National Experience: Proposals for implementing Unemployment/Employment Insurance System in Malaysia

By

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Structure of the Presentation

- General Observation on unemployment benefits types and practices
- What are the existing unemployment benefits system in Malaysia?
- Why Malaysia needs unemployment/employment insurance (UI/EI) system?
- National experiences on the development of UI/EI system in Malaysia.
General Observations: Development of Unemployment Compensation

- **Voluntary Unemployment Funds** (by employees/trade unions and employers): 19th century
- **Voluntary Unemployment Insurance**: France (1905), Denmark (1907), Norway (1909), Netherlands (1916), Finland (1917), Sweden (1934), etc.
- **Compulsory Unemployment Insurance** (social insurance system): U.K. (1911), Austria (1920), Germany (1927), etc.
- Transition from voluntary to compulsory unemployment insurance: since 1920s
- **Unemployment Insurance + Unemployment Assistance** (dual system): in European countries after the World War II (“welfare states”)

- Unemployment Insurance: focusing on the Unemployment Benefit (UB)
General Observations: Types of Social Safety Nets for the Unemployed

Type I
- UB (UI/EI) → (extended UB) → Public Assistance (PA)
  - U.S.A., Korea, Canada, Japan, Denmark, Belgium, Bulgaria, Luxembourg, Poland, Russia, China, etc.

Type II
- UB (UI/EI) → Unemployment Assistance (UA) → PA
  - U.K., Germany, France, Spain, Italia, Austria, Sweden, Finland, etc.

Type III
- UA → PA
  - Australia, New Zealand, etc.

Type IV
- Unemployment Insurance Savings Account (UISA) → PA
  - Chile, Brazil, Colombia, Ecuador, Panama, Peru, etc.
Country Profile

- Location: Malaysia is composed of two distinct region:
  - Peninsular Malaysia – located to the south of Thailand and east of the Indonesian Island of Sumatera
  - East Malaysia - located in the northern part of the island of Borneo (Indonesia)
    (The country’s land mass is about 330,290 square kilometers)
- Climate: Tropical and mainly maritime climate characterized by stable and moderate temperatures with high humidity
- Capital: Kuala Lumpur
- Government: Parliamentary Democracy
- Official Language: Malay
- Ethnic: Malay/Bumiputra (62%), Chinese (21.8%), Indian (6.6%), Others (9.6%)
- GDP: 8.6 percent in 2014

- Population (2014): 30.3 million (M: 15.6, F:14.7)
  - Working Age population (15 – 64yrs): 20.6 million (M:10.6, F:10)
  - Labour Force: 13.9 million (M:8.6, F:5.3)
  - Employed: 13.5 million (M:8.3, F:5.2)
  - Unemployed: 0.41 million (M:0.24, F:0.17) *unemployment rate = 3.0%
Existing Unemployment Benefits Systems in Malaysia

- **Severance Payment (Under Employment Act 1955)**
  - Severance pay in Malaysia is known as retrenchment benefits, or employment termination and lay-off benefits (ETLB), which are paid at the following rates:
    - 10 days wages for each year of service for employment shorter than two years;
    - 15 days wages for each year of service for employment longer than two years but shorter than five years; and
    - 20 days wages for each year of service for employment of five years or longer.
  - However, severance pay is not equivalent to unemployment insurance or unemployment assistance. Payment of severance pay does not require the employer or the recipient employee to have made prior contributions; neither does it require the recipient employee to be able to work, willing to work and looking for work in order to receive payment. Severance pay is made to an employee solely on the basis of termination of contract by the employer.
Existing Unemployment Benefits Systems in Malaysia (Cont.)

- Employees Provident Fund
  - This fund provides benefits for old age, disability and death. It also pays members for medical treatment of critical illness or for the medical treatment of their spouse, children and parents.
  - However, it does not provide cash assistance to any employee who is temporarily and involuntarily out of work and who is looking for work at the same time.

- Employment Injury Insurance and Invalidity Pension
  - The Social Security Organization (SOCSO) administers payment of benefits under the Employment Injury Scheme and Invalidity Pension Scheme to workers in cases of employment injury and invalidity.
  - Hence, although these two schemes are not unemployment-specific, an unemployed worker who was injured or who has become invalid during his immediate past employment may receive benefits under these schemes.
Existing Unemployment Benefits Systems in Malaysia (Cont.)

