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There is more to a decent income in lengthening old age than individual savings: A discussion of income security for old age in Singapore and Malaysia.

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A discussion of income security for old age in Singapore and Malaysia

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In light of the increasing longevity enjoyed by present and future generations of older people, and pressures on traditional forms of support due to increased urbanisation and changing family structures, this paper will compare the approaches to income provision for old age taken by both Singapore and Malaysia. It will concludes that:

1. *Individual savings alone do not represent the best option for income security into old age*
2. *Increased access to savings prior to retirement, through dedicated accounts and specified schemes, lessens the ability of provident funds to meet their primary objective, namely securing a reliable and adequate source of income for members*
3. *Current arrangements are inadequate in meeting the needs of an increasingly elderly population and thus leaves them vulnerable to the socially exclusive aspects of poverty in old age.*

Both Singapore and Malaysia rely on the provident fund mechanism as the main source of income in old age. This paper examines aspects of individual saving, via the Central Provident Fund[1] and the Employee's Provident Fund and describes the limited social security schemes offered by both countries. It is divided in to three sections, and this structure is designed to facilitate independent investigation and comparative analysis of the issue of old age income facing both Singapore and Malaysia as they experience the demographic shift towards an ageing society. The paper ends with a discussion of selected aspects common to both schemes and concludes that over reliance on individual savings does not meet the requirements of an increasingly ageing population.

***Part one*: SINGAPORE**

Singapore is an island city-state of 648 square kilometres with a population of approximately 4 million, of which 100% are classified as urban (UNDP 2002). Singapore is a multi-ethnic society divided in general between the Chinese (77.7%), Malay (14.1%)

[1] The paper does comprehensively cover all schemes operated under the CPF. Rather it concentrates on those directly concerned with the provision of income in old age. For a fuller description of the CPF see Tan (2001) or Aspalter (2002).

and Indian (7.1%) communities. It has been well documented that Singapore has enjoyed rapid and, so far, long lasting success as a state incorporated. The year on year growth of the economy, the ability to switch from a precarious if not doom laden future, to one which not only has surpassed casual expectations, but which continues to perform well in economically powerful circles. This has all been achieved against a backdrop of few natural resources, ethnic diversity, regional tensions and a particularly paternalistic form of government under the People's Action Party.

It is a measure of Singapore's success, that by the mid 1990s per capita income in the city-state was second only to that of Japan in the Asian region. However, it would be wrong to assume that the future is nothing but rosy. That efforts have been directed, in the main, to economic stability and the viability of the state as a self sufficient independent entity has been achieved at a cost of strident opposition to state led social welfare policy. In a long line of similar, and continuing, pronouncements emanating from senior officials in the Singaporean government the then President of Singapore stated in 1973 that; "Singapore must eschew one of the characteristics of the Welfare State syndrome, where everyone expects others, not himself to work harder to carry subsidies for services everyone wants." (Chow, 1986, P. 5). More recently it has been suggested that the continued avoidance of the welfare state should be viewed as an integral aspect of the "Singapore model" of development (Quah, 1998, cited in Ramesh, 2000). What the rhetoric cannot mask however is that such a single-minded approach has resulted in a potentially serious and far reaching problem, namely how Singapore's rapidly ageing population will be able to afford the lengthening period of retirement.

Currently Singapore's approach to income beyond retirement is, in the main, based upon reliance on individual savings accrued under the Central Provident Fund (CPF). