

Meeting the Needs of Older Malaysians: Expansion, Diversification and Multi-sector Collaboration

Tengku Aizan Hamid* and Chai Sen Tyng**
Universiti Putra Malaysia

Abstract: The older population (aged 60 years or over) in Malaysia has grown from 0.5 million in 1970 to almost 2.3 million in 2010, making up about 8 per cent of the current total population. By 2020, one in ten Malaysians will be an older person. Older Malaysians are a heterogeneous group with diverse demographic, socio-economic, cultural and religious characteristics. A social policy framework that recognises the evolving nature of needs in a rapidly ageing population is fundamental to Malaysia's development and growth. This paper assesses the adequacy, affordability, sustainability, equitability, predictability and robustness of current policies, programmes and services to meet the needs of the ageing population in Malaysia. Based on the World Bank's multi-pillar pension taxonomy, the analysis will focus on the social assistance scheme for the elderly (BOT), pay-as-you-go financed state pension (JPA) and defined contribution funds (EPF). Between conditional cash transfers and mandatory retirement savings, the central role of informal support systems in old age has often been overlooked. Results from past studies have shown that the family has played a major role in providing care and support for the aged in Malaysia. A majority of older Malaysians still co-reside with their adult children and receives financial assistance from them. Older Malaysians today are living longer, are better educated and wealthier, and they will become consumers of a burgeoning silver hair industry. Balancing social and economic priorities in national development is a challenging task, but the two goals are not mutually exclusive. Myopic focus on welfarism or paternalism will encourage the mind-set of treating an ageing population as a dependent population, instead of finding ways of empowering them. An inter-dependence approach, rooted in a mix of individual responsibility, family obligations, active civil society and state provisions (regulatory and non-regulatory), will enable a more broad-based and sustainable solution to meet the present and future needs of the elderly.

Keywords: Malaysia, pension, provident fund, social security, welfare

JEL classification: H5, H53, H55, I3, I38

1. Introduction

Changes in fertility and mortality patterns are associated with broader social forces affecting the individual and the family, resulting in the delay and extension of specific major life events such as marriage, childbirth, education, employment and retirement (Harper 2004; Settersten 2006). Industrialisation, urbanisation and modernisation of human societies triggered a cascade of intersecting transformations which have significantly impacted our everyday lives. People are living longer and the added years to life have created both new challenges and opportunities for the nation. The older population aged 60 years or over in

* Institute of Gerontology, Universiti Putra Malaysia, 43400 UPM Serdang, Selangor, Malaysia.
Email: aizan@upm.edu.my (corresponding author).

** Institute of Gerontology, Universiti Putra Malaysia, 43400 UPM Serdang, Selangor, Malaysia.
Email: chai@upm.edu.my.

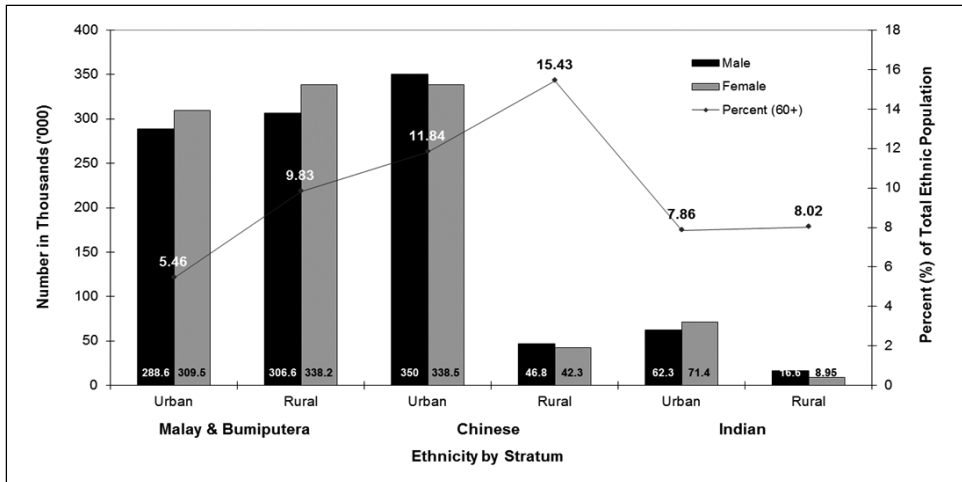


Figure 1. *Distribution of older Malaysians by sex, ethnicity and stratum (2010)*
 Source: DOSM (2011a)

Malaysia grew from 0.5 million in 1970 to almost 2.3 million in 2010, making up about 8 per cent of the current total population (Figure 1)(Department of Statistics Malaysia 2011a; 2007a). By 2020, one in ten Malaysians will be an older person (Pala 2005; Tengku Aizan 2012). The fact that the population is ageing rapidly is beyond doubt. The question is, are we ready for the ageing population boom? Do we understand the needs of the 3.4 million older Malaysians in the coming decade and are we prepared to meet them?

Older Malaysians are a heterogeneous group with diverse demographic, economic, socio-familial, historical, cultural and religious characteristics. While basic human needs such as food, shelter, sanitation and health care are critical, matters of safety and security, social support, autonomy and participation have become essential necessities for modern living. As Tay and Diener (2011) pointed out, “people need to fulfil a variety of needs” and the need fulfilment has to be achieved at both the societal level as well as the individual level. An older person’s subjective well-being is also relative to the situation or condition of his or her peers. What was once considered optional in the past may well be deemed indispensable tomorrow. If it is difficult to detangle the interrelated age, cohort and time-period effects over the life course that has influenced the needs and resources of older persons today, imagine the uncertainties that are in store for future generations of the elderly. Things we have taken for granted all this while could no longer be available or replaced with commoditised social goods or services.