- **Services for the Poor (Welfare Assistance)**
  - The Ministry of Social Welfare (Welfare Department) runs a program to eradicate poverty. Families who suffer from poverty due to unemployment among other causes such as old age, illness and disability may apply for assistance under this program.

- **Public Sector Pension Scheme**
  - For Public Sector workers

- **Private Health & Accident Insurance**
  - Commercial Insurance
Unemployment Assistance during the Economic Crisis

- During the **Asian Financial Crisis in 1997/1998**, almost 121,222 Malaysian workers were retrenched. This number does not include the workers with temporary lay-off and the income were reduced. Many foreign workers were sent back to their own countries. The Government with special Economic Stimulus Packages/Program gave MYR 500 (USD 167) to the unemployed workers for attending training.

- During the **USA Subprima Crisis in 2007/2008**; Almost 49,123 Malaysian workers were retrenched. Around 400,000 foreign workers were sent back to their own countries because of the same reason. The Government allocated MYR 650 million (USD 217 million) through Ministry of Human Resource to assist the unemployed under the “Train & Place Program”, which provided MYR 500 (USD 167) monthly as training allowances.

- During this economic crisis, Malaysia Trades Union Congres (MTUC) urged and requested the Government to establish Unemployment Insurance Benefit System.
Proposal of UI/EI System In Malaysia (2009 – 2010)

• In 2009, the Malaysian Government (Ministry of Human Resource and SOCSO) with International Labour Organization (ILO) carried out a feasibility study to introduce a relief fund for loss of employment.

• The study began in July 2009. Two workshops/seminars were held on:
  – Oct. 14, 2009 to explain the terms of reference, preliminary findings and recommendations/options.
  – Jan. 26, 2010 to discuss and seek input from national stakeholders and social partners.

• The final draft report (Relief Fund for Loss of Employment) was obtained from ILO on 28 Feb 2010.

• This fund is to establish a comprehensive labour safety net to support displaced workers due to structural change in the local economy and exposure to external shocks. The Relief Fund is to provide financial assistance for workers who do not get due compensation from their employers upon retrenchment. The eligible retrenched worker will receive MYR 600 (USD 200) per month for a maximum of six months so long as they continue to be unemployed.
### Proposed Model/Framework for Relief Fund For Loss Of Employment In Malaysia

<table>
<thead>
<tr>
<th>Elements</th>
<th>Description</th>
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</table>
| **Coverage**        | • Mandatory  
• Same as the current SOCSO coverage for Employment Injury Benefits -EIB                                                                 |
| **Qualifying Conditions** | • Involuntary Unemployed  
• Min. 12 months contributions in last 24 months  
• Registered as job-seeker/ report search effort regularly  
• The retrenched worker’s Retrenchment Benefit (RB) should be less than MYR 3600                         |
| **Benefits Structure** | • MYR 600 (USD 200) per month (basic income security)  
• Payable for a maximum period of 6 month                                                           |
| **Funding**         | • Employees: 0.1%  
• Employers : 0.1%  
[Total 0.2% of total wage subject to maximum wage of MYR 3000 (USD 1000)]                          |
| **Administrative**  | • Managed by SOCSO  
• Supervised by MoHR  
• Close collaboration with job centers on the administration of the work test |
Proposal of UI/EI System In Malaysia (2010 – 2011)

• Basically the Government agreed with the proposed model and under the 10-Malaysian Plan (2011 to 2015) it allocated an amount of MYR 80 million (USD 27 million) to introduce Relief Fund for Loss of Employment over the period from 2010 to 2012.

• This allocation can’t be utilized/disburse because there were no consensus among the employers and employees to contribute to the fund as exit policy and as continuity.

• The Government’s New Economic Model (2010) also recommends Malaysia needs continues and an appropriate labour safety net system which include an unemployment insurance scheme supported by up-skilling and retraining programs and upgraded employment services.

