as a lump sum at the time of retirement, currently set at age of 55. However, as of May 2024, the median savings amount at age 54 is only RM44,025 (EPF, 2024), equivalent to only 9 months of the per capita income of the same year.

Moreover, the differential in coverage between male and female working-age Malaysians, previously discussed, is exacerbated by the wage disparity between genders. Since old-age protection arrangements are largely linked to contribution records, this wage gap results in significantly lower accumulated savings for female workers compared to their male counterparts at retirement. The median savings amount of RM44,025 at age 54 obscures the fact that female members have a median savings of only RM 29,975, whereas male members have a median savings of RM 63,351 (EPF, 2024). This disparity highlights the compounded financial vulnerability faced by women in retirement.

These EPF savings amounts are clearly insufficient for old-age protection over an expected 24.7 years of retirement, given that the life expectancy at age 55 is 79.7 years (UN, 2022). Unsurprisingly, the MARS data reveals that a mere 5.1 per cent of senior citizens have EPF savings beyond the age of 65 (Social Wellbeing Research Center (SWRC), 2023). This financial shortfall forces many elderly individuals to rely heavily on their children, thereby placing substantial economic pressure on the "sandwich generation", adults caught between supporting their ageing parents and their own children.

Figure 18: Average monthly amount of financial transfers received from children and percentage of respondents with EPF savings (right axis), 2022



Source: based on data from (Social Wellbeing Research Center (SWRC), 2023)

**Secondly, KWAP adequacy issues:** KWAP’s benefit adequacy has been similarly inadequate when assessed against standard pension adequacy benchmarks. While comprehensive replacement rate data for KWAP beneficiaries are not readily available, available evidence on benefit levels provides a strong indication of limited income replacement. According to the latest data available in 2017, almost 9 out of 10 pension recipients received less than RM3,000 per month (KWAP, 2024)., placing them within the B40 of the income distribution of that year. Faced with inadequate pensions, many retired civil servants have consequently relied on social assistance programmes targeted at low-income groups, despite years of public service. This pattern points primarily to a weak wage basis in the civil service, as 52 per cent of active civil servants earn less than RM3,000 per month (KWAP, 2024), which constrains achievable replacement rates even under a defined-benefit scheme. A similar constraint is evident in the private sector, where 58 per cent of active EPF members earned RM3,000 or below in 2023 (EPF, 2024). In addition, pre-retirement withdrawals for housing, health, and education further erode retirement savings and reduce effective income replacement in old-age.

#### 2.2.4. Long-term sustainability

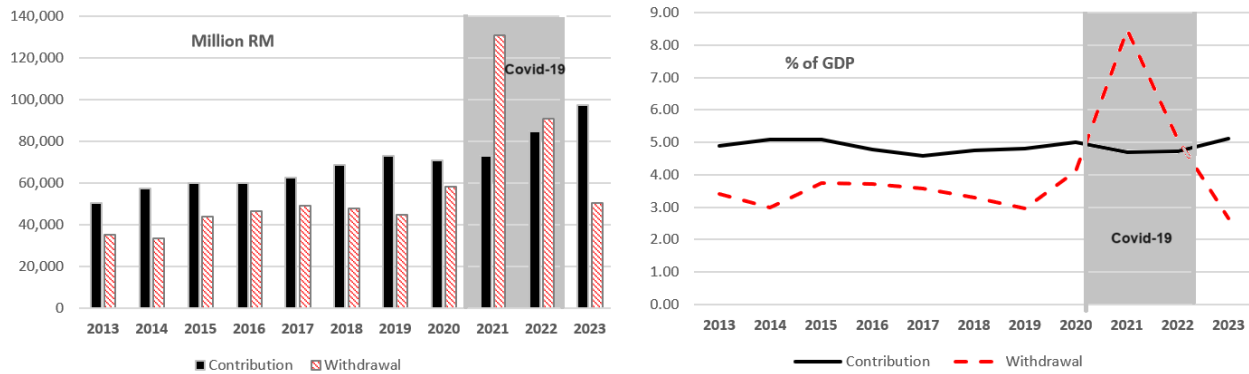
**Firstly, EPF long-term sustainability issues:** EPF is a fully funded, defined contribution retirement saving scheme financed by specific contribution rates collected from both employees and employers<sup>7</sup>.

Over the past decade, total contributions collected by the EPF have increased modestly in RM but have remained relatively stable as a percentage of GDP. However, withdrawals spiked during the Covid-19 pandemic as members accessed RM145 billion of EPF savings through four special withdrawal programmes to mitigate the pandemic’s impact (EPF, 2024).

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<sup>7</sup> The EPF contribution rates vary by salary, age, and employment status. For Malaysian employees under 60, those earning less than RM5,000 per month contribute 11%, with employers contributing 13%. For those earning more than RM5,000, the employee rate remains 11%, but the employer rate drops to 12%. For employees aged 60-75, both salary groups contribute 5.5%, with employers contributing 6.5% for the lower salary bracket and 6% for the higher bracket. Foreign workers contribute 11%, with a nominal employer contribution of RM5. Self-employed individuals can contribute up to RM60,000 annually.

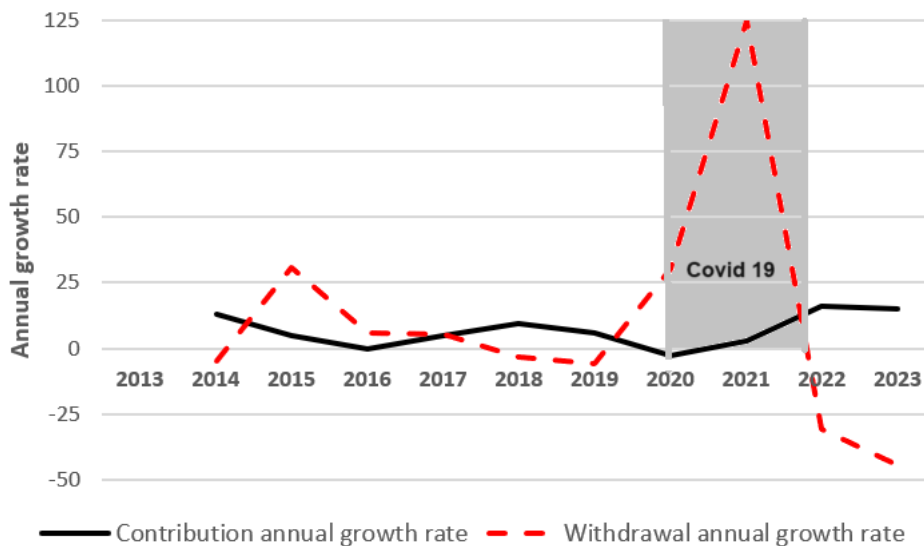
Figure 19: EPF’s total annual contribution and total benefits in million RM and as a percentage of GDP (right graph), 2013-2023



Source: based on data from (EPF, 2024) and (IMF, 2023)

As contributions have resumed to exceed withdrawals, the accumulated assets are still in the buildup phase. As of December 31, 2023, the accumulated assets totalled RM 1,087.944 billion, representing 57.00 per cent of GDP for that year and amounting to 11.152 times the annual contributions of 2023 (EPF, 2024). However, from 2013 to 2023, contributions grew at a lower annual rate compared to withdrawals.

Figure 20: Annual growth rates for EPF’s contributions and withdrawals, 2013-2023



Source: based on data from (EPF, 2024) and (IMF, 2023)

This rate differential suggests that the buildup phase will eventually come to an end, a situation that warrants attention, especially in light of broader structural changes such as demographic

pressure and expected shifts in the labour market, including younger generations' preference for flexible work arrangements. To mitigate these risks, increasing the minimum withdrawal age would extend the asset buildup phase and provide better protection against longevity risk by allowing members to accumulate more savings.

**Secondly, KWAP's long-term sustainability issues:** The sustainability issue of KWAP is particularly pressing. As a defined-benefit scheme with comprehensive coverage<sup>8</sup>, KWAP is predominantly tax-financed<sup>9</sup>, which places a significant financial burden on the government to maintain its obligations without contributions from beneficiaries.

Further, the demographics of KWAP's scheme show a significantly higher ageing profile compared to the general population. As of 2023, there were 813,372 pension recipients (594,673 former civil servants and 218,699 survivors/dependents), compared to only 1,290,166 KWAP active members (KWAP, 2024). This results in a scheme dependency ratio of 63.04 dependents per 100 active members, which is significantly higher than the national dependency ratio.

As of 2021, the total contribution amounted to RM 2.95 billion (KWAP, 2024), which represents 0.19 per cent of GDP for the same year. On the other hand, the benefits paid significantly exceeded the contributions collected on an annual basis. As of 2021, total benefits paid (pension and gratuity payments) totalled RM27.581 billion (KWAP, 2024), which is 1.78 per cent of GDP for the same year and a multiple of 9.35 of the collected contribution in the same year.

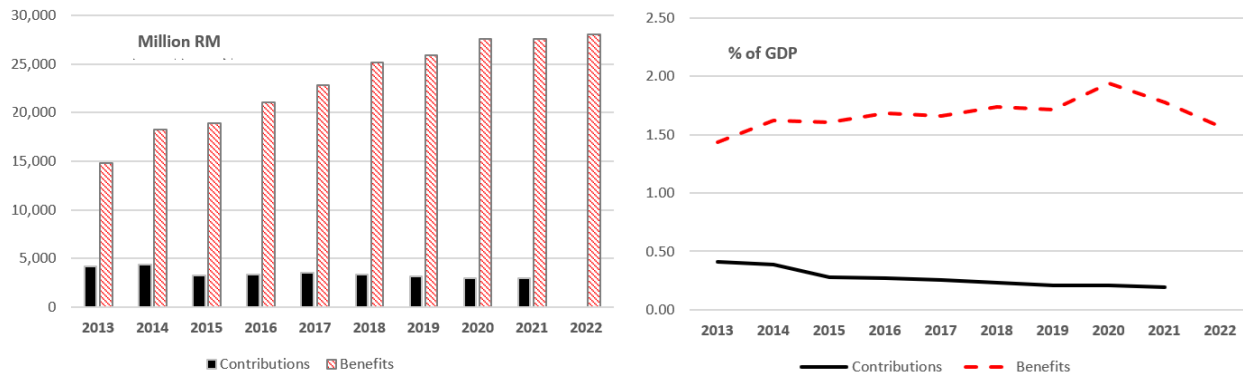
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<sup>8</sup> Scope of coverage includes three main areas: Retirement benefits (which comprises a monthly pension, a gratuity, and a cash award for accumulated leave), Survivors' benefits (derivative pension, derivative gratuity, and dependents' pension), and disability pension.

<sup>9</sup> KWAP's contributors to the retirement fund are from 3 primary sources:

- Federal Government: annual contribution of up to 5% from the total annual budgeted emoluments of its employees;
- Statutory bodies, local authorities, and agencies: monthly contribution of 17.50 per cent of the pensionable employees' basic salaries;
- Employees: no contribution. However, the share of pensionable employees' contribution to contributory schemes like EPF and LTAT will be transferred to KWAP upon the employees' retirement or switch to the pension scheme.