A social policy framework that recognises the evolving nature of needs in a rapidly ageing population is fundamental to our nation’s development and growth. This is, of course, conditional upon the assumption that current policies, programmes and services are meeting the needs of a majority of the older population. This paper assesses the adequacy, affordability, sustainability, equitability and robustness of selected major policies, programmes and services to meet the needs of the aged population in Malaysia. Based on the World Bank’s multi-pillar pension taxonomy, the analysis will focus on the social

assistance scheme for the elderly (BOT), pay-as-you-go financed state pension (JPA) and defined contribution funds [Employee Provident Fund (EPF), Pillars Zero, One and Two respectively]. Evidence of familial support for older persons through research studies and surveys are examined. Other related needs of the elderly such as old age employment, health care, housing, and legal services are also discussed. Published data and statistics from official sources are used throughout the paper, notably from the Department of Statistics Malaysia, the Ministry of Finance, the Ministry of Women, Family and Community Development, the Department of Social Welfare, the Ministry of Health, the Employees' Provident Fund and the Public Service Department.

2. Inherited Systems and Recent Developments

Welfare policies in Malaysia share common roots with Britain as a legacy of the colonial era during pre-independence days. The Department of Community Welfare, Malaya was first established in 1946 to address the problems of post-war displaced and distressed victims, before it became a "permanent base for various social welfare services" (Doling and Roziyah 2003). It was moved around from the Ministry of Labour to the Ministry of Health in the 50s and 60s before being upgraded to a full Ministry of General Welfare in 1964 (renamed the Ministry of Social Welfare in 1982). In 1990, it became part of a newly created Ministry of National Unity and Community Development and was later integrated to form the Ministry of Women, Family and Community Development in 2004. Today, the Department of Social Welfare, Malaysia (DSW) focuses on the protection, rehabilitation, prevention, development and integration of several target groups such as vulnerable children, juvenile delinquents, persons with disabilities, older persons, families in distress, vagrants and the destitute, the sick and terminally ill and victims of natural disasters, in partnership with voluntary welfare organisations (*Pertubuhan Sukarela Kebajikan*). Complemented by state welfare bodies and foundations, including *Zakat* tithes, the DSW is the key government agency responsible for the well-being of older persons through related acts, circulars and policies.

Central to the social protection system in Malaysia are the social security and social insurance schemes for workers in the formal sector. Social assistance schemes, on the other hand, are strictly means-tested and limited in coverage and adequacy. Issues relating to the social protection programmes and policies in Malaysia have been discussed at length by many researchers (Ragayah *et al.* 2002; Doling and Roziyah 2003; Tengku Aizan and Nurizan 2008; Ong and Tengku Aizan 2010). Although Malaysia has been relatively successful with her poverty eradication programmes and investments in agriculture and rural development, there remain pockets of vulnerable and at-risk populations (i.e. the elderly, female-headed households, the disabled, and indigenous people). As the country pursues an active labour market policy and regards "the role of social welfare services as marginal to the development process" (Ragayah *et al.* 2002), state assistance is often temporary, minimal, needs-based and made available only after all other avenues have been exhausted. A residual concept of social welfare means that the economically disadvantaged older Malaysians are expected to seek assistance through private means before turning to state aid. Government initiatives have reinforced the role and responsibilities of the family unit via income tax relief and deductions (for the medical expenses of parents), extension of civil service medical benefits to parents and virtually free public health access, conditional cash transfer programmes, and federal-funded old folks' homes only for the elderly without dependents.

In the wake of the Asian financial crisis at the turn of the millennium, weaknesses in a minimalist welfare model characterised by years of low public spending began to show (Aspalter 2006). In an economic downturn, the trickle-down effect diminishes as unemployment rates rise and individual or family resilience deteriorates during such times (Croissant 2004; Kwon 2009). Developmental welfare states in the region such as South Korea, Taiwan, Singapore, Hong Kong and Thailand introduced new policy plans. In Malaysia, significant progress began in the early 2000s and intensified after the 12th general election in 2008. Of the multitude of proposed changes, notable developments were made in terms of voluntary private pensions and retirement savings for the self-employed, minimum wage, minimum retirement age, entrepreneurial income generation (1AZAM), centralised welfare database (*e-Kasih*), senior citizen activity centres (PAWE), as well as increased coverage and improved benefits of existing schemes. Of late, federal and state governments also instituted several populist cash hand-outs and targeted assistance programmes (e.g. BR1M, KARISMA, *Skim Mesra Warga Emas*, *Program Penghargaan Warga Emas*). However, consensus towards a national health insurance scheme remains in doubt and plans for unemployment benefits were shelved due to employer concerns. In the following sub-sections, selected data for key pillars of retirement or old age income in Malaysia are examined and discussed.

2.1 Senior Citizen Aid / Skim Bantuan Orang Tua (BOT)

Senior Citizen Aid is a non-contributory, means-tested social assistance scheme for persons aged 60 years or over. It is a federal-funded cash transfer programme for the community-living elderly who have no sources of income and no family support to sustain their livelihood. The monthly aid value was increased gradually from RM40 in the 1980s to RM90 in the 1990s before being escalated from RM135 in 2001 to RM300 in 2008 (Figure 2). In June