• In 2011 (Feb – April), Performance Management Unit (PEMANDU), Prime Minister Department of Malaysia held Strategic Reform Initiatives (SRI) Lab on Human Capital Development (NEM) and proposed an Unemployment framework/model for Malaysia. The Lab also proposed Ministry of Human Resource to conduct a complete UI study with actuarial assessment and legislation support.
## Proposed Model/Framework for Unemployment Insurance for Malaysia (Human Capital Development Lab) (PEMANDU)

<table>
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<tr>
<th>Elements</th>
<th>Description</th>
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</table>
| **Coverage**     | • Mandatory: All Malaysian employees  
                   • Voluntary: Self-employed |
| **Qualifying Conditions** | • Involuntary Unemployed  
                               • Attend training courses  
                               • Min. 12 months contributions in last 24 months  
                               • Registered |
| **Benefits Structure** | • 50% of reference wage  
                               • Payable for up to 6 months  
                               • Minimum and maximum payment amounts  
                               • Long service employees “grandfathered”  
                               • No-claim rebates |
| **Funding**      | • Employees: 0.5%  
                   • Employers: 0.5%  
                   • Other re-employment services to be borne by the Government |
| **Administrative** | • Managed by EPF or SOCSO  
                         • Supervised by MoHR  
                         • Links to ILMIA, Labour Department (JTK), HRDF, and Skills Development Department (JPK), Manpower Department (JTM) |
Proposal of UI/EI System In Malaysia (2012 – 2013)

• In early 2012, the Malaysian Government [Ministry of Human Resource (MoHR) and SOCSO] engaged the International Labour Organization (ILO) to provide technical expertise for the project “Supporting and Facilitating the Design of Unemployment/Employment Insurance System for Malaysia”.

• The project was co-ordinated by a Tripartite Project Committee comprised of representative from the Government (MoHR & SOCSO), Malaysia Employer Federation (MEF) and Malaysia Trades Union Congress (MTUC).

• The project took place in two phases:
  • Phase I (Jan to July 2012) to seek tripartite engagement, consensus and capacity building to stakeholders and public.
  • Phase II (August 2012 to Nov 2013) to complete three studies on legal framework, proposal of institutional/operational set-up and actuarial assessment.
### Model/Framework on “Supporting and Facilitating the Design of an Employment Insurance System for Malaysia”

<table>
<thead>
<tr>
<th>Elements</th>
<th>Description</th>
</tr>
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</table>
| **Coverage**           | • Mandatory  
  • Same group as already covered by SOCSO (Malaysian employees only)                                                                         |
| **Qualifying Conditions** | • Involuntary Separation  
  • At least 12 months contributions out of the last 24 months  
  • Registered at the employment office  
  • Report monthly on their job search activities |
| **Benefits Structure** | • 45% or 50% of previous earnings  
  • Payable for 3 to 6 months  
  • ALMP’s goes through the main measures that already exist in Malaysia                                                                        |
| **Funding**            | • Employees: 0.25%  
  • Employers: 0.25%  
  (Total not be set at more than 0.30% to 0.40% of contributory wages)                                                                      |
| **Administrative**     | • Managed by SOCSO  
  • Supervised by MoHR  
  • Links to Labour Department (JTK), Job Malaysia, Skills Development Department (JPK), HRDF, Manpower Department (JTM) and ILMIA |

• There were no consensus between employers and employees for the proposed model because of a few issues. For examples:
  – This study proposed the existing severance payment (ETLB) should be phased off at the implementation of UI/EI system. This suggestion was strongly opposed by the employees.
  – Basically the employers did not agreed with suggestion of UI/EI system. They proposed a “Saving Account model” and they also wanted the ETLB to be phased off.

• In 2014, this model was discussed at National Development Planning Committee (NDPC) and National Economic Council (chaired by Prime Minister) and advised to look into the details of the implementation of EI system in South Korea, Japan and Taiwan which was integrated with comprehensive ALMPs.