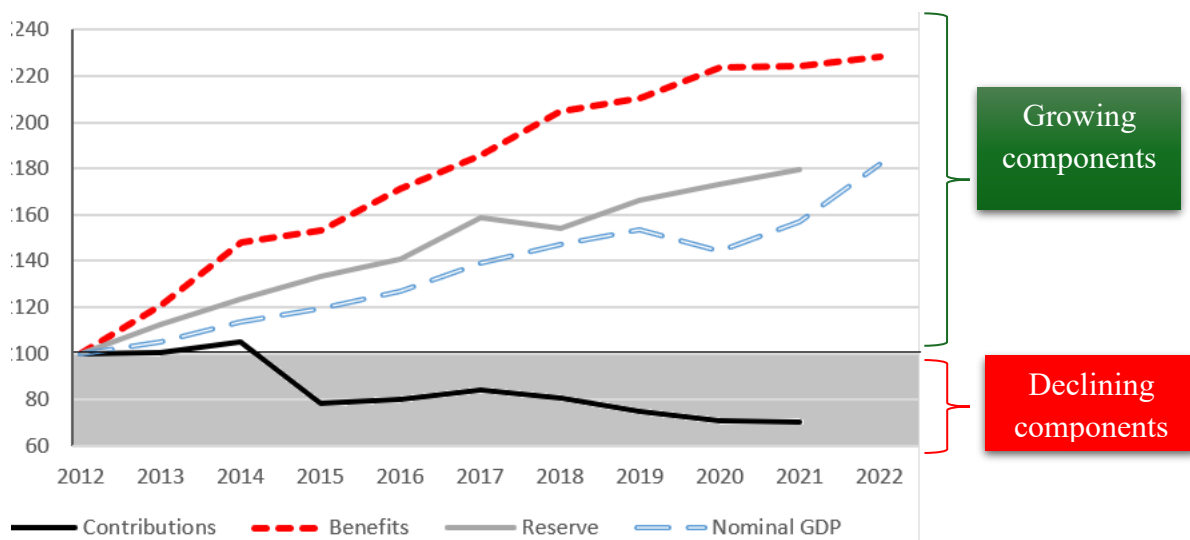
Figure 21: KWAP's total annual contribution and total benefits in million RM and as a percentage of GDP (right graph), 2013-2022



Source: based on data from (KWAP, 2024) and (IMF, 2023)

While this differential between contributions and benefits puts pressure on KWAP's reserve, the overall reserve continues to grow, but at a slower rate, benefiting from the investment income. As of the end of 2021, the total fund size was MYR159.04 billion (KWAP, 2024), which is 10.27 per cent of GDP for the same year, and represents a multiple of 5.77 of paid benefits for the same year. Nevertheless, growth in benefits has exceeded all other growth components of the system, which indicates the sustainability concerns of the system.

Figure 22: Growth of KWAP's benefits, contributions, and reserve between 2012 (base year =100) and 2022

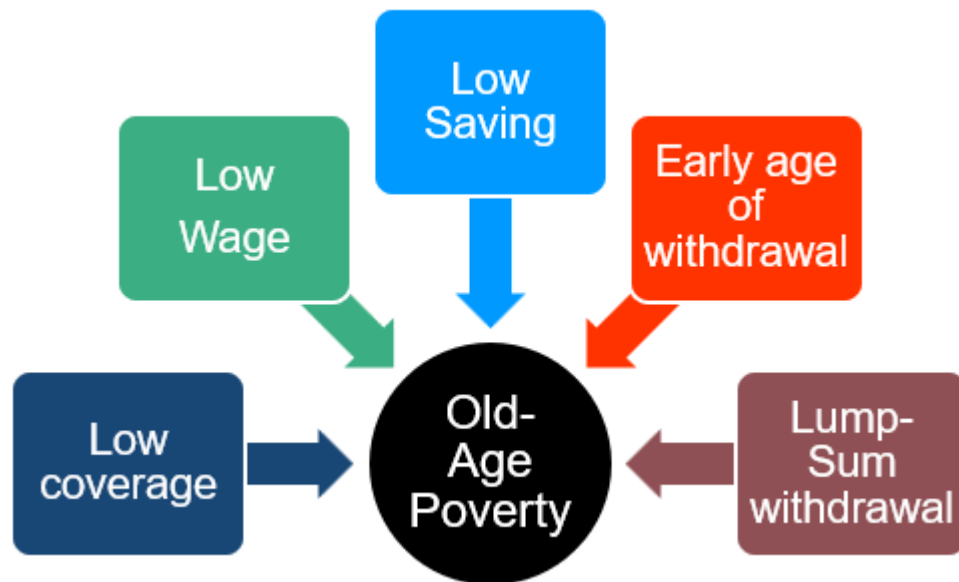


Source: based on data from (KWAP, 2024) and (IMF, 2023)

### 3. REFORM FRAMEWORK AND STRATEGIES FOR OLD-AGE INCOME SECURITY

As discussed in detail earlier, old-age poverty in Malaysia is driven by five interrelated structural problems: low wages, limited social security coverage, inadequate retirement savings, early withdrawal of EPF savings, and the predominance of lump-sum withdrawals. These factors undermine the effectiveness of the current old-age income security system, especially for low-income workers, women and those in informal or precarious employment.

Figure 23: Drivers of Old-Age Poverty in Malaysia

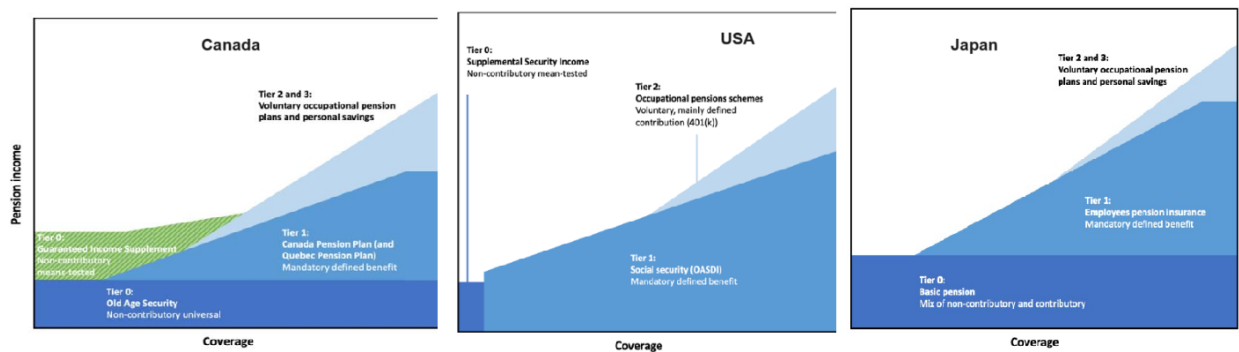


The interrelated drivers of old-age poverty identified above highlight that Malaysia’s challenges are not confined to any single programme or population group, but stem from structural fragmentation across contributory and non-contributory arrangements. Addressing these challenges, therefore, requires more than isolated policy adjustments. It calls for a coherent system-level framework that consolidates existing instruments, strengthens coordination across tiers, and aligns incentives for labour market participation, savings, and redistribution. In this context, the following section introduces a multi-tier framework for consolidating and coordinating Malaysia’s fragmented old-age social protection arrangements, providing the structural foundation upon which the proposed reform strategies are built.

### 3.1. An Integrated Multi-Tier Framework for Old-Age Social Protection under RMK13

While no two national pension systems are identical and there is no blueprint for an ideal system, most countries secure the sustainability and full coverage of their pension systems **through multi-tiered schemes**, which utilise a combination of social protection instruments to address the full spectrum of objectives of a national pension system (ILO, 2018) . It achieves the sought objectives of comprehensive coverage and adequate old-age income security by incorporating various sources of funding and types of benefits. These tiers are defined by the ILO and other organisations, such as the World Bank, and are designed to complement each other to ensure both adequacy and coverage. The following country examples illustrate the applicability of this framework to ensure comprehensive coverage and improve income adequacy.

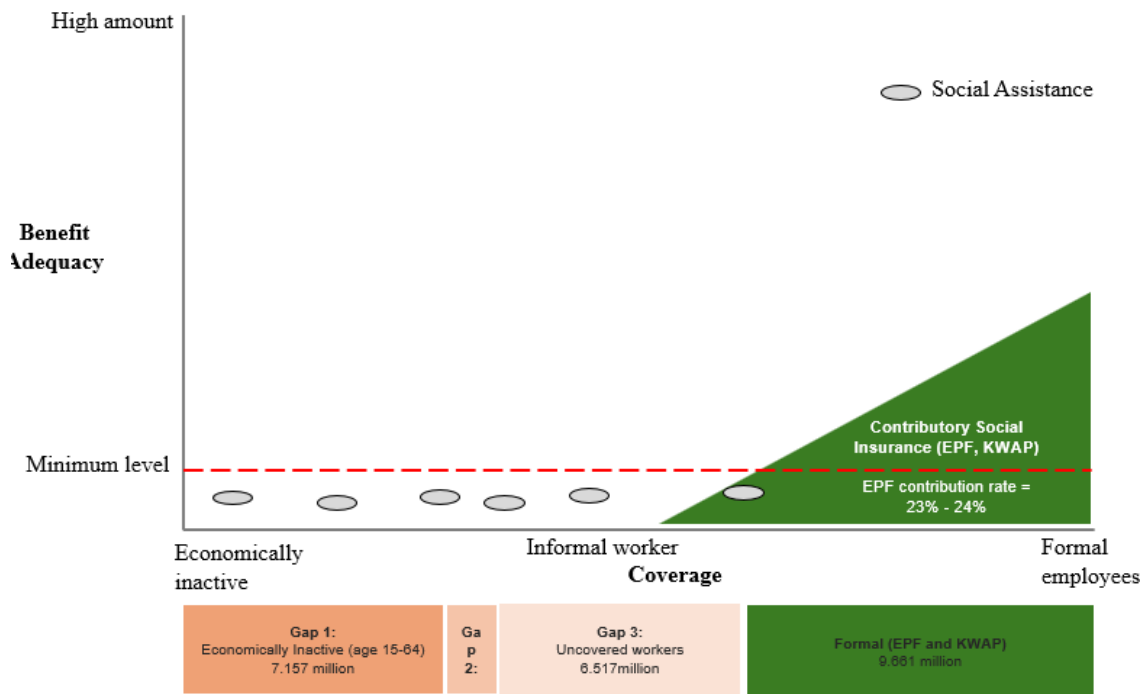
Figure 24: Multi-tiered old-age income security, selected country examples



Source: (ILO, 2018), (ILO, 2023)

Representing Malaysia’s current system of old-age income security in a two-dimensional framework shows the gaps in coverage (horizontal dimension) as well as inadequate benefits (vertical dimension), as previously discussed.