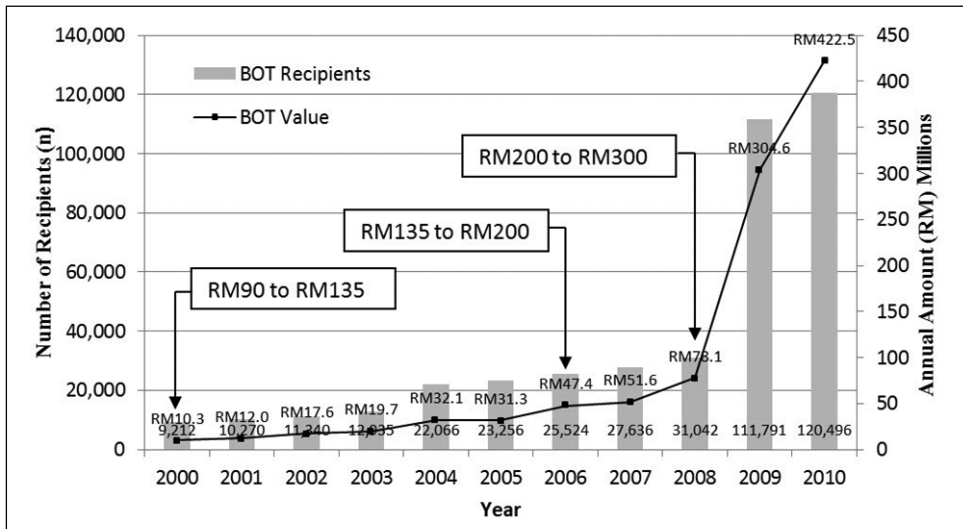


Figure 2. Number of recipients and annual value of the Senior Citizen Aid, 2000 – 2010

Source: DOSM (2011b; 2007b); MWFC (2006); DSW (2001)

Table 1. Senior citizen aid recipients and amount by State (2005 & 2010)

State	2005			2010		
	Number	%	Amount (RM)	Number	%	Amount (RM)
Johor	1,940	8.3	3,015,255	11,814	9.8	36,498,600
Kedah	1,108	4.8	1,081,440	8,780	7.3	26,743,500
Kelantan	2,595	11.2	3,214,395	7,734	6.4	26,473,200
Melaka	1,022	4.4	1,630,155	7,266	6.0	24,239,100
Negeri Sembilan	1,273	5.5	2,060,640	6,602	5.5	20,989,500
Pahang	1,804	7.8	2,960,595	8,634	7.2	19,492,200
Perak	895	3.8	1,557,395	5,754	4.8	18,218,700
Perlis	352	1.5	517,995	848	0.7	2,558,700
Pulau Pinang	1,253	5.4	1,936,170	6,472	5.4	21,291,200
Sabah	4,454	19.2	4,357,800	26,107	21.7	130,176,900
Sarawak	2,945	12.7	3,637,700	12,628	10.5	41,014,800
Selangor	1,783	7.7	2,891,700	10,283	8.5	29,398,500
Terengganu	699	3.0	1,148,745	2,987	2.5	9,249,000
WP Kuala Lumpur	1,099	4.7	1,275,880	4,452	3.7	15,711,300
WP Labuan	34	0.1	56,970	135	0.1	401,400
Malaysia	23,256	100.0	31,342,805	120,496	100.0	422,456,600

Source: DOSM (2011b); DSW (2007).

2008, the DSW began an active campaign known as *Program Cari* to locate those in need of aid. The impact on BOT scheme's coverage was immediate and obvious, although the rapid increase was also related to state-to-federal aid conversions. A comparison of recipient statistics by state between 2005 and 2010 (Table 1) indicates a significant increase in absolute numbers of between 1.4 to almost 7 times. In that period, the total number of recipients grew by 418 per cent and this resulted in a net 1,248 per cent increase in aid value from RM31.3 million to RM422.5 million. This means that in 2010, almost 5.4 per cent of the total older Malaysian population or 120,496 older persons were receiving financial assistance. Of all the different cash transfer programmes under the DSW, the Senior Citizen Aid has grown to take up the largest share (39%), overtaking the traditionally dominant General Aid (20.6%) and Children Aid (26.8%). A simple projection estimates that the scheme will cost well over RM1 billion by 2015.

Three key concerns surround the BOT scheme in Malaysia, namely: (i) the effectiveness and sufficiency of the monthly aid amount; (ii) the targeting mechanism and uniformity in assessment; and (iii) the long-term affordability and sustainability of the programme. Alternative or complementary devices have to be considered to mitigate the current all-or-nothing approach and take into account the State and Local Government roles.

2.2 Public Service Pension / *Pencen Perkhidmatan Awam*

The Malaysian public service pension is a defined benefit retirement plan financed through the consolidated fund. The pension payment is linked to a civil servant's last drawn salary and number of years in service, while a service gratuity is a paid lump sum upon retirement.

Table 2. Number of pensioners, pension recipients, government employees and total current expenditure for pension, gratuities and emolument, 2000 - 2010.

Year	Number of pensioners and pension recipients		Total current or operating expenditure for pension and gratuities		Employment by government services	Total current or operating expenditure for emolument	
	Pensioners	Pension recipients	RM million	% of TCE		Number ('000)	RM million
2000	433,847		4,187	7.4	981.0	16,357	28.9
2001	452,930		4,711	7.4	979.7	17,443	27.4
2002	392,265		5,134	7.5	994.5	20,242	29.5
2003	411,293		5,870	7.8	1,026.1	21,721	28.9
2004	430,414		6,060	6.6	1,041.8	23,779	26.0
2005	451,938		6,809	7.0	1,118.4	25,587	26.2
2006	334,228	136,655	7,008	6.5	1,152.5	28,522	26.5
2007	351,568	144,712	8,251	6.7	1,174.8	32,587	26.5
2008	372,228	139,655	10,022	6.5	1,122.7	41,011	26.7
2009	371,812	156,771	10,146	6.5	1,247.9	42,778	27.2
2010	383,989	144,071	11,515	7.6	1,249.5	46,663	30.8

Source: PSD (2012; 2011; 2010; 2009); DOSM (2011b; 2007b); MOF (2011; 2008; 2005; 2003).

