



# **MALAYSIA'S EXPERIENCE OF LAUNCHING THE EMPLOYMENT INSURANCE SYSTEM (EIS)**

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# STRUCTURE OF THE PRESENTATION

- ❑ WHAT ARE THE EXISTING UNEMPLOYMENT BENEFITS SYSTEM IN MALAYSIA ?
- ❑ HOW AND WHEN THE UI/EI STARTED IN MALAYSIA?
- ❑ NATIONAL EXPERIENCES ON THE DEVELOPMENT OF UI/EI SYSTEM IN MALAYSIA.
- ❑ THE MALAYSIAN EIS DESIGN AND MECHANISM



# 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
- ❖ **Ethic (2019 est) :** Malay/Bumiputra (69.3%), Chinese (22.8%), Indian (6.9%), Others (1 %)
- ❖ **GDP Growth (2019 est) :** 4.6%



- ❖ **Population (2019 est) :** 32.6 million  
(M: 16.8, F: 15.8); (Citizen: 90.2%, Non-Citizen 9.8%)
  - **Labour Force :** 15.60 million (M:9.49, F:6.11)
  - **Out-side Labour Force:** 7.09 million (M:2.26, F:4.83)
  - **Employed:** 15.08 million (M:9.18, F:5.90); skilled 27.4%, semi-skilled 59.8%, low-skilled 12.8%)
  - **Unemployed:** 0.5206 million \*unemployment rate = 3.3%

# **WHAT ARE THE EXISTING UNEMPLOYMENT BENEFITS SYSTEM IN MALAYSIA ?**



# EXISTING UNEMPLOYMENT BENEFITS SYSTEMS IN MALAYSIA

Benefit	Description
Severance Payment (Under Employment Act 1955)	<ul style="list-style-type: none"><li>Severance pay in Malaysia is known as retrenchment benefits, or employment termination and lay-off benefits (ETLB), which are paid at the following rates:<ul style="list-style-type: none"><li>➤ 10 days wages for each year of service for employment shorter than two years;</li><li>➤ 15 days wages for each year of service for employment longer than two years but shorter than five years; and</li><li>➤ 20 days wages for each year of service for employment of five years or longer.</li></ul></li><li>However, severance pay is <b>not equivalent to unemployment insurance</b> or unemployment assistance. Payment of severance pay <b>does not require</b> the employer or the recipient employee to have made prior <b>contributions</b>; neither does it require the recipient <b>employee to be able to work, willing to work and looking for work</b> in order to receive payment. Severance pay is made to an employee solely on the basis of termination of contract by the employer.</li></ul>
Employees Provident Fund	<ul style="list-style-type: none"><li>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.</li><li>However, it <b>does not provide cash assistance to any employee who is temporarily and involuntarily out of work</b> and who is looking for work at the same time.</li></ul>





## EXISTING UNEMPLOYMENT BENEFITS SYSTEMS IN MALAYSIA

Benefit	Description
Employment Injury Insurance and Invalidity Pension	<ul style="list-style-type: none"><li>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.</li><li>Hence, although these two schemes are <b>not unemployment-specific</b>, an unemployed worker who was injured or who has become invalid during his immediate past employment may receive benefits under these schemes</li></ul>
Services for the Poor (Public/ Welfare Assistance)	<ul style="list-style-type: none"><li>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.</li></ul>
Public Sector Pension Scheme	<ul style="list-style-type: none"><li>For Public Sector workers - during their compulsory or early retirement because of illness.</li></ul>
Private Health & Accident Insurance	<ul style="list-style-type: none"><li>Commercial Insurance to the effort or able public and workers.</li></ul>

# HOW AND WHEN THE UI/EI STARTED IN MALAYSIA?



## UNEMPLOYMENT ASSISTANCE DURING THE ECONOMIC CRISIS

- During **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. Government with special Economic Stimulus Packages/Program provide MYR 500 (USD 167) to the unemployed workers for attending training.
- During the **US Sub-Prime 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 Congress (MTUC) urged and requested the Government to establish Unemployment Insurance Benefit System.