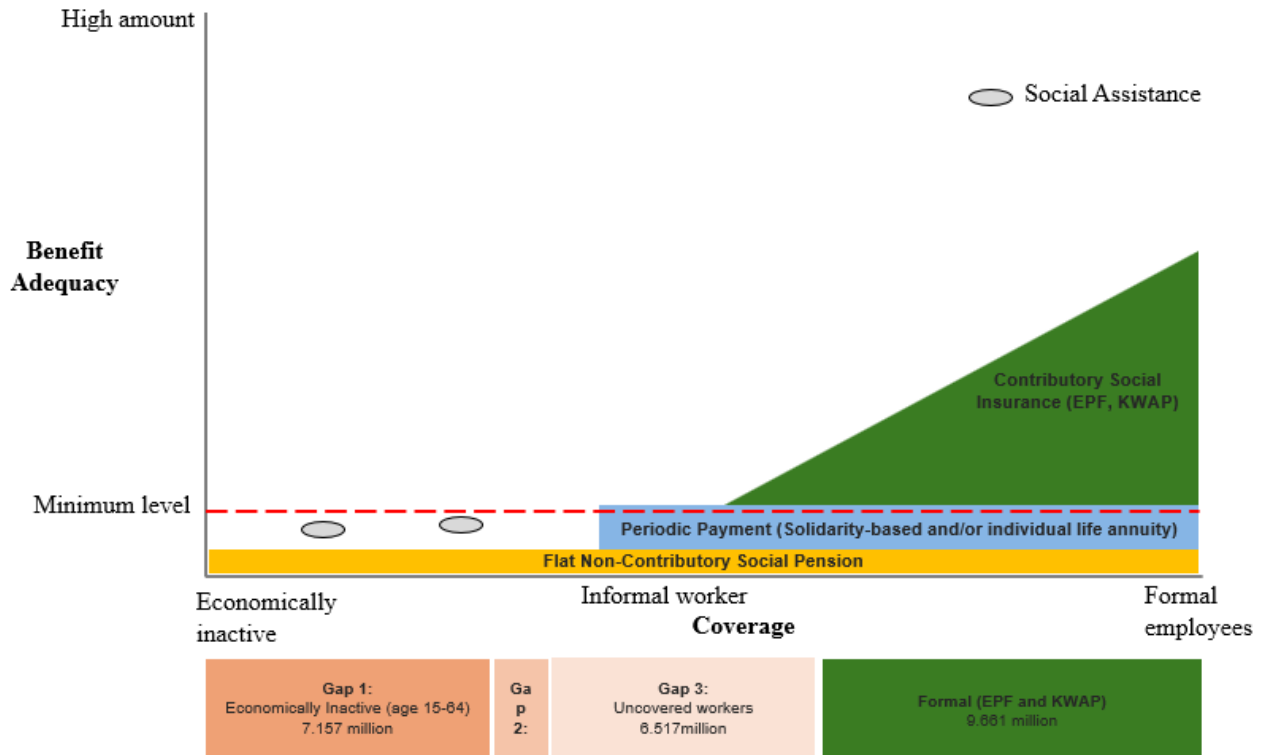
Figure 25: Two-dimensional representation of Malaysia’s old-age income security



This policy paper adopts this multi-tiered approach to bring Malaysia closer to meeting international standards<sup>10</sup> and best practices, ultimately supporting the nation’s aspirations and objectives. The proposed framework envisions this multi-tiered system for Malaysia to look like the graph below (Figure 26), highlighting its capacity to maintain incentives for saving and labour market participation while operating within Malaysia’s overall fiscal envelope. Such an integrated framework would directly support the commitments of RMK13 to strengthen social protection and prepare for demographic ageing.

<sup>10</sup> International standards provide the normative basis for old-age income security. The ILO’s Social Security (Minimum Standards) Convention, 1952 (No. 102) sets minimum benchmarks for old-age protection, including coverage, benefit adequacy, and eligibility, while allowing temporary exceptions to accommodate national circumstances during system development. Complementing this, the ILO’s Social Protection Floors Recommendation, 2012 (No. 202) promotes the establishment of universal social protection floors guaranteeing access to essential health care and at least a basic level of income security in old-age.

Figure 26: Envisioned multi-tiered old-age income security in Malaysia



By enhancing the coordination between contributory and non-contributory programmes and fostering synergies across the system, the proposed integrated framework can significantly reduce inequality and improve economic security for the entire elderly population, effectively addressing the three critical coverage gaps outlined above. Preliminary simulations of a reformed system, designed to leave no one behind, suggest substantial positive impacts even at modest benefit levels (see Figure 29).

While the multi-tier framework provides the structural basis for reform, its effectiveness depends on how individual policy measures are designed and implemented within each tier. The following section, therefore, presents a set of strategic reform options to address coverage and adequacy gaps and to strengthen the coherence and sustainability of Malaysia’s old-age income security system in line with RMK13.

### **3.2. Reform Strategies:**

The reform strategies outlined below are designed to address the identified systemic gaps in a targeted and coordinated manner. Taken together, they aim to strengthen coverage, improve benefit adequacy, and enhance the sustainability of Malaysia's old-age income security system. These strategies operationalise the envisioned multi-tier framework presented in Figure 26 and provide the policy foundation for moving towards a more inclusive and resilient system under RMK13.

#### **Strategy 1: Consolidate all Old-Age Social Assistance Programmes into a Social Old-Age Protection Floor (SOAPF)**

As discussed earlier, multiple programmes currently provide social assistance to senior citizens in Malaysia. This fragmentation undermines policy coherence, leads to duplication of efforts, and diminishes the overall impact on reducing old-age poverty. International evidence confirms that administrative efficiency in social protection improves with scale. Since administration costs in social protection programmes accrue largely in absolute terms, larger, consolidated schemes typically benefit from economies of scale, resulting in lower administrative cost ratios compared to smaller, fragmented programmes (Ortiz, Durán-Valverde, Pal, Behrendt, & Acuña-Ulate, 2017).

The refocusing of existing fragmented programmes will also support efforts to close the coverage gaps in Malaysia's old-age income security system (Figure 14). This strategy proposes the introduction of a flat-rate and non-contributory SOAPF, which is aimed at covering all senior citizens regardless of their participation in the labour market. The primary objective is to provide basic income security to individuals, particularly women, who lack access to contributory pensions due to informal employment, interrupted work histories, or unpaid care roles. By addressing gender disparities in pension coverage, the SOAPF will promote equitable retirement outcomes, enhancing both social inclusion and economic wellbeing.

Integrating the SOAPF alongside the existing contributory tiers, as illustrated in Figure 26, will increase the adequacy of combined old-age benefits and reinforce social solidarity.

#### Eligibility Criteria

The SOAPF is a flat rate benefit pension provided to senior citizens age 70 and above, regardless of their prior record of labour market participation or earnings. This recognises the level of development in Malaysia and its aspiration to reach a developed-nation status and a socially inclusive society. It moves away from the charity-model (poverty targeting), into a more inclusive and coherent social protection system i.e. categorial targeting of senior citizens.

While the lifecycle targeting approach ostensibly covers all individuals in a category (e.g., all seniors age 70 and above), a form of targeting is implicitly built in:

- **Categorical targeting:** The lifecycle approach recognises that deprivation and vulnerability are positively correlated with age i.e. old-age. The selection of old-age vulnerability as a targeted category is based on its correlation with poverty (see Figure 6) and other sought developmental outcomes such as gender equality, as discussed earlier (see Figure 15).
- With the inclusion of financing mechanisms, **the overall impact (transfer and tax, or fuel subsidy removal, combined) is a net transfer** from rich households to poor households.

But, if for political reasons it is thought to limit benefits only to B40 and M40, it is recommended to create a wealth threshold (for instance, those households that own 2 properties or more) and exclude those above the wealth threshold without targeting the poor. In other words, **instead of targeting the poor (for whom income information is limited or absent), exclude the rich (who are more visible in existing administrative data)**. This approach has been used by several countries, including Australia, New Zealand and the UK, among others (ILO and UNICEF, 2024). The proposed shift, from narrow poverty targeting currently used in Malaysia to life-cycle identification, will achieve the following key objectives:

- **Reduce exclusion errors associated with poverty targeting:** as discussed earlier, experience with the STR programme illustrates the inherent limitations of poverty-targeted approaches, including persistent exclusion of eligible households alongside inclusion of some non-eligible beneficiaries. These challenges, which are widely observed across countries, underscore the need for more inclusive and administratively simple approaches to old-age income protection.
- **Administrative simplicity and efficiency:** The simplicity of the categorical targeting proposed for the SOAPF reduces the administrative burden currently placed on many agencies to verify documents and assess complex eligibility criteria. Categorical programmes have little need for periodic reappraisal of eligibility, whereas poverty-targeted programmes require periodic retargeting to assess ongoing eligibility, which implies more costs and complexity from an administrative perspective<sup>11</sup>. In addition to costs, complexity adversely affects coverage. As many vulnerable people are less educated or informed, and more likely fail to comply with the requirements of complex eligibility-determination or qualification processes, generally associated with means-tested targeted programmes, they end up excluded<sup>12</sup>. Additionally, as poverty is dynamic, households that are right above the threshold can easily fall below the threshold after experiencing a shock

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<sup>11</sup> An ILO review concluded that the universal schemes reviewed had the lowest average administration costs at 2.5 per cent of total programme costs, whereas targeted programmes averaged administration costs of 11 per cent (Ortiz, Durán-Valverde, Pal, Behrendt, & Acuña-Ulate, 2017).

<sup>12</sup> This partly explains the high exclusion 'error' among the poor, as in the case of urban poor access to STR discussed earlier.

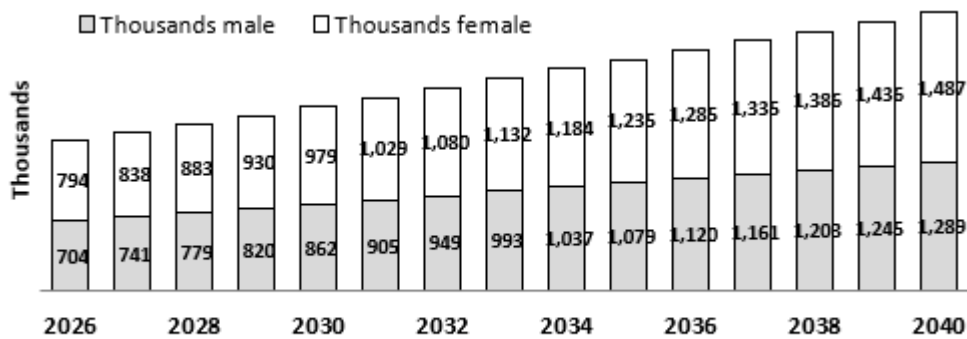
such as sickness or death of a family member, unemployment, etc. Capturing them into the system will take time and will further hamper their capacity to recover.