• Finally after a few visits and studies, the MoHR and SOCSO have drafted a hybrid model together with a legal framework. It was tabled to the Government in early 2015.
# Proposed Model/Framework for Employment Insurance System (EIS) For Malaysia

<table>
<thead>
<tr>
<th>Elements</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Coverage**      | • Mandatory  
                    • All Malaysian employees (same group as already covered by SOCSO)     |
| **Qualifying Conditions** | • Loss of employment  
                     • Minimum 12 months contributions in 24 months  
                     • Except: voluntary resignation,  
                     ‘Fix Term’ contract expired  
                     compulsory retirement     |
| **Funding**       | • Employees: 0.25%  
                     • Employers: 0.25%  
                     (Total 0.50% of total definition wages as practiced by SOCSO) |
| **Administrative**| • Managed by SOCSO  
                     • Supervised by MoHR  
                     • Close collaboration with Job Centers, Dept. of Skill Development and Dept. of Labour |
# Proposed Framework for Employment Insurance System (EIS) For Malaysia

<table>
<thead>
<tr>
<th>Elements</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Benefits Structure</td>
<td>• Job Matching/placement Services and Career Counseling</td>
</tr>
<tr>
<td></td>
<td>• Job Seeking Allowance – JSA ; 30% - 80% from insured wages ; For 3 – 6 months</td>
</tr>
<tr>
<td></td>
<td>• Early Re-Employment Incentive – ERI ; 25% from balance of JSA</td>
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<td></td>
<td>• Training Allowance – TA ; 25% from insured wages (minimum MYR 300 and maximum MYR 600) for maximum period of 6 months</td>
</tr>
<tr>
<td></td>
<td>• Training Fees – TF ; maximum MYR 10,000 (USD 3000) for maximum period of 6 months to the service provider.</td>
</tr>
<tr>
<td></td>
<td>(Income Reduce Benefits; for the employees with multiple employers – JSA without TA and TF)</td>
</tr>
</tbody>
</table>
Important characteristic of the proposed Model/ Framework

- **EI** : Combination of Active Labor Market Programs (ALMP) and Unemployment Benefit (UB) Scheme
  - Institutionalization of preventive measures against unemployment (immediate safety net) and diverse risks in labor market transition with ALMP
  
  \[ EI = UI + ALMP \text{ (Active Labor Market Programs)} \]

- **Built-in Mechanism for Minimizing the Side-effects of UB**
  - Tight requirements for JSA (UB) : No UB for the voluntarily unemployed / repetition claim criteria in work cycle with “contribution loading concept”
  - Relatively short period of UB (3 – 6 months)
  - Replacement rate decrease over duration : 80%(1st mth), 50%(2nd mth), 40%(3rd mth & 4th mth) and 30%(5th mth & 6th mth)
# Qualifying Condition for Repetition Claims

<table>
<thead>
<tr>
<th>Job Seeking Allowance (JSA)</th>
<th>Number of Claim</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1st</td>
</tr>
<tr>
<td>3 month (Minimum)</td>
<td>12*/24**</td>
</tr>
<tr>
<td>4 month</td>
<td>16/24</td>
</tr>
<tr>
<td>5 month</td>
<td>20/24</td>
</tr>
<tr>
<td>6 month (Maximum)</td>
<td>24/24</td>
</tr>
</tbody>
</table>

* Number of contribution
** Month
Important characteristic of the proposed Model/Framework

- **Built-in Mechanism for Activating UB Recipients**
  - Incentives for active job search
    - Early Re-employment Incentive (ERI)
    - Nationwide Job-seeking Allowance
  - Incentives for active participation in vocational training for the unemployed
    - Assistance for vocational training to the unemployed
    - Training Allowance for the recipient: on the top of the UB for 3 – 6 months
    - Training Fees; maximum up to MYR 10,000
  - Sanctions on lazy job search
    - Fixed duration of UB (3 to 6 months only)
    - Suspension of UB on refusal of suitable job placement service, vocational training order, etc.
Important characteristic of the proposed Model/Framework

- **ALMP (Active Labor Market Programs)**

  - **Job Matching and Job Placement Services**
    - Job activation & overcome difficulties for employment

  - **Career Counseling**
    - Employment strategy development

  - **Skill development**
    - Training, Re-training, Re-skilling, Up-skilling
    - Basic employment skill; human resource skill, communication skill, work ethics, competency development skill
    - Job searching skill: career goal-setting, resume writing, interview skill
Conclusion

Employment Insurance System (EIS) is to:

Promoting employment and preventing unemployment; with strengthening development of job skills of the labor force and efficient job placement services;

and

providing financial assistance to displaced workers.

**The proposed final model/framework is still at the high-level discussion of technical committee in Malaysian Government.**
THANK YOU