# **NATIONAL EXPERIENCES ON THE DEVELOPMENT OF UI/EI SYSTEM IN MALAYSIA**



## **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 FOR RELIEF FUND FOR LOSS OF EMPLOYMENT IN MALAYSIA



Elements	Description
Coverage	<ul style="list-style-type: none"><li>• Mandatory</li><li>• Same as the current SOCSO coverage for Employment Injury Benefits -EIB</li></ul>
Qualifying Conditions	<ul style="list-style-type: none"><li>• Involuntary Unemployed</li><li>• Min. 12 months contributions in last 24 months</li><li>• Registered as job-seeker/ report search effort regularly</li><li>• The retrenched worker's Retrenchment Benefit (RB) should be less than MYR 3600</li></ul>
Benefits Structure	<ul style="list-style-type: none"><li>• MYR 600 (USD 200) per month (basic income security)</li><li>• Payable for a maximum period of 6 month</li></ul>
Funding	<ul style="list-style-type: none"><li>• Employees: 0.1%</li><li>• Employers : 0.1%</li></ul> <p>[Total 0.2% of total wage subject to maximum wage of MYR 3000 (USD 1000)]</p>
Administrative	<ul style="list-style-type: none"><li>• Managed by SOCSO</li><li>• Supervised by MoHR</li><li>• Close collaboration with job centers on the administration of the work test</li></ul>



## **PROPOSAL OF UI/EI SYSTEM IN MALAYSIA (2010 – 2011)**

- Basically the Government agreed with the proposed model and under the 10<sup>th</sup> Malaysian Plan (2011 to 2015) it approved an amount of MYR 80 million (USD 27 million) to introduce Relief Fund for Loss of Employment over the period from 2010 to 2012. RM 52 million immediately allocated to SOCSO for this fund.
- Cabinet put a condition that the RM52 million could only be utilized if employers and workers agree to contribute to the fund as an exit policy. But there were no consensus among the employers and employees to contribute to the fund 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 FOR UNEMPLOYMENT INSURANCE FOR MALAYSIA (HUMAN CAPITAL DEVELOPMENT LAB - PEMANDU)



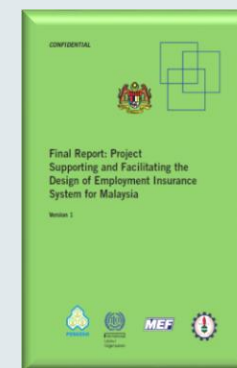
Elements	Description
Coverage	<ul style="list-style-type: none"> <li>•Mandatory: All Malaysian employees</li> <li>•Voluntary: Self-employed</li> </ul>
Qualifying Conditions	<ul style="list-style-type: none"> <li>•Involuntary Unemployed</li> <li>•Attend training courses</li> <li>•Min. 12 months contributions in last 24 months</li> <li>•Registered</li> </ul>
Benefits Structure	<ul style="list-style-type: none"> <li>•50% of reference wage</li> <li>•Payable for up to 6 months</li> <li>•Minimum and maximum payment amounts</li> <li>•Long service employees “grandfathered”</li> <li>•No-claim rebates</li> </ul>
Funding	<ul style="list-style-type: none"> <li>•Employees: 0.5%</li> <li>• Employers : 0.5%</li> <li>•Other re-employment services to be borne by the Government</li> </ul>
Administrative	<ul style="list-style-type: none"> <li>•Managed by EPF or SOCSO</li> <li>•Supervised by MoHR</li> <li>• Links to ILMIA, Labour Department (JTK), HRDF, and Skills Development Department (JPK), Manpower Department (JTM)</li> </ul>





# 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 coordinated 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 ON “SUPPORTING AND FACILITATING THE DESIGN OF AN EMPLOYMENT INSURANCE SYSTEM FOR MALAYSIA”



Elements	Description
Coverage	<ul style="list-style-type: none"> <li>• Mandatory</li> <li>• Same group as already covered by SOCSO (Malaysian employees only)</li> </ul>
Qualifying Conditions	<ul style="list-style-type: none"> <li>• Involuntary Separation</li> <li>• At least 12 months contributions out of the last 24 months</li> <li>• Registered at the employment office</li> <li>• Report monthly on their job search activities</li> </ul>
Benefits Structure	<ul style="list-style-type: none"> <li>• 45% or 50% of previous earnings</li> <li>• Payable for 3 to 6 months</li> <li>• ALMP's goes through the main measures that already exist in Malaysia</li> </ul>
Funding	<ul style="list-style-type: none"> <li>• Employees: 0.25%</li> <li>• Employers : 0.25%</li> </ul> <p>(Total not be set at more than 0.30% to 0.40% of contributory wages)</p>
Administrative	<ul style="list-style-type: none"> <li>• Managed by SOCSO</li> <li>• Supervised by MoHR</li> <li>• Links to Labour Department (JTK), Job Malaysia, Skills Development Department (JPK), HRDF, Manpower Department (JTM) and ILMIA</li> </ul>