- **Dignity, solidarity and social cohesion:** Programmes supposed to be exclusively for the poor tend to be stigmatising. Studies have found that the screening processes involved in determining eligibility for means-tested, or proxy-means-tested benefits tend to be stigmatising<sup>13</sup>. The social ‘othering’ that occurs through targeting generates a strong ‘in’ and ‘out’ group dichotomy, especially in contexts where notions of ‘deserving’ and ‘undeserving’ poor prevail (Roelen, 2017). In contrast, categorical targeting removes screening procedures to determine eligibility (who is ‘in’ and who is ‘out’). It further contributes to a sense of community as all the group members benefit from such inclusive programmes. It removes the risk of deserving low-income families excluding themselves from entitlements due to the shame of being ‘on benefits’. Further, the broad-based consensus that universal approaches help create social cohesion and a sense of citizenship and belonging. Life-cycle approach signals a clear message from the state that all citizens have a stake in society

Covered population, benefit amount and indexation, and overall cost

The SOAPF provided to senior citizens age 70<sup>14</sup> and above will correct for the discriminatory labour market discussed earlier. In fact, as women live longer, the old-age allowance proposed will benefit women more than men as seen in below graph as seen in next figure.

Figure 27: SOAPF coverage senior citizen age 70 and above by gender, 2026-2040



<sup>13</sup> In India, Thozilurappu Paddhathi (the “work guarantee scheme” or National Rural Employment Guarantee Act – NREGA) is often referred to as Thozhiluzhappu Paddhathi, the “lazy work scheme”. (Walker, 2014). Another study found that, ‘stigma or stigmatisation is an important mechanism through which shame is induced’ (Roelen, 2017).

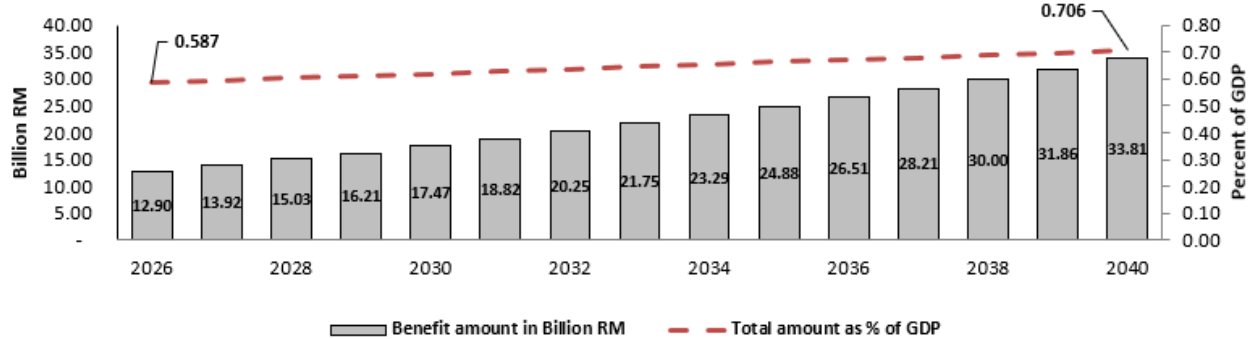
<sup>14</sup> As discussed earlier, the study suggests covering 80 per cent of the population (B40 and M40), but instead of targeting the poor (for whom income information is limited or absent), exclude the rich (who are more visible in existing administrative data).

The benefit amount proposed is RM700 a month. While the proposed amount is likely less than the needs for senior citizens, the benefit is meant to complement existing old-age income security instruments as presented in Figure 26 but also not to reduce the incentive structure to contribute to higher protection arrangements provided by EPF.

It is to be noted that over the projection period, benefits are assumed to maintain real value in RM (indexed with inflation). However, as the economy is expected to continue to grow in real term (economic growth is positive), benefit level will decline in relative value (relative to GDP per capita income) over the projection period. At later stage, a periodic review of the real value of the benefit can be introduced to ensure coherence and relevance, this is in addition to the automatic indexation with inflation already built in the projection.

The cost of the SOAPF is financially feasible, with costs ranging from 0.587 per cent of GDP initially to 0.706 per cent by 2057. The following figure summarises the overall cost expressed in RM, percentage of GDP, and percentage of Government expenditure.

Figure 28: SOAPF overall cost coverage for senior citizens aged 70 and above, 2026-2040



Financing: Solidarity Fund

Given Malaysia’s comparatively low level of public spending (see Figure 8), there is fiscal space to establish and finance the SOAPF. As outlined earlier, a key principle of the proposed reform is to promote social solidarity, inclusivity, and cross-subsidisation (from working to non-working, and from higher-income to lower-income).

To that end, it is proposed that a **Solidarity Fund** be established to finance the SOAPF. The Fund would be supported through a mix of fiscal and contributory sources as follows:

1. **Fiscally neutral reallocation of existing resources:** Currently, multiple programmes provide social assistance to the elderly. With the implementation of the SOAPF, these fragmented programmes become redundant. Their associated budget allocations, which

amount to **RM 1.5 billion annually**<sup>15</sup>, can be redirected into the Solidarity Fund. A detailed expenditure review can refine this estimate and ensure efficient consolidation.

2. **Reallocation of a 1 per cent contribution from the EPF:** As all EPF members will benefit from the SOAPF, it is proposed that 1 per cent of the existing EPF contribution rate be redirected to the Solidarity Fund. This would generate **RM 5–6 billion per year**, while preserving the remaining EPF contributions for individual retirement savings.
3. **Positioning SOAPF as a compensatory measure in subsidy rationalisation:** SOAPF can also serve as a **targeted cushion against welfare losses** stemming from fuel or food subsidy reforms. Its periodic disbursements will help protect senior citizens from inflationary shocks and strengthen the political and social sustainability of broader economic reforms<sup>16</sup>.
4. **Additional budgetary allocations:** Any remaining funding requirements can be met through **incremental increases in public expenditure**. Given the moderate fiscal cost of SOAPF (as shown in Figure 28), this approach is both feasible and justifiable, particularly in light of its strong poverty-reduction impact and its potential for improving social cohesion.

### Impact of SOAPF

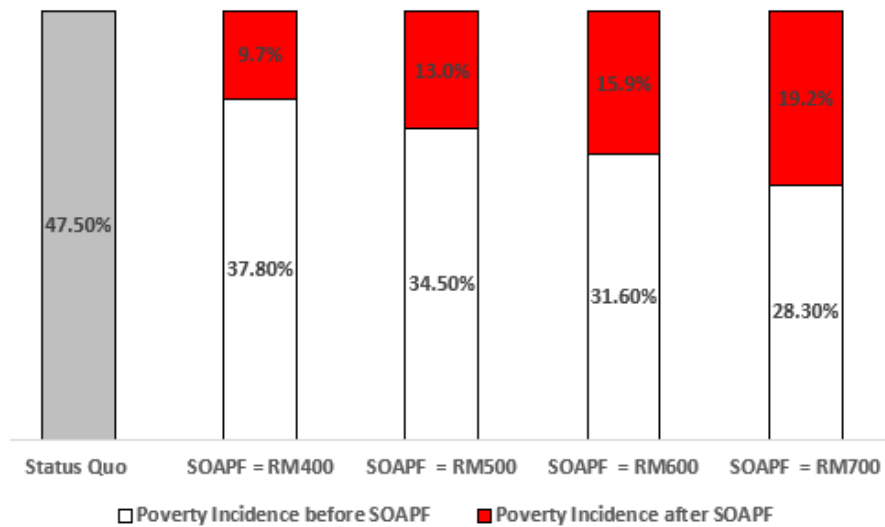
The proposed benefit level of RM700 per month for the SOAPF is based on a simulation of its expected impact on old-age relative poverty, using data from the Household Income and Expenditure Survey (HIES) 2022. The Figure below illustrates the projected reduction in relative poverty among senior citizens following the introduction of the SOAPF.

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<sup>15</sup> In 2022, 58 per cent of senior citizens received STR. Assuming a similar take-up rate among individuals aged 70 years and older, this implies approximately 1.09 million STR recipients in this age group. At the average STR benefit level, this corresponds to an estimated annual expenditure of RM1.1 to RM1.5 billion. In addition, a range of other programmes, including BWE, also channel social assistance to this age group.

<sup>16</sup> Thorough analysis can be found at: “[Towards Equitable Transition: Safeguarding Welfare Amidst Subsidy Reform in Malaysia](#)”. Kuala Lumpur: Social Wellbeing Research Centre (SWRC), University of Malaya.

Figure 29 Simulated poverty reduction of SOAPF<sup>17</sup>



Source: calculation, by Dr Nur Fatimah Binti Mohd Ali, based on HIES 2022 dataset, DOSM.

These simulation results highlight the transformative potential of an inclusive and guaranteed income floor to substantially reduce poverty and improve the wellbeing of Malaysia’s ageing population.

In addition to direct poverty reduction, international evidence consistently demonstrates that cash transfers, especially those targeting older persons, generate positive institutional and developmental externalities (Fiszbein, Schady, & Ferreira, 2009). These include improved health outcomes, increased financial inclusion, and stronger intergenerational solidarity. To ensure effectiveness and accountability, the rollout of SOAPF must be accompanied by a robust monitoring and evaluation framework. Systematic, high-frequency monitoring can help detect and address implementation challenges such as payment delays, exclusion errors, or governance issues. Moreover, collecting and disseminating empirical evidence of impact, both through government and independent evaluations, will be essential to building sustained political and public support for the expansion and institutionalisation of SOAPF. Experience from other countries demonstrates that well-implemented social pension schemes often translate into electoral gains for governments, reinforcing the political feasibility of such reforms (see Box 1).

<sup>17</sup> The simulated graph depicts the relationship between different levels of pension and the relative poverty rate among individuals aged 70 and above. The poverty rate is calculated using a relative household poverty threshold of RM 3,100, equivalent to 50% of the household median income, based on data from the Household Income and Expenditure Survey (HIES) 2022. At baseline (RM 0 social assistance), the poverty rate for this demographic is the highest, at 47.50%. The introduction and incremental increase of benefit levels demonstrate a clear poverty reduction trend. For example, at RM 400 to senior citizens aged 70 and above, the poverty rate drops to 37.80%. Further increases in benefit level yield significant reductions, with the poverty rate decreasing to 28.30% at RM 700, a reduction of 20 percentage point from the baseline. However, the graph also highlights a diminishing marginal effect as the level of assistance rises.

### **Box 1: Social Pensions and Political Return**

Social pensions have not only served as crucial instruments for alleviating old-age poverty but have also played significant roles in shaping political outcomes. The introduction and expansion of social pension schemes in various countries have often correlated with electoral gains for the ruling parties, demonstrating a clear political return.