In 2010, there were 383,989 pensioners and 144,071 pension recipients (derivative and dependant's pension). The government spent RM11.52 billion or 7.6 per cent of the Total Current Expenditure (TCE) on pension and gratuities for the same year. Since 2000, the figure has more than doubled although the share of total operating expenditure has remained more or less the same (Table 2). As a percentage of TCE, pension payments have in fact fallen from a peak of 8 per cent in the late 1990s to an average of 7 per cent during 2000-2010 (Ministry of Finance 1995; 2003; 2011). As the government spent RM46.67 billion for the emolument of 1.25 million government employees in 2010, the future outlay for pension is likely to grow rapidly with considerable consequences for fiscal sustainability. In 1991, the federal government created a trust/retirement fund to help meet its future pension liabilities. Contributions from the federal government, statutory bodies, local authorities and agencies were invested by the Retirement Fund Incorporated (KWAP), with a total fund size of RM70.5 billion in 2010, to yield optimum returns.

In general, public servant pensions have good replacement rates with protection against inflation risks. Over the years, pension benefits have improved significantly and in 2012 the mandatory age of retirement for civil servants was increased from 58 to 60 years. The primary challenge for the administration is to meet growing pension liabilities in the future and contain the fiscal burden. The trade-off between adequacy and affordability could be unavoidable if public service pension reforms are not undertaken.

2.2 Employees Provident Fund / Kumpulan Wang Simpanan Pekerja

The Employees Provident Fund (EPF) is a mandated defined contribution plan for private and non-pensionable public sector employees established in 1951. In 2010, the number of

Table 3. Total savings of active and inactive EPF members at age 54, 2000 - 2010

Year	Active members at age 54				Inactive members at age 54	
	Male		Female		Number	Total savings
	Number	Total savings	Number	Total savings		
2000	21,137	1,827,005,849.22	7,952	357,182,294.69	80,451	1,145,480,613.32
2001	25,535	2,289,377,130.42	10,146	467,759,686.81	91,275	1,326,259,815.57
2002	24,823	2,522,229,750.89	10,156	570,939,118.45	87,453	1,408,717,594.05
2003	27,342	2,887,880,477.55	11,896	737,951,939.80	97,287	1,684,391,472.14
2004	27,490	3,100,573,810.02	12,045	815,279,414.25	98,677	1,757,913,099.13
2005	29,342	3,583,920,639.26	13,539	1,001,462,777.08	107,534	2,029,849,511.08
2006	32,482	4,208,471,625.54	14,955	1,218,571,361.80	108,097	2,321,761,533.00
2007	32,557	4,522,020,101.65	15,944	1,354,532,480.79	124,094	2,553,084,268.98
2008	35,415	5,322,180,263.65	17,607	1,705,344,177.95	130,653	2,860,548,303.03
2009	36,387	5,794,733,416.85	18,552	1,886,638,751.19	134,556	3,055,433,735.60
2010	39,769	6,521,203,136.42	21,192	2,362,857,708.95	147,248	3,483,242,152.97

Source: EPF (2004; 2007; 2011).

active EPF members reached 6.04 million with total savings of almost RM300 billion (EPF 2011). With a national labour force size of 11.52 million, this means that one in two workers is currently covered under the scheme. Of late, concerns among the lay public have centred on the declining annual dividend returns in the past decade which were in the 4.25 per cent to 6 per cent range. Although they are higher than the legally obligated 2.5 per cent, general expectations of the contributing members have been influenced by past performance trends when the annual dividend rates once varied from 8 per cent to 8.5 per cent between 1980 and 1994. The moderate real rate of return has obscured many to the fact that the EPF is accumulating funds faster than the local stock market capitalisation (Asher and Nandy 2009) and the total contributions amount of RM382 billion in 2010 is equivalent to almost 50 per cent of the GDP. Limitations of the domestic financial markets have led to growing overseas investment which totalled about USD9.2 billion in 2010 (EPF 2011), thus increasing global risk exposure to generate better returns.

Amidst the highlighted management and governance issues (McKinnon 1996; Thillainathan 2002), scant attention is given to the plight of low-income workers in a situation of rising inequality caused by widening pay-gaps or differences in actual wages. Although the EPF had introduced a minimum basic savings concept in 2007 to facilitate withdrawals for investment purposes, and recently increased the employer's share contribution by 1 per cent to 13 per cent for employees with a monthly salary of RM5,000 and below in 2012, the majority of EPF members today do not have RM120,000 in their Account I¹ at the full withdrawal age of 55. The average savings of active EPF members at age 54 years have increased from RM75,086 in 2000 to just RM145,734 in 2010 (Table 3). As more women are participating in the workforce, the gap in savings between active male and female EPF

¹ Account I stores 70 per cent of the monthly contributions and can only be withdrawn upon the age of 55 years. Housing, education or medical-related withdrawals are restricted to Account II.

members at the withdrawal age is narrowing. Nevertheless, low average savings balances raise the question of retirement adequacy at desired income replacement rates. Since either expanding the accumulation phase or setting a minimum sum balance would result in unpopular delayed pay-outs, other solutions must be found to compensate for the shortfall in savings for old age among the low-income group.

2.3 *Familial Support and Individual Responsibility*

Between conditional cash transfers and mandatory retirement savings, the central role of informal support systems in old age has often been overlooked. It is true that continued employment is the most important form of social security in Malaysia. Yet, it is the family (or household) which provides most of the personal social services and support each other “against social risks through inter-generational and intra-generational income pooling and transfers of personal income” (Croissant 2004). In his paper on the changing welfare regimes in East and Southeast Asia, Croissant (2004: 512) remarked that

“...public pension systems, unemployment benefits, sickness-related payments and public health care remained limited in this region (Southeast Asia). This left the burden of social security outside the state and within the market, the family and charitable organisations. This was especially true for income security in old age. ...Provident funds and compulsory saving schemes within the private sector were generally too weak to protect against the risks of inflation and growing life expectancy.”