# **THE MALAYSIAN EIS DESIGN AND MECHANISM**



# PROPOSAL OF UI/EI SYSTEM IN MALAYSIA (2014 - 2016)

- Early 2014 the ILO final report published with tripartite involvement and extensive engagement but there were no full 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 agree with suggestion of UI/EI system. They proposed a “Saving Account model” and they also wanted the ETLB to be phased off.
- At 27 Jan 2015, this model was discussed and approved at National Development Planning Committee (NDPC)
- It was discussed **4 TIMES** (16 Feb 2015, 15 Aug 2015, 24 Oct 2016 & 9 Jan 2017) at National Economic Council-EC (chaired by Prime Minister). After the 2<sup>nd</sup> meeting, MoHR with SOCSO was advised to look into the details of the implementation of EI system in South Korea, Japan and Taiwan which was integrated with comprehensive ALMPs. After a few visits and studies, the MoHR and SOCSO had drafted a hybrid model of **Employment Insurance System (EIS)** together with a legal framework.
- Finally, the new design model of EIS was approved on 9 Jan 2017 by EC. The EC also agreed EIS to be implemented from 1 January 2018 and ETLB (the severance payment) to be maintained.



## PROPOSAL OF UI/EI SYSTEM IN MALAYSIA (2017)

- The model of EIS was presented to Cabinet (the Ruling Cabinet) **2 TIMES** (10 March 2017 & 17 March 2017) and at last agreed to be implemented from 1 January 2018.
- On the 1 May 2017 (during the “Labour Day”) the Prime Minister announced RM70 million allocation for interim payment in 2018
- On the 1 Aug 2017 the EIS Bill (law) 2017 tabled by HR Minister for First reading at Dewan Rakyat (House of Representatives) Parliament and scheduled for 2<sup>nd</sup> & 3<sup>rd</sup> reading between 7 - 10 Aug 2017.
- Unfortunately, on 4 Aug 2017 the Cabinet Meeting postponed the 2<sup>nd</sup> & 3<sup>rd</sup> reading to the following Session of Parliament (October 2017). The Cabinet instructed for a tripartite engagement chaired 4 minsters (Finance and 3 other Ministers).
- On the 10 Aug 2017 Tripartite Engagement Meeting held with stakeholders (the rate of contribution reduced from 0.5% to 0.2%) and agreed to table back to the Cabinet.
- On the 11 Aug 2017 the Cabinet agreed the Bill (law) to be tabled again to Parliament.





# PROPOSAL OF UI/EI SYSTEM IN MALAYSIA (2017)

- On the 23 Oct 2017 the HR Minister withdrew the earlier EIS Bill (law)
- On the 24 Oct 2017 the new EIS Bill (law) 2017 tabled by HR Minister for 1<sup>st</sup> reading at Dewan Rakyat (House of Representatives) Parliament.
- On the 25 Oct 2017 the EIS Bill (law) 2017 was tabled for 2<sup>nd</sup> & 3<sup>rd</sup> reading and approved (with changes) **on 26 Oct 2017 (12.15 am)** at Dewan Rakyat (House of Representatives), Parliament
- On the 18 Dec 2017 it was approved by Dewan Negara (Senate - Approval) at Parliament
- On the 27 Dec 2017 the EIS Act 2017 got the King's "Royal Assent"
- At last, on the **1 Jan 2018:**
  - ➡ EIS Act 2017 was enforced
  - ➡ Registration, contribution & collection started; full benefits start from 1 Jan 2019
  - ➡ The Interim payment program started (RM 600 for 3 months from the Government allocation (RM136 million) for the loss of employment from 1 Jan 2018 to 31 Dec 2018)