- **Lesotho:** The universal old-age pension introduced in 2004 helped government win next two elections. By providing a monthly benefit to all citizens aged 70 and above, the scheme garnered substantial support among the elderly, contributing to the incumbent government's re-election (Development Pathways, 2018), (Pelham, 2007).
- **Peru:** The "Pensión 65" program launched in 2011 significantly boosting Ollanta Humala's electoral success (Willmore, 2007), (Barrientos, 2011) .
- **Georgia:** The early 2000s saw the introduction of a universal pension scheme in Georgia, which provided a basic income to all elderly citizens. This policy increased government popularity among senior voters, aiding the ruling party's political success (Development Pathways, 2016).
- **Mauritius:** 2005 election was lost because the government means-tested the universal pension: winner immediately restored the universal pension (Willmore, 2007) .
- **Kenya:** The "Inua Jamii" program, launched in 2017, includes a social pension component providing a regular stipend to the elderly and other vulnerable groups. The program's rollout ahead of the 2017 general elections garnered substantial support for the incumbent government (Development Pathways, 2017).
- **Bolivia:** Bolivia's "Renta Dignidad" program, introduced in 2008, provides non-contributory pensions to all citizens aged 60 and above. The scheme significantly reduced elderly poverty and bolstered support for President Evo Morales, highlighting the electoral appeal of inclusive social protection programs (Barrientos, 2011) (Social Security Administration , 2013).
- **Brazil:** The "Benefício de Prestação Continuada" (BPC) in Brazil, a non-contributory pension for the elderly and disabled, has shaped political fortunes since 1996. The BPC has been crucial in reducing poverty levels and influencing electoral outcomes by building a broad base of support among beneficiaries (Barrientos, 2011) (Social Security Administration , 2013).
- **Thailand:** The introduction of the near-universal Old-Age Allowance in 2009, providing coverage for older persons outside the formal pension system, became a highly salient social policy and has since been retained and expanded by successive governments. The allowance has featured prominently in political discourse and electoral commitments, reflecting its broad appeal among older voters (Development Pathways, 2018).
- **Nepal:** The Old-age Allowance, introduced in the mid-1990s and progressively expanded in coverage and benefit levels, is widely recognised as one of the country's most popular social programs. Its expansion has been repeatedly referenced in electoral commitments and has contributed to sustained political support for governments prioritising social protection (HelpAge International, 2014) (Development Pathways, 2018).
- **Mongolia:** Universal and age-based non-contributory pensions and social transfers have played a visible role in political discourse, with benefit increases frequently announced around election periods. These programs have been politically salient due to their wide coverage and high visibility among older citizens (Development Pathways, 2016).

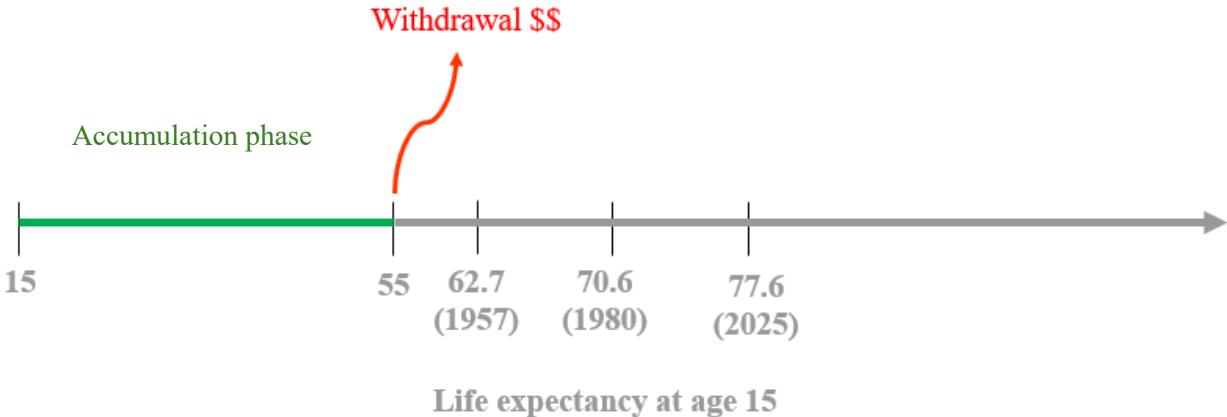
**Strategy 2: Short-term Measures to Strengthen the Lifetime Consumption-Smoothing Function and Old-Age Protection Through Synergy Between EPF and the SOAPF**

A key function of any old-age income protection system is to **smooth consumption over the individual’s lifetime**, ensuring that resources earned during working years are available to support needs during post-employment years.

As discussed earlier, Malaysia’s retirement savings system, anchored in the EPF, faces a fundamental design limitation in protecting against longevity risk: the absence of an annuitisation mechanism to spread accumulated savings over the retirement period. This gap is rooted in two related challenges: **inadequate accumulation of savings** and **early full withdrawal at age 55**. The combination of a low wage base (see Figure 5) and early withdrawal age means that many members reach age 55 with insufficient balances to fund an annuity. As a result, any annuity product offered would be too modest to be attractive or adequate.

Meanwhile, Malaysians are living longer. A 15-year-old in 2025 is expected to live until 77.6 years (UN, 2024), implying a **22.6-year period of retirement** after the EPF withdrawal age.

Figure 30: EPF’s Unchanged Saving Withdrawal Age at 55 vs. Increased Life Expectancy at Age 15 Over Time



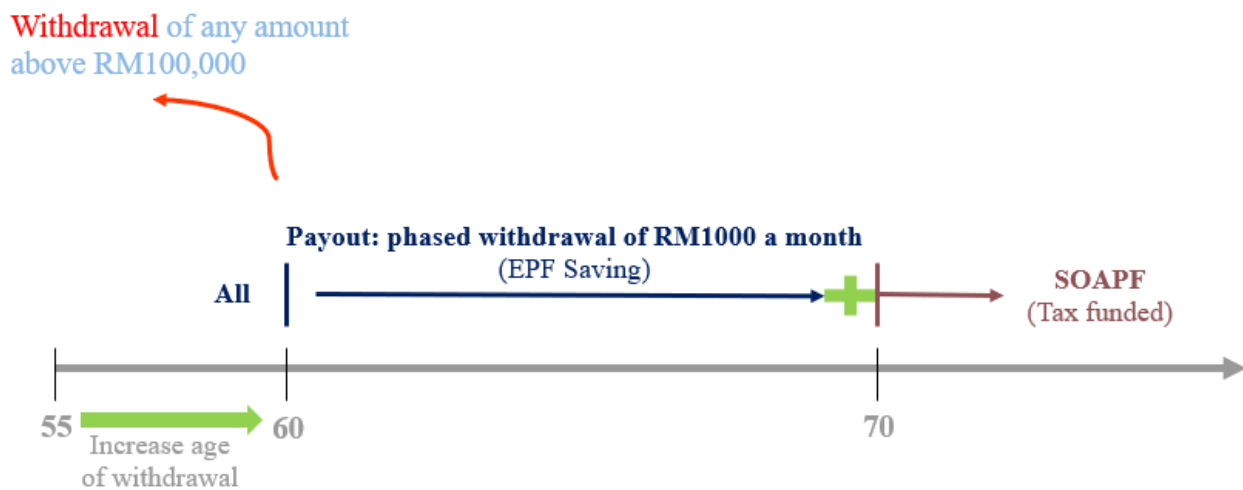
This extended post-retirement period, coupled with insufficient savings, increases the risk of **old-age poverty** (see Figure 6). This underscores the urgent need to reinforce the consumption-smoothing function within Malaysia’s retirement system to mitigate this uncovered and growing risk.

As a first step, this strategy proposes to **raise the full withdrawal age in the EPF from 55 to 60** and simultaneously introduce a **structured, periodic payment mechanism**. As highlighted earlier, accumulated savings for many members are insufficient to support a meaningful life annuity. Therefore, a **synergistic approach** between EPF savings and the SOAPF is recommended to ensure **lifetime income security** for all members.

In the short term, the transition toward instalment-based withdrawals and the introduction of a social pension can be implemented in a synchronised manner through the following steps:

- At age 60, a **mandatory portion** of EPF savings, proposed at RM100,000, is converted into monthly instalments over a **10-year period** (age 60 to 70), yielding approximately RM1,000 per month.
- From age 70 onward, the individual would **transition to receiving the SOAPF**, providing continued protection in later life.
- Any **savings in excess** of the RM100,000 threshold may be withdrawn in a lump sum at age 60.

Figure 31: Creating Synergy Between EPF and the SOAPF



While the proposed changes offer a practical approach to providing minimum and periodic old-age income protection, it is important to **package these adjustments strategically**, namely the increase in withdrawal age, introduction of instalment payments, and integration with the SOAPF, to mitigate potential political and public resistance.

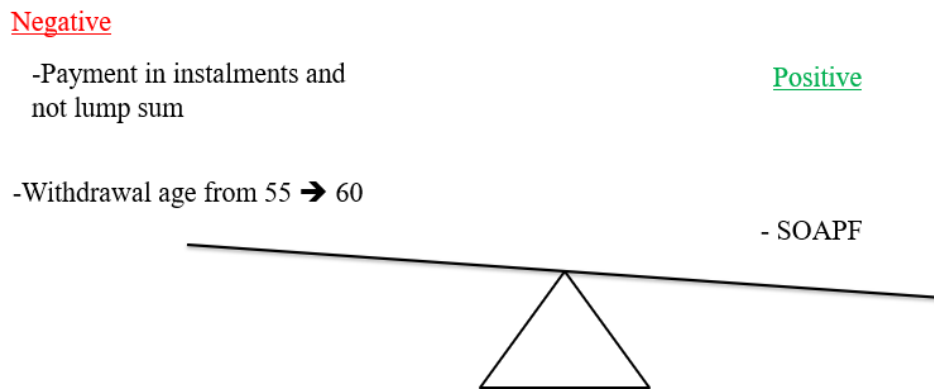
The following pathway is recommended to support a smooth and balanced implementation:

- **For new EPF entrants:** All proposed reforms should be introduced as **mandatory provisions** from the outset.
- **For existing EPF members:** The proposed package should be offered on a **voluntary basis** to preserve public trust and choice, with the following conditions:
  - i. Full withdrawal age is raised to **60 years**;

- ii. A maximum<sup>18</sup> of **RM100,000** of the member's savings will be disbursed in **monthly instalments** of approximately RM1,000 (adjustable based on declared dividends) over 10 years;
- iii. **Excess savings** above RM100,000 may be withdrawn at age 60 in a lump sum;
- iv. Members who opt into this package will, at **age 70**, become eligible for a **monthly SOAPF pension of RM700, plus an additional RM700 for their spouse, both indexed to inflation and paid for life.**

This **incentive-based, phased approach** balances fiscal and social protection goals with political feasibility. It encourages voluntary participation and minimises backlash while transitioning Malaysia's pension landscape toward a more **inclusive and sustainable multi-tiered system.**

Figure 32: Incentive Structure to Build Consensus for Reform



### Strategy 3: Long-term Measures to Strengthen Old-Age Income Security Protection Adequacy

A more ambitious reform, requiring detailed assessment of the enabling environment, including investment strategies, risk management, and administrative capacity, is the **introduction of a life**

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<sup>18</sup> If a member's EPF savings are **less than RM100,000**, they would still be required to receive their savings through **monthly instalments**, but over a **shorter duration** proportionate to their balance. If the member agrees to this instalment arrangement, they would remain **eligible for the entitlement outlined in item (iv)**, namely, the SOAPF pension of RM700 for themselves and an additional RM700 for their spouse from age 70 onward.