Results from past studies have shown that the family has continued to play a major role in providing care and support for the aged in Malaysia (Tengku Aizan *et al.* 2004; Tengku Aizan and Nurizan 2008; Husna *et al.* 2012). A majority of older Malaysians co-reside with their adult children and receives financial assistance from them. The fourth Malaysian Population and Family Survey (MPFS-4) by the National Population Family and Development Board (NPFDB) in 2004 showed that 61 per cent to 73.6 per cent of ever married women and their spouse provided regular assistance in the form of money and goods to their fathers and mothers. A survey by Nurizan *et al.* (2008) also found that older persons mainly rely on their spouse (36.8%) and adult children (47.5%) for support in later life (Figure 3). Data from previous censuses showed that although extended families are on the decline, the majority of older persons are still co-residing with their children (Pala 2005; Tengku Aizan 2012). This is consistent with past research surveys where about two-thirds of the older respondents were found to live with their children in two generation or more households (Institute of Gerontology 2010; Husna *et al.* 2012).

The dependency of older Malaysians on their children must be viewed within the context of filial responsibility, obligation and duty. Children are still expected to care for their ageing parents, but the familial situation is changing. There is now a diversity of norms between adult children and their ageing parents, specifically in living arrangements as well as inter-generational support and exchange. Home ownership is relatively high among the aged, with 61.2 per cent of the elderly reporting possession of their own home (Institute of Gerontology 2010). The survey among older persons in Peninsular Malaysia also found that only a handful had made adequate preparations for their own old age, with others leaving it to chance or fate because they did not know how to do so. Older Malaysians today have little savings and few opportunities to save, plus many do not have insurance

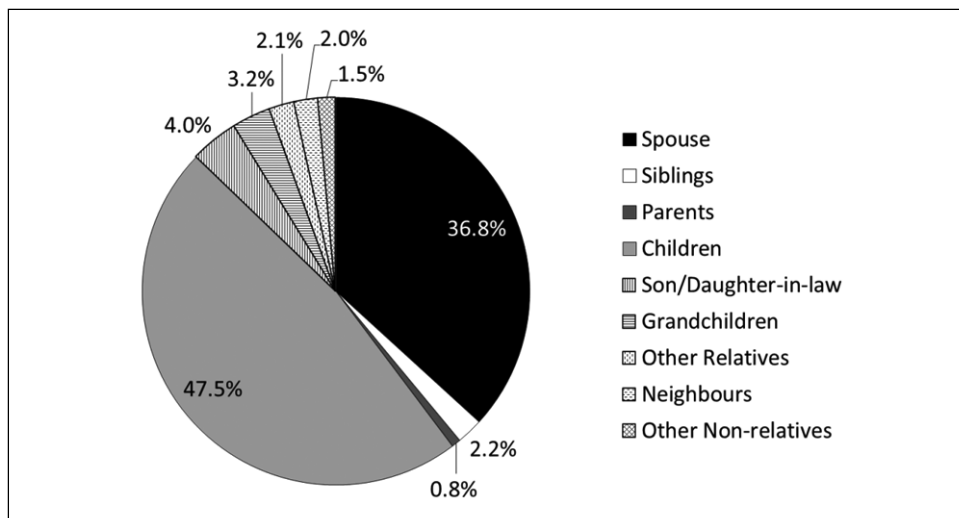


Figure 3. Main providers of support in old age
 Source: Nurizan et al. (2008)

coverage or regular sources of income in later life since options for savings investments and instruments were limited in the past. Today, with various unit trust products under Permodalan Nasional Berhad (e.g. ASN, ASB, ASW2020, ASI1Malaysia) and Bank Negara (e.g. Merdeka Savings Bonds/*Bon Simpanan Merdeka*, Sukuk), including numerous investment prospects offered by banks and other financial institutions, the real deciding factor is in finding the surplus income to save and invest. Another key issue is the provision of goods and services for the elderly such as assisted living facilities and caregiving support.

3. Other Related Sector Trends

Discussions on the needs of the elderly must factor in a number of pertinent situational, circumstantial or environmental issues over the life course. Rapid development has led to improvements in the delivery of basic amenities (e.g. water, electricity, sanitation, transport, and telecommunications), security, education and healthcare. It has also led to urbanisation and more internal migration by the younger population in search of better employment opportunities. Many other changes may have an adverse impact on old age income security or unintended consequences towards the wellbeing of the elderly.

3.1 Employment

One of the most important changes in the economy was the growth of the manufacturing industry and the shrinking share of agriculture and fisheries. A modern economy has more white-collar jobs which require skilled and better educated workers. As illustrated in Figure 4, Malaysians are entering the job market at older ages due to increased tertiary education opportunities and are leaving the workforce earlier when compared to their predecessors from similar age groups. This effectively reduces the number of years for accumulation of

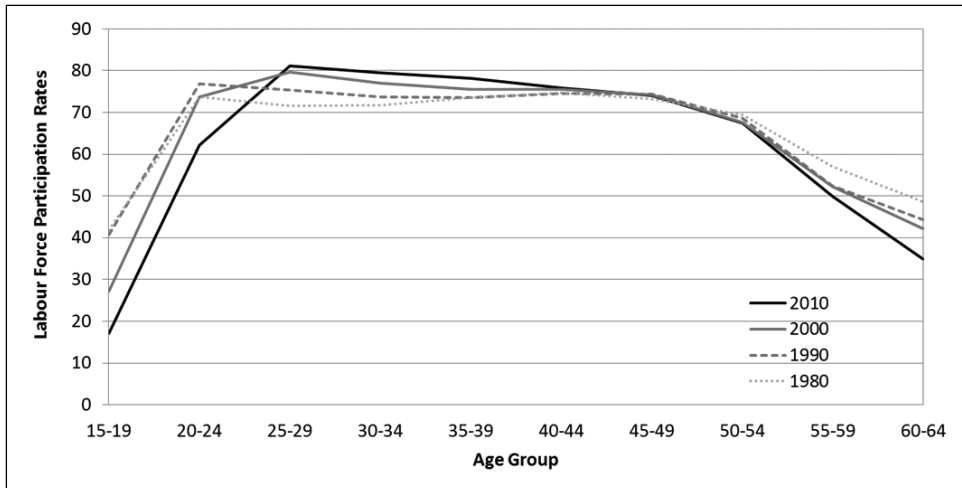


Figure 4. Labour force participation rates by age group, Malaysia (1980 – 2010)

