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Closing the Coverage Gap for Old Age Protection in Malaysia: The case for Universal Social Pension

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As individual enters the golden age of retirement, deteriorating health and declining income threaten the well-being of an individual. If social security coverage were unable to safeguard an individual's wellbeing, quite a number of elderly would be living in poverty at old age. A commonly accepted alternative to tackle this issue is a minimum social universal pension. A universal pension acts as a safety net or a floor to which individuals could not fall further. Universal pension provides the basis for a more comprehensive pension system, which may consist of a mixture of public and private initiatives adapted in accordance with existing country practices, financial circumstances and equity considerations (UN DESA, 2007).

While the civil servants and private sector workers are covered by the pension schemes and the Employees Provident Fund (EPF), quite a large number of Malaysians, particularly those in the informal sector are not covered by any old age program. Holzmann (2014) stated that the percentage of workers without formal coverage is 37 percent including the own account workers, unpaid family workers and others (as cited in World Bank, 2012).

The following policy measures could well be adopted by Malaysia in ensuring a more comprehensive coverage for old age protection:

Social security systems are important for the survival of all the vulnerable elderly. Targeting and protecting the elderly is critical and it can be done through the introduction of universal pension. The cost of universal pension could be kept low and just enough to ensure that elderly stay out of poverty. Sensitivity analysis done based on projected number of elderly shows that cost of universal pension of RM400 and RM800 would be 1.17 percent in 2010 and 2.34 percent in 2020. Benefits are allowed to increase with GDP. Malaysia's current average cost of pension and gratuities as a percentage of GDP is at 1.30 percent. Properly targeted universal pension could not only solve the issue of elderly poverty but also maintain the cost at a minimum level. The Government could explore the design and implementation of a pilot universal pension scheme to benefit elderly of a particular group.

A targeted universal pension to replace the current old age allowance (BOT) could be an alternative in ensuring a guaranteed minimum income for elderly a. This design is aligned with the concept of human rights and social protection. As stipulated by the United Nations (2012), Article 22 states that "Everyone as a member of society has a right to social security as stated in the Universal Declaration of Human Rights". The implementation steps of the targeted universal pension are as follows:

a) All working population has to contribute to Universal Pension Fund (UPF) at a flat rate to be determined later.

b) Accumulated contribution (AC) to UPF cannot be withdrawn and certain amount of pension benefits will be provided upon retirement on a monthly basis.

c) UPF is responsible in investing the accumulated contributions into appropriate funds.

d) Since UPF is replacing BOT, government still has to finance a portion of the AC at a ratio of 30:70.

e) Pensionable civil servants and armed forces are excluded from contributing to UPF given that they will receive monthly pension from the government upon retirement. However, they are given a choice to contribute should they want extra pensionable income upon retirement.

f) The payment of benefits is determined based on the followings:

	Benefits
Full contribution of 30 years	Full benefits
Partial contribution between 11-29 years	75% of full benefits
Partial contribution between 6-10 years	50% of full benefits
Partial contribution between 1-5 years	25% of full benefits
No contribution	RM300

g) The benefits are indexed to inflation and will be reviewed every year.

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