Importantly, individuals who are **not EPF members** or have **no savings** in their EPF accounts will **still qualify for the SOAPF**, ensuring that the system provides a basic level of old-age income security for all, irrespective of their employment or contribution history.

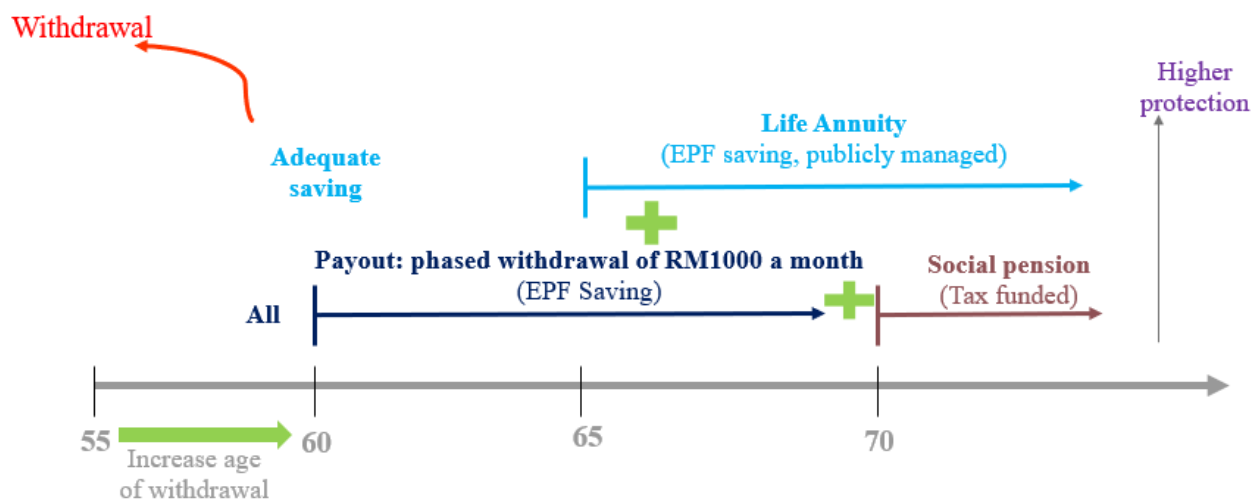
**annuity component.** This component could take the form of a **limited-solidarity-based model** or one with explicit **solidarity features**.

Approach I: Limited-Solidarity Life Annuity

This model builds upon the short-term reform package and provides an additional layer of protection for workers with **sufficient accumulated EPF savings** at the revised withdrawal age of 60. Under this approach:

- In addition to the 10-year **monthly instalment** (age 60–70), a **mandatory portion** of savings is converted into a **life annuity**, beginning at age **65**, to ensure a predictable income stream during later retirement years.
- At age **70**, the member will also receive the **SOAPF**, thereby benefiting from a **combined protection package** through both contributory and non-contributory streams.
- Any **remaining savings** above the mandatory thresholds can be **withdrawn at age 60**.

Figure 33: Long-term Reform – Adding Life Annuity: Approach I (No Solidarity)



This approach maintains a **defined contribution logic** while providing a mechanism for lifelong income security, particularly for those with adequate retirement savings.

For the life annuity add-on, it is essential to maintain two distinct funds: one for the accumulation phase (for active contributors) and another for the de-accumulation phase (for retirees receiving annuity payments). At the point of retirement, an individual’s accumulated assets would be transferred from the accumulation fund to the de-accumulation fund, thereby ensuring a clear separation between contributors and beneficiaries.

This separation is critical for managing risks specific to life annuities, such as rising life expectancy, and for avoiding intergenerational risk pooling within a defined contribution system like the EPF. By isolating these phases, the system maintains its actuarial integrity while still enabling long-term protection for retirees.

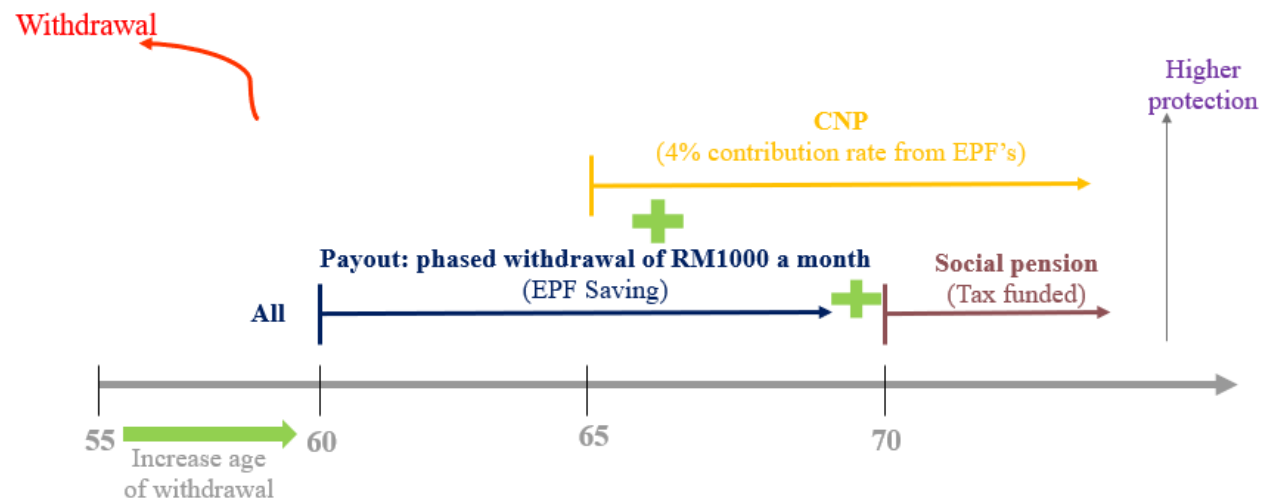
It is also important to emphasise that the pay-out phase should not be outsourced to private providers. Due to asymmetric information and adverse selection risks in the private annuity market, the cost of annuitisation is typically higher. A centrally managed public fund benefits from economies of scale, pooled longevity risk, and lower administrative costs, making it a more efficient and equitable vehicle for delivering annuities.

Approach II: Solidarity-Based Life Annuity

This approach envisions the introduction of a **Contributory National Pension (CNP)**; a defined-benefit pension scheme designed to deliver a flat-rate pension based solely on the number of years an individual contributes, rather than the total amount of savings accumulated. This model adds a layer of solidarity to Malaysia’s retirement system by providing uniform benefits that are independent of income levels.

Crucially, the CNP is proposed to impose no additional contribution burden. The paper proposes that its funding be provided through a reallocation of 4 percentage points from the existing EPF contribution structure (currently 23–24 per cent). Under this plan, 2 per cent from employers and 2 per cent from employees would be redirected from EPF to finance the CNP.

Figure 34: Long-term Reform – Adding Life Annuity: Approach II (With Solidarity)



In practical terms, the CNP provides a standardised monthly pension based solely on an individual's contributory record, ensuring predictability and equity regardless of wage level. This

approach not only enhances income security in retirement but also introduces a simple and transparent structure that is easy to administer and communicate.

Table 3: CNP’s Design Parameters

Provisions	Description
<b>Eligibility conditions</b>	<ul style="list-style-type: none"> <li>- Full pension: at least 360 months (30 years) of contributory record.</li> <li>- Partial pensions: at least 180 months (15 years) of contributory record.</li> <li>- Lump sum<sup>19</sup>: less than 180 months of contributory record.</li> </ul>
<b>Contribution rate</b>	<p><b>Salaried employees:</b></p> <ul style="list-style-type: none"> <li>- A total contribution rate of 4%, with 2% contributed by employers and 2% by employees. <u>These contributions will be sourced from the existing EPF contributions</u></li> </ul> <p><b>Others<sup>20</sup>:</b></p> <ul style="list-style-type: none"> <li>- flat monthly contributions equivalent to 4% of the prevailing minimum wage.</li> </ul>
<b>Full pension</b>	A flat rate pension determined by an actuarial valuation.
<b>Partial pension</b>	For a contribution record of <b>less</b> than 360 months, but above the minimum eligibility of 180 months, a pro-rated pension will be provided = (months of contribution/360) X full pension
<b>Lump sum settlement</b>	Not eligible for minimum pension (contribution records of less than 180 months) will receive their contribution back with interest.
<b>Death Grant</b>	If death occurs at age <70, with a contribution record of 36 months or more, a lump-sum benefit = 24 months of ‘notional’ minimum wage
<b>Maximum insurable earnings</b>	RM10,000 a month (increases annually with average wage increase)
<b>Indexation of pensions</b>	Pension maintains relative value to the CNP’s median monthly insurable earnings i.e. pension increases with an increase in wage

While Table 3 outlines a flat-rate benefit model for the CNP, it is important to recognise that no single design fits all policy contexts or objectives. To assist policymakers in weighing trade-offs between **equity, sustainability, and administrative simplicity**, two additional design options are presented in **Annex A**. These alternatives provide flexibility to tailor the CNP to Malaysia’s evolving demographic, labour market, and fiscal conditions.

<sup>19</sup> Contributors who reach the retirement age are allowed to purchase up to two years of contributions to meet the required contribution record for a partial pension. The cost of these additional contributions will be determined based on actuarial fair value.

<sup>20</sup> This includes all those in the working age population who are not salaried employees. This included, but not limited to: the self-employed, the economically inactive (homemakers, students), and unpaid family workers.

## Box 2: Country Examples of Contributory Flat Pensions

Several countries have implemented flat-rate pensions that require contributions from either the employees, employers, or both. These systems are designed to provide a basic level of income for retirees, regardless of their earnings history, once they have made the necessary contributions. Here are some examples:

- [The UK's New State Pension](#): introduced in April 2016, is a flat-rate pension for those reaching state pension age on or after this date. To qualify, individuals need to have made National Insurance contributions or credits for at least 10 years. The full rate is achieved with 35 qualifying years.
- [Ireland's State Pension](#): pension amount is a flat rate but depends on the number of contributions made. Full entitlement is achieved after a certain number of contributions, with partial pensions available for those with fewer contributions.
- [Canada Pension Plan \(CPP\)](#): While CPP is largely earnings-related, there is a flat-rate component in the form of the post-retirement benefit, which provides a fixed amount regardless of earnings. However, the main CPP benefit is not a flat rate.
- [Japan's National Pension \(Kokumin Nenkin\)](#) scheme: which is a mandatory, flat-rate, contributory pension system for self-employed persons, students, and unemployed persons. To be eligible, individuals must have paid premiums for at least 10 years. Upon retirement, beneficiaries receive a flat-rate pension, ensuring a basic income regardless of prior earnings.