# EMPLOYMENT INSURANCE SYSTEM (EIS) MALAYSIA DESIGN & MODEL



MINISTRY OF HUMAN RESOURCES

Elements	Description
Coverage	<ul style="list-style-type: none"> <li>○ Mandatory; All employers (430 thousand) who have at least one employee</li> <li>○ All workers in private sector (6.6m) regardless of wages</li> <li>○ Subject to ceiling insured wages (IW) of RM4,000</li> <li>○ Age between 18 to 60 years old</li> </ul>
Qualifying Conditions	<ul style="list-style-type: none"> <li>○ Loss of employment</li> <li>○ Minimum contribution of 12 months over the period 24 months (<i>for 1st claim</i>),</li> <li>○ <b><u>Except</u></b> for voluntary resignation, expiry of fixed-term contract, misconduct, compulsory retirement</li> <li>○ The claimant must be able to work, available to work and actively seeking work.</li> </ul>
Funding	<ul style="list-style-type: none"> <li>○ Employee(0.2%) + Employer(0.2%) = Total (0.4%) of total definition of wages as practiced by PERKESO</li> </ul>
Administrative	<ul style="list-style-type: none"> <li>○ Managed by SOCSO</li> <li>○ Supervised by MoHR</li> <li>○ Close collaboration with Job Centers, Dept. of Skill Development and Dept. of Labour</li> </ul>

## CONT..... EIS MALAYSIA DESIGN & MODEL



MINISTRY OF HUMAN RESOURCES

Elements	Description
<b>Benefits Structure</b>  <b>EIS Malaysia = Combination of “Temporary Cash Assistances” and “Active Labor Market Policies / Programs</b>  <b>EI = UI + ALMPs</b>	<p><b>Re-employment Placement Programme (Employment Services);</b></p> <ul style="list-style-type: none"> <li>○ To assist insured persons to get suitable new employment as job search, job matching, job/career counseling etc.</li> </ul> <p><b>Job Seeking Allowance (JSA) ;</b></p> <ul style="list-style-type: none"> <li>○ Rate (Reduce percentage): 80%, 50%, 40%, 40%, 30%, 30% from insured wages for 3 to 6 months max.</li> </ul> <p><b>Reduce Income Allowance (RIA);</b></p> <ul style="list-style-type: none"> <li>○ For workers working for more than one employer</li> <li>○ As per JSA, to be paid in lump sum</li> </ul> <p><b>Early Re-Employment Allowance (ERA) ;</b></p> <ul style="list-style-type: none"> <li>○ Rate 25% of the total JSA which he/she is entitled or</li> <li>○ 25% from the total balance of the JSA remains unpaid.</li> </ul> <p><b>Training Allowance (TA);</b></p> <ul style="list-style-type: none"> <li>○ Rate 25% of average daily wages with minimum RM 10 per day to a maximum of RM 20 per day; depend on the number of days attended ; Paid maximum for 6 months</li> </ul> <p><b>Training Fees (TF);</b></p> <ul style="list-style-type: none"> <li>○ Maximum RM 4,000; paid to the service provider</li> </ul>

# ADVANTAGES OF EIS



## RETRENCHED WORKERS

- Reduce hardship and poverty and avoiding family conflicts
- Better chance of finding suitable job
- Reduce stress and health problems
- Increased employability through training & retraining



## FIRMS / EMPLOYERS

- Improve productivity
- Terminations easier to accept by employees
- Less pressure in case of bankruptcy or downsizing of operations



## WORKERS

- Security and reassurance
- Reduced need for savings



## GOVERNMENT

- Economic stabilization during recessions
- Reduce costs of public assistance schemes



## SOCIETY

- Social stability: reduce unrest, delinquency and crime



# CONCLUSION



1

Provide **immediate financial assistance** (7 days after verification of LOE) to insured persons who lost employment



2

Assist insured persons who lost their employment to get a new employment through **re-employment placement programme**



3

**Improve employability** through training and vocational programmes





## CONCLUSION

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**There are many unemployment schemes  
across the world,**

**ALL ARE UNIQUE  
ONE COUNTRY; ONE MODEL**

**Just focus on our goal;  
If we wait for perfect conditions, we'll never get anything  
done**

**Just start with what we have currently**



# THANK YOU