Source: DOSM (2011c; 2001; 1991; 1983)

savings for consumption smoothing over the life course, but the impact is mitigated by higher wages and better paying jobs. In 2012, the Minimum Retirement Age Bill for private sector workers was passed in Parliament to extend the retirement age to 60 years. The Employees Provident Fund (EPF), in a bid to encourage the hiring of older workers, had reduced by half the contribution rate for those aged 55 years and over in 2007. The effects of recent measures on the labour force participation rates remain to be seen. A change in women's participation in the labour force, however, connotes wider-ranging implications. The female labour force participation rate has stagnated from 47.8 per cent in 1990 to 46.1 per cent in 2010, but it is increasing for younger women in their twenties and early thirties (DOSM 2011c; 2001). As the government has indicated an interest to improve women's participation in the workforce as part of the strategy towards a high-income nation, a potential need for care provisions arises. Elder care is still primarily a task for women in Malaysia, and work-family balance is affected when a shrinking household does not get access to affordable caregiving facilities. The biggest challenge for elderly caregivers is trying to cope with the healthcare needs of the frail, infirmed or demented older family members, which sometimes are beyond the capability and capacity of untrained care-givers.

3.2 Housing

In Bank Negara's annual report for 2010 (BNM 2011), it was noted that changing consumer spending patterns were influenced by rising affluence, a relatively young and growing working-age population, urbanisation and increased credit access. The growth of household debt was largely fuelled by personal housing and car loans, credit card spending and purchase of consumer durable goods. Zainal Abidin (2010) noted that between 1995 and 2006, there was a growing gap in the national median and mean house prices, with the latter being skewed by the sale of very expensive homes. With runaway residential house prices, home ownership is getting difficult for young, urban families and this will have repercussions

on asset-based old age security. Although housing demands must be met, the expanding urban sprawl as well as congestion in towns and city centres will give rise to health, safety and environmental concerns. Low-income households are particularly affected as they could ill-afford to move, creating conclaves of urban squatters and slums. In the absence of age disaggregated statistics for crime and violence, it is difficult to assess the long-term impact of residence in low-income communities or decrepit old townships. Housing options for the urban middle or low-income elderly are also limited, with charity homes for the homeless and destitute elderly on one end and private nursing homes for long-term care on the other. Alternative housing for older Malaysians is virtually non-existent in rural areas and remains an underdeveloped market. The capacity of the nine federal funded old folks' homes or *Rumah Seri Kenangan* under the Department of Social Welfare has stagnated with fewer than 2,000 beds and the two *Rumah Ehsan* or house for destitute patients (240-bed capacity) are woefully inadequate in meeting the long-term care needs of the elderly. A lack of meaningful options means that older Malaysians today have few choices when it comes to living arrangements in later life.

3.3 Health Care

Malaysia's national health care system has undergone significant changes since the 1980s with the growth of the private health care sector (Chee and Barraclough 2007). While the Ministry of Health is still the main funder, provider and regulator of health care services, the surge in private hospitals and managed care organisations has led to a burgeoning local health care industry. Fuelled by rising out-of-pocket health expenditure and growth of the private health insurance industry, private spending on health has kept pace with (or overtaken) government's expenditure on health since 2004 (MOH 2011a). In 2009, Malaysia's Total Health Expenditure (THE) was about RM33.7 billion or almost 5 per cent of the nation's GDP (MOH 2011b). The fact, however, remains that public health care services have delivered despite relatively lower cost and manpower (Figure 5).

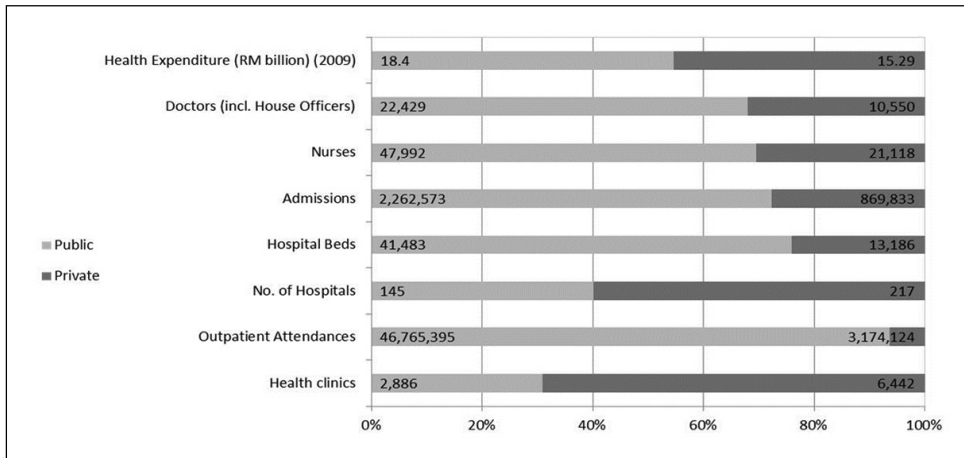


Figure 5. Public and private health care sector resources and workload (2010)

Source: MOH (2011b; 2012)