This policy paper proposes the starting date for CNP is January 1, 2030<sup>21</sup>. Practically, the first partial pension will be drawn after 15 years (minimum contributory record) i.e. 2045. This will have two implications:

- 1- **Age of retirement**: for a person who has reached age 65 in 2045 (the year for first CNP partial pension to be paid), s/he is expected to live an additional 18.8 years, reaching an average age of 83.8 years (UN, 2022). Considering Malaysia's current retirement age is comparatively low relative to global standards, adopting a forward-looking approach by setting the retirement age at 65 in 2045 is prudent.
- 2- CNP will only be made **mandatory for all new entrants to the labour market as of January 1, 2030**, who are **born on January 1, 2010, or after**. At the same time, it will also be **applicable to those born January 1, 1980 – December 31, 2009 on a voluntary basis** as they will be able to accumulate at least the minimum contributory records (180 months) between 2030 and 2045.

It is to be noted that defined-benefit old-age income security systems frequently encounter long-term sustainability challenges, particularly in the face of accelerating population ageing. However, the CNP is designed to mitigate such pressures through its conservatively structured framework, as detailed in the design parameters table. A key feature of the CNP is its exclusion of individuals aged 50 and above from initial membership, ensuring an extended period of low dependency ratios before the scheme aligns with broader population ageing trends. Preliminary actuarial analyses

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<sup>21</sup> This is to allow sufficient time for key steps including legal ground for introducing the CNP, but also to allow for sufficient time for public awareness campaign.

have been conducted to establish a contribution rate that balances different proposed benefit amounts with projected contributions and investment returns over the long term. These initial assessments indicate that the CNP is poised to maintain a positive reserve throughout the projection horizon<sup>22</sup>, bolstering its fiscal sustainability. However, the precise benefit levels under the CNP will be finalised following a comprehensive actuarial valuation. This valuation is part of the outlined set of activities (see next chapter) to ensure the scheme’s robustness and alignment with demographic and economic realities.

### Approach III: Combining Life Annuity with CNP

Rather than selecting between Approach I (non-solidarity life annuity) and Approach II (solidarity-based Contributory National Pension – CNP), this approach proposes to integrate both mechanisms into a unified retirement package. This hybrid model draws on the strengths of both approaches: the individual fairness and actuarial discipline of the life annuity model, and the equity and redistribution embedded in the CNP.

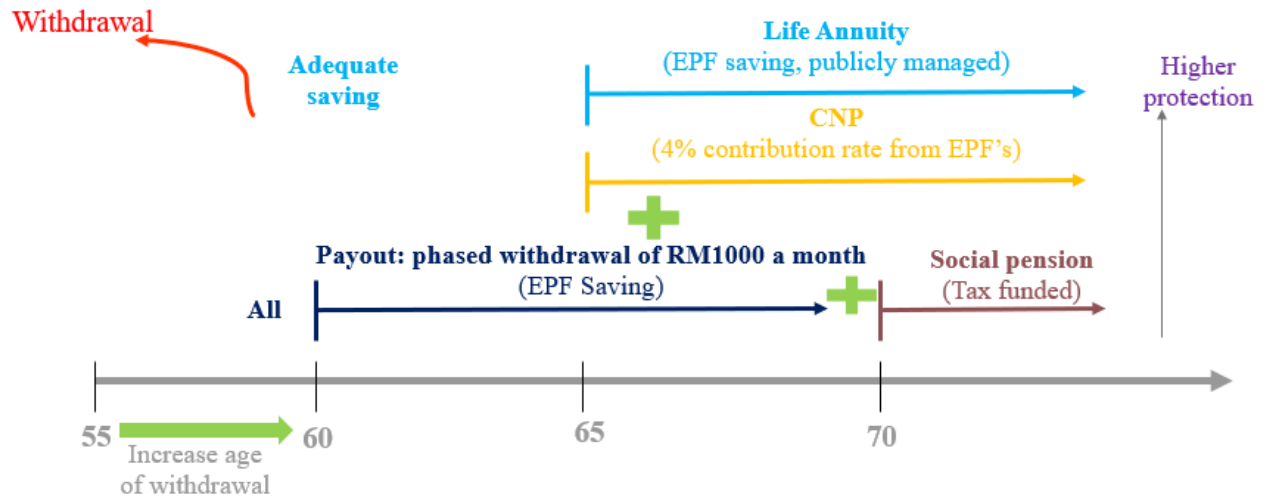
Under this model:

- A portion of EPF savings is annuitized at retirement, offering members a guaranteed income stream based on their individual savings (as in Approach I).
- In parallel, workers contribute to the CNP through a reallocation of 4% of EPF contributions, enabling a flat-rate, defined-benefit pension that rewards years of participation, independent of wage levels (as in Approach II).
- From age 70, individuals would also receive the SOAPF, ensuring a comprehensive floor of old-age income protection across all tiers.

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<sup>22</sup> A 50-year horizon has been selected based on the assumption that individuals contribute for 30 years and receive payouts for 20 years. This timeframe allows for a balanced assessment of contributions and payouts. Additionally, a 75-year horizon is considered to comprehensively study the long-term impacts.

Figure 35: Long-Term Reform – Adding Life Annuity: Approach III (CNP + Life Annuity)



This combined approach offers a robust and resilient income security framework by layering contributory and non-contributory mechanisms, while preserving fiscal sustainability and public trust. It aligns well with the multi-tiered system envisioned in Figure 26, delivering adequacy through a mix of self-provision, risk pooling, and solidarity.

## **4. PHASED REFORM ROADMAP UNDER RMK13**

Malaysia's demographic transition and the systemic gaps in old-age income security outlined in the preceding chapters demand not only reform but also careful sequencing of reform. Under RMK13, the Government has committed to strengthening social protection and enhancing resilience against demographic risks. Building on this policy direction, the proposed reforms, including SOAPF, EPF restructuring, annuitisation, and eventually the CNP, must be advanced in a phased and coordinated manner.

This roadmap reflects both Malaysia's fiscal realities and the need to build political consensus. Immediate measures focus on introducing an incentive-based package that combines EPF withdrawal reform with the rollout of SOAPF, creating visible and tangible benefits for current and future retirees. Medium to longer-term measures, such as a national annuity scheme and CNP, will be introduced gradually as institutional capacity, fiscal space, and public trust are strengthened. In this way, reform is not presented as a sudden overhaul but as a coherent, staged process that balances adequacy, sustainability, and inclusivity in line with Malaysia's national development priorities.

### **4.1. Why Sequencing Matters**

International evidence consistently shows that the sequencing of pension reforms has a decisive impact on both their effectiveness and their political sustainability. The World Bank's *Pensions in Crisis: Europe and Central Asia* (2008) underlined that reforms introduced without adequate preparation and consultation often face reversals (World Bank, 2008), while phased approaches tend to consolidate public trust. Similarly, the ILO emphasises that reforms should be guided by the principles of adequacy, universality, and sustainability, but that the pace and sequence of implementation must be adapted to the fiscal and institutional context of each country (ILO, 2018)

The experience of other countries highlights the risks of abrupt reform and the benefits of gradual, inclusive expansion. In Chile, the 1981 pension privatisation replaced the public pay-as-you-go system with mandatory individual accounts. While initially hailed as a model (Pienknagura & Evans, 2021), subsequent evidence showed that benefits proved inadequate for large segments of the population, particularly women and informal workers. Coverage declined, inequities widened, and corrective reforms had to be introduced beginning in 2008, including the creation of solidarity-based social pensions. Analysts have since described this process as "re-reform," illustrating the costs of inadequate sequencing (Mesa-Lago C. , 2008) (Mesa-Lago C. &., 2016) .

In contrast, Thailand adopted an incremental approach. Beginning in 2009, the Old-Age Allowance was gradually expanded to cover all older persons, ensuring that basic support reached those outside the contributory system. Although adequacy challenges remain, the ILO's 2022

review notes that universalisation reduced exclusion errors and extended protection to informal workers (ILO, 2022). A 2025 OECD review further emphasises how financing through general taxation and social security contributions has helped Thailand balance inclusion with fiscal realities (OECD, 2025).

Together, these cases offer two critical lessons for Malaysia. First, sequencing matters: Chile’s rapid overhaul without adequate solidarity measures produced decades of corrective reform, whereas Thailand’s incremental layering of a universal pension illustrates the value of gradual and broad-based inclusion. Second, redistributive mechanisms are indispensable: individual savings accounts alone do not secure adequacy or equity in ageing societies, but when combined with social pensions, they create a more resilient and sustainable multi-tiered framework.

For Malaysia, these lessons underscore the importance of anchoring reform under the RMK13. Sequencing reforms in phases; strengthening adequacy within the EPF, introducing the SOAPF to close coverage gaps, and preparing for longer-term solidarity-based mechanisms such as the CNP, will help balance political feasibility, fiscal sustainability, and social inclusion.

#### **4.2. Malaysia’s Phased Reform Path under RMK13**

Malaysia’s demographic transition, fiscal realities, and institutional landscape require a carefully sequenced reform pathway that builds on existing structures and introduces new instruments in stages. RMK13 provides the overarching policy anchor by emphasising inclusivity, resilience, and preparedness for population ageing. Within this framework, the reform of old-age income security can be phased to maximise impact, maintain fiscal prudence, and ensure political feasibility.

- **Phase I (2025–2030)** will focus on an incentive-based reform package that **combines the EPF withdrawal reform with the rollout of the SOAPF**. As discussed in Section 4, this package must be implemented simultaneously to create the necessary incentive structure for voluntary uptake and to provide credibility to the reform. Raising the EPF withdrawal age to 60, introducing phased instalments, and linking eligibility to the SOAPF at age 70 ensures that members see tangible benefits from participating.

To operationalise this phase, several actions are essential, including legal assessments for consolidating elderly assistance programmes, actuarial studies, amendments to the EPF Act, and the development of integrated IT and administrative systems. Coordination will be ensured through a national multi-stakeholder task force, while a comprehensive communication strategy will be needed to build consensus and public trust.

- **Phase II (2030–2045)** will deepen the system by introducing contributory instruments that complement the SOAPF floor. Two initiatives will be central: introducing a public annuity mechanism within the EPF and/or establishing the CNP for new labour market entrants. These measures will address the adequacy challenge while promoting redistribution and risk pooling.

Implementation will require detailed actuarial modelling for annuities, the creation of a separate retiree fund, the passage of CNP legislation, and the harmonisation of the legal framework across EPF, SOAPF, and the new CNP. Contributions to the CNP are expected to begin in 2030, with the first partial pensions payable in 2045 once the minimum contributory period is reached. This phase will also require substantial investment in IT integration and capacity building, alongside continued communication and outreach to extend coverage to the informal sector.

- **Phase III (Beyond 2045)** will consolidate the reform into a fully integrated multi-tier system. By this stage, the SOAPF, EPF annuity, and CNP will operate as mutually reinforcing components, guaranteeing universal coverage and adequate protection. Key milestones will include raising the statutory retirement age to 65, embedding automatic indexation of benefits to inflation and wages, and undertaking regular actuarial valuations to sustain fiscal balance. Institutional reforms will consolidate administration and monitoring across the three pillars, supported by a comprehensive national pension strategy and transparent reporting mechanisms. At this stage, Malaysia will achieve a coherent and fiscally sustainable system that balances adequacy, coverage, and cost containment, fully aligned with international standards and best practices.

### **4.3. Logical Framework for Malaysia’s Pension Reform**

To translate the phased reform roadmap into actionable steps, a logical framework (logframe) is presented below. The logframe serves as a results-based monitoring tool, linking impact-level goals with measurable outcomes, concrete outputs, and the assumptions necessary for success. It integrates the sequencing of reforms outlined earlier, while embedding Malaysia’s pension reform agenda within the policy priorities of RMK13. The framework emphasises not only the legal and institutional milestones required for SOAPF, EPF reform, annuity design, and the future CNP, but also the importance of political commitment, fiscal space, and inter-agency coordination. This structure ensures that reform progress can be tracked systematically, enabling policymakers to assess alignment between short-term implementation and long-term adequacy and sustainability.

Table 4: Logframe for the Pension Reform

Hierarchy of Objectives	Indicators	Means of Verification	Assumptions/Risks
<b>Impact:</b>			
Ensure dignified old-age income security for all citizens through a multi-tier pension system.	<ul style="list-style-type: none"> <li>- Old-age poverty rate reduced by 50% by 2035</li> <li>- Coverage of elderly with statutory pension and SOAPF <math>\geq</math> 90% by 2035</li> </ul>	<ul style="list-style-type: none"> <li>- HIES/DOSM data</li> </ul>	<ul style="list-style-type: none"> <li>- Sustained political will across RMK cycles</li> <li>- Stable macroeconomic environment</li> </ul>
<b>Outcomes</b>			
1. Universal access to a periodic minimum income in old-age	<ul style="list-style-type: none"> <li>- SOAPF rolled out nationally by Year 2027</li> <li>- SOAPF reaches at least 80% of elderly (70+) Malaysians</li> <li>- Phased withdrawal of EPF saving by 80 % of members</li> </ul>	<ul style="list-style-type: none"> <li>- SOAPF beneficiary database</li> <li>- Budget implementation reports</li> <li>- EPF and SOAPF administrative data</li> </ul>	<ul style="list-style-type: none"> <li>- Adequate fiscal space and efficient consolidation of existing programmes</li> <li>- Political commitment</li> </ul>
2. Adequate pension benefits ensure financial security for retirees.	<ul style="list-style-type: none"> <li>- Combined statutory old-age benefits (CNP, SOAPF, EPF) level <math>\geq</math> 40% of average national income by 2045.</li> </ul>	<ul style="list-style-type: none"> <li>- EPF annual reports</li> <li>- DSOM datasets</li> <li>- Policy tracking surveys</li> </ul>	<ul style="list-style-type: none"> <li>- Acceptance of delayed withdrawal age</li> <li>- Continued EPF investment returns</li> </ul>
3. Introduction of lifetime income through annuitisation	<ul style="list-style-type: none"> <li>- Public annuity scheme operational by 2030;</li> <li>- Proportion of retirees receiving annuity increases annually</li> </ul>	<ul style="list-style-type: none"> <li>- EPF system records</li> <li>- Member feedback surveys</li> </ul>	<ul style="list-style-type: none"> <li>- Institutional capacity to manage payout phase</li> </ul>
4. Equitable pension coverage through CNP	<ul style="list-style-type: none"> <li>- CNP legal framework enacted by Year 2030</li> <li>- Share of contributors to CNP reaches 80% by Year 2045</li> </ul>	<ul style="list-style-type: none"> <li>- Statutory documentation</li> <li>- SOCSO/EPF data tracking</li> </ul>	<ul style="list-style-type: none"> <li>- Employer and worker acceptance of reallocation</li> </ul>
<b>Outputs</b>			
A. SOAPF institutional framework established	<ul style="list-style-type: none"> <li>- New withdrawal rules (age 60, phased RM100k) operational for new entrants by 2027</li> </ul>	<ul style="list-style-type: none"> <li>- Government Gazette</li> <li>- Inter-agency implementation plans</li> </ul>	<ul style="list-style-type: none"> <li>- Inter-agency cooperation maintained</li> </ul>
B. EPF reforms legislated and implemented	<ul style="list-style-type: none"> <li>- New withdrawal rules adopted</li> <li>- Mandatory and voluntary instalment scheme rolled out</li> </ul>	<ul style="list-style-type: none"> <li>- EPF Act amendments</li> <li>- System implementation reports</li> </ul>	<ul style="list-style-type: none"> <li>- Public communications mitigate backlash</li> </ul>
C. Annuity mechanism designed and operational	<ul style="list-style-type: none"> <li>- Annuity pricing model approved 2028</li> <li>- De-accumulation fund established 2030</li> </ul>	<ul style="list-style-type: none"> <li>- Actuarial and financial reports</li> </ul>	<ul style="list-style-type: none"> <li>- Institutional capacity to manage payouts</li> </ul>
D. CNP introduced and operationalised.	<ul style="list-style-type: none"> <li>- Legal and institutional framework for CNP established by 2030.</li> <li>- first contribution collected in 2030</li> </ul>	<ul style="list-style-type: none"> <li>- Parliamentary records</li> <li>- EPF fund accounts</li> </ul>	<ul style="list-style-type: none"> <li>- Smooth transition from EPF to CNP stream</li> </ul>

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## APPENDIX A: ADDITIONAL DESIGN OPTIONS FOR THE CONTRIBUTORY NATIONAL PENSION (CNP)

In addition to the flat-rate design outlined in Table 3, this annex presents two alternative models: Option B: Two-Level Flat Pension and Option C: Bounded Flat Pension. These options retain the simplicity and predictability of flat-rate benefits while introducing additional mechanisms to better account for variations in earnings and contribution histories.

By offering modest differentiation in benefit levels, Options B and C seek to strike a more nuanced balance between solidarity, contributory fairness, and adequacy. These models are intended to support policymakers in evaluating design trade-offs and aligning the CNP with Malaysia’s evolving labour market and fiscal objectives.

### Option B: Two-level flat benefit CNP

Similar to Table 3, this design option provides a uniform pension amount based solely on an individual's contributory record, and disregarding variations in earnings levels. However, design option B allows for a slight benefit increase, as shown in detail in Table 5, for all earners that maintained a record of insurable earnings exceeding a threshold.

The following table outlines the design parameters of option B:

Table 5: CNP’s design parameters- Option B

Provisions	Description
<b>Eligibility conditions</b>	<ul style="list-style-type: none"> <li>- Full pension: at least 360 months (30 years) of contributory record.</li> <li>- Partial pensions: at least 180 months (15 years) of contributory record.</li> <li>- Lump sum<sup>23</sup>: less than 180 months of contributory record.</li> </ul>
<b>Contribution rate</b>	<p><b>Salaried employees:</b></p> <ul style="list-style-type: none"> <li>- A total contribution rate of 4%, with 2% contributed by employers and 2% by employees. These contributions will be sourced from the existing EPF contributions</li> </ul> <p><b>Others<sup>24</sup>:</b></p> <ul style="list-style-type: none"> <li>- To qualify for the <b>first bracket pension amount</b>, contributors must make monthly contributions equivalent to 4% of the prevailing minimum wage.</li> <li>- To qualify for the <b>second bracket pension amount</b>, contributors must make monthly contributions equivalent to 4% of double the median insurable earnings.</li> </ul>

<sup>23</sup> Contributors who reach the retirement age are allowed to purchase up to two years of contributions to meet the required contribution record for a partial pension. The cost of these additional contributions will be determined based on actuarial fair value.

<sup>24</sup> This includes all those in the working age population who are not salaried employees. this included, but not limited to: the self-employed, the economically inactive (homemakers, students), and unpaid family workers.

<b>Full pension</b>	Bracket 1: for income below double the median insurable earnings, a flat rate pension determined by an actuarial valuation. Bracket 2: for income above double the median insurable earnings, a flat rate pension = 1.25 X the bracket 1 flat rate pension.
<b>Partial pension</b>	For a contribution record of <b>less</b> than 360 months, but above the minimum eligibility of 180 months, a pro-rated pension will be provided = (months of contribution/360) X full pension
<b>Lump sum settlement</b>	Not eligible for minimum pension (contribution records of less than 180 months) will receive their contribution back with interest.
<b>Death Grant</b>	If death occurs at age <70, with a contribution record of 36 months or more, a lump-sum benefit = 24 months of 'notional' minimum wage.
<b>Maximum insurable earnings</b>	RM10,000 a month (increases annually with average wage increase)
<b>Indexation of pensions</b>	Pension maintains relative value to the CNP's median monthly insurable earnings i.e. pension increases with an increase in wage.

Option C: Bounded Flat Pension between two benefit levels

Similar to option B, design option C allows for two benefit levels. However, it uses a formula between these two benefit levels to allow the benefit to vary slightly with earnings. The following table outlines the design parameters of option C:

Table 6: CNP's design parameters- Option C

<b>Provisions</b>	<b>Description</b>
<b>Eligibility conditions</b>	<ul style="list-style-type: none"> <li>- Full pension: at least 360 months (30 years) of contributory record.</li> <li>- Partial pension: at least 180 months (15 years) of contributory record.</li> <li>- Lump sum<sup>25</sup>: less than 180 months of contributory record.</li> </ul>
<b>Contribution rate</b>	<p><b>Salaried employees:</b></p> <ul style="list-style-type: none"> <li>- A total contribution rate of 4%, with 2% contributed by employers and 2% by employees. These contributions will be sourced from the existing EPF contributions</li> </ul> <p><b>Others<sup>26</sup>:</b></p> <ul style="list-style-type: none"> <li>- contributors must make monthly contributions equivalent to 4% of <b>at least</b> the prevailing minimum wage.</li> </ul>
<b>Full pension</b>	Monthly pension = 0.4% (or 0.004) X monthly reference wage X years of contributions.

<sup>25</sup> Contributors who reach the retirement age are allowed to purchase up to two years of contributions to meet the required contribution record for a partial pension. The cost of these additional contributions will be determined based on actuarial fair value.

<sup>26</sup> This category encompasses the entire working-age population outside of salaried employment, including the self-employed, the economically inactive (such as students and homemakers), and unpaid family workers.

	Maximum pension = 30 % of median monthly insurable earnings at CNP. Minimum pension = 15 % of median monthly insurable earnings at CNP.
<b>Monthly reference wage</b>	The insured person's average career wage adjusted for inflation.
<b>Partial pension</b>	For contribution record of <b>less</b> than 360 months, but above the minimum eligibility of 180 months, pro-rated pension will be provided = (months of contribution/360) X full pension
<b>Lump sum settlement</b>	Not eligible for minimum pension (contribution records of less than 180 months) will receive their contribution back with interest.
<b>Death Grant</b>	If death occurs at age <70, with contribution record of 36 months or more, a lump-sum benefit = 24 months of 'notional' minimum wage.
<b>Maximum insurable earnings</b>	RM10,000 a month (increases annually with average wage increase)
<b>Indexation of pensions</b>	Pension maintains relative value to the CNP's median monthly insurable earnings i.e. pension increases with increase in wage.

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