The highlighted issue is on the sustainability of such practices in the face of increasing health care costs. Government hospitals and clinics are managing more patients with fewer doctors and nurses, and the small number of geriatricians (16) and psycho-geriatricians (9) is clearly insufficient (Mohmad 2012). According to tabulated data provided to the authors by the Health Informatics Centre, the share of visits by outpatients aged 60 years and over at government hospitals in 2006 increased from 49.6 per cent (6.65 million) to 50.4 per cent (8.90 million) in 2010. As of 2011, there were only nine (9) public hospitals with geriatric wards throughout the country. As the proportion of dependent populations increases, the burden of care also becomes a challenge for Malaysia, specifically on the provisions of aged care by the family and the state (Chee and Barraclough 2007; Poi *et al.* 2004; Mafauzy 2000). With the burden of disease switching from communicable to non-communicable diseases (i.e. hypertension, hypercholesterolemia, diabetes mellitus, respiratory problems (MOH 2010)), more effort is needed for disease prevention and onset delays. While many could not agree on a national health care financing plan, few would disagree that the growing disparity in the distribution of resources between the public and private healthcare sectors requires some restructuring, if not outright reform. This is needed to improve the equity and efficiency of health services delivery in Malaysia, as these will undoubtedly have an impact on its accessibility and affordability for the aged.

4. Discussion

The World Bank Pension conceptual framework was presented in a 2005 report by Holzmann and Hinz, where the five-pillar model and related primary and secondary evaluation criteria were discussed. The fundamental question of *adequacy* arises when we wonder if current pension systems are able to (i) ensure a reasonably decent standard of living for older persons in retirement, and (ii) enable a reliable redistribution of wealth over the life cycle to maintain such a standard in old age. It is not just about maintaining a minimum balance for consumption smoothing or combating poverty, but also the moral compact between generations - how our society treats its weaker, vulnerable and helpless members. The matter of *affordability* and *sustainability* refers to the capacity of the individual and state to finance such a system without compromising other broader economic or social goals. An *equitable* system redistributes income from the rich to the poor, while ensuring a fair share that does not unduly tax or burden the rest of the society to meet the needs of a few. *Predictability* refers to the reliability or dependability of such benefits, as specified by law and inflation-indexed to protect the elderly against longevity risks. *Robustness* means that the system is able to withstand major economic, demographic or socio-political shocks.

Ong and Tengku Aizan (2010) have provided an assessment of the multi-pillar pension system in Malaysia in Appendix 1 & 2 of the above publication and an updated data set of the key pillars (Zero, One and Two) in this paper, clearly indicating that little has changed. About one-third (29%) of the current older population in 2010 is covered by the Senior Citizen Aid (BOT) scheme (120,496), public service pension (528,060) and EPF savings (39,535) but in the years to come, coverage for formal sector workers, especially those under the EPF, will grow rapidly. Vulnerable groups such as the lifetime poor and people in the informal sector are most likely to require continued assistance, although the adequacy of EPF savings will become a more pressing issue for the low-income group.

4.1 General Observations and Suggestions

4.1.1 Pillar Zero

The expansion of a social pension such as the Senior Citizen Aid (BOT) is a welcomed development but there are several issues that have to be addressed. While concerns on the targeting mechanism for welfare assistance have been raised, an immediate (and less costly) improvement could be made through independent/third-party rolling surveys for continuous monitoring and gaps analysis. The BOT recipients could be sub-divided into different dependency categories to prioritise routine administrative reviews for aid renewal and a 'sliding scale' approach will also improve financial adequacy for older individuals with greater needs (i.e. urban destitute, frail elderly). Cash transfer recipients have to be linked to other income generation (1AZAM) or micro-credit financing (AIM) programmes, and they may need regular help and assistance in the form of goods and personal services (e.g. housekeeping, grocery shopping, congregated housing and transport). The government can play a major role in encouraging a diverse range of initiatives such as the Home Help Services through smart partnerships with civil society (i.e. funding according to the number of elderly served) and private sector players (i.e. as part of company CSR programmes). Although the *e-kasih* database system was developed to consolidate aid programmes at the national level, sustained efforts are needed to streamline the various inter-ministerial or Federal-State initiatives, as well as programmes under the respective State religious bodies and foundations.

4.1.2 Pillar One

The improvement in pension benefits has a significant impact on government expenditure but the broader concern is for the long term fiscal implications of an expanding civil service. The pension is adjusted in tandem with every salary review of public servants and generous derivate pension terms (100% to dependents) were extended to parents, widow/widower or children. With a minimum pension amount of RM720 per month (for those with at least 25 years of service), the public servant pension has fewer issues of adequacy, but more on affordability and sustainability. The set-up of the Retirement Fund Incorporated (KWAP) foreshadows the possibility of a defined contribution pension or superannuation fund for the future crop of public servants (like Thailand), although it is not difficult to imagine the possible complications arising from such adjustments. Privatising segments of the public sector could also contain future pension commitments, but the real focus should be on stronger performance-linked increments and promotions, as well as rightsizing the public administration. Government spending on pension and gratuities should be ideally capped to a percentage of the total operating expenditure for better equitability. A more detailed analysis of the public service pension data is also needed to understand the changing profile of pensioners and pension recipients over time. Lessons could be learnt from public sector pension reforms worldwide, especially the current reform plans in the United Kingdom.

4.1.3 Pillar Two

The most important source of retirement income for Malaysians is also the one facing a critical need for diversification. Despite numerous governance issues (Thillainathan 2002), EPF has become a behemoth focusing on generating strong annual dividend returns as the

fund takes on more risks with growing overseas investments since the late 2000s. It is the third largest sovereign pension fund in Asia after Japan and South Korea, and ranks fifth globally in 2010 (Towers Watson 2011). The EPF has performed relatively well within its limitations, but it is unable to address the problems faced by low-income contributors and rapid exhaustion of retirement savings. More annuity schemes or private pension plans could help with the latter, but it is not a solution for workers with little disposable income. Whether a higher contribution rate from employers of workers (with salary under RM5,000) will help better than higher dividend or bonus pay-outs for the low-income group should be calculated. Like the public service pension, a closer look at the data is essential to draw the right conclusions as average savings (based on mean) of active members could paint a misleading picture. The EPF has no major sustainability or affordability issues, but it faces adequacy and dependability problems, specifically inflation risks that continue to hamper the effectiveness of EPF as a retirement savings plan. Greater transparency and public understanding of EPF's role and limitations could help Malaysians improve their own personal financial planning needs for old age.

The needs of older Malaysians should not be addressed from a welfare perspective, although a rights-based approach must take cognizance of the advancement towards a society for all ages which would mean that everyone has some collective responsibilities. It is important to note that the federal government's development and operating expenditure in education, health, housing and the social and community services (Social Services) is rising steadily over the past four decades (Mukaramah *et al.* 2011; Dawood *et al.* 1998). In 2010, 39.4 per cent of the Total Development Expenditure (TDE), or over RM20.8 billion was spent on Social Services, compared to the 24.5 per cent and 11 per cent spent on the same sector in 1990 and 2000. Current or operating expenditure on Social Services increased from RM18.78 billion, or 33.2 per cent of the Total Current Expenditure (TCE) in 2000 to RM57.77 billion or 38.1 per cent of the TCE in 2010 (Figure 6). Rising government expenditure on social and community services is related to runaway spending on subsidies and broadening welfare assistance for vulnerable populations. Can we afford to spend more? Up to a point,

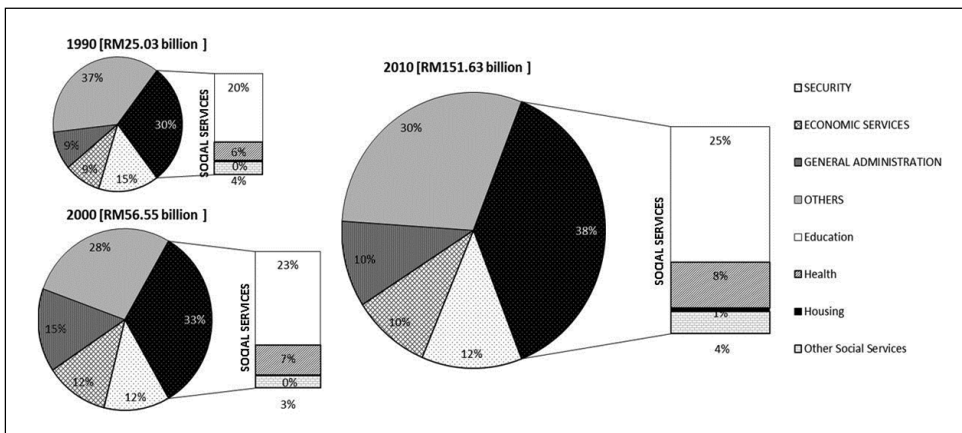


Figure 6. Federal government operating expenditure by sector (1990, 2000 & 2010)

Source: MOF (2012)

excessive public spending on the elderly can elicit generational envy or discontent. The federal government is committed to lowering the fiscal deficit and reining in public expenditure by rationalising the size of the civil service and spending on subsidies (MOF 2011). However, the pursuit of strong economic growth on the premise of a leaner and more efficient use of public finances requires careful planning, execution and monitoring. The Government Transformation Programme (GTP) initiated in 2010 focuses on key priorities of the masses and aims to deliver change at a nationwide scale by picking low-hanging fruits. Nevertheless, it is the commitment to greater efficiency and efficacy that will improve the long-term sustainability of any current or future welfare programmes.

In order to meet the needs of older Malaysians, we have to think realistically about the potential impact and trade-offs of deceptively simple solutions to a complex phenomenon. Older persons are not merely a burden or drain on resources as many continue to contribute to the well-being of their families and communities. Between the widening gaps in income levels of the population and reining in government expenditure, what sort of public spending is needed to prepare the nation for a rapidly ageing population? Demands for products and services catering to the needs of the elderly are also set to grow, but without some basic provisions for the low or middle-income group, the silver industry will be a market for the privileged few. If the family is expected to continue to care for the elderly, what provisions could be made to strengthen or support the family institution? The government should pursue a human-services model based on public, private and civil society partnerships, and redirect its focus on regulatory efforts and matching resources and progressive funding for local providers, be it non-profit or profit. Filial responsibility laws such as Singapore's Maintenance of Parents Act (1999) or India's Maintenance and Welfare of Parents and Senior Citizens Act (2007) can only do so much, although many may have considered it necessary. It does drive home the message that the state will only assume responsibility if the family is unable to do so, but it can only serve to affirm financial obligations, not inter-generational relationships.

5. Conclusion

Balancing social and economic priorities in national development is a challenging task, but the two goals are not mutually exclusive. A myopic focus on welfarism or paternalism will continue to abet a mind-set of treating the ageing population as a dependent population, instead of one of empowering them. Some of the right steps have been taken, such as the increase in the age of retirement to smoothen life time consumption, but more has to be done in the equitable redistribution of wealth to avoid widening income gaps, emphasis of personal responsibility in retirement savings, while at the same time controlling for the spiraling cost of living so that retirement savings are not eaten away by inflation. A deepening of the cash transfer programme, to be integrated with home help services will serve to improve the lives of not just the lifelong poor and the low-income group, but also emancipate the lives of middle class elderly and open up new roles as peer-to-peer volunteers. A growing silver industry should mean better economic opportunities for everyone and not just the privileged few. An inter-dependence approach, rooted in a mix of individual responsibility, family obligations, active civil society and state provisions (regulatory and non-regulatory), will enable a more broad-based and sustainable solution to meet the present and future needs of the elderly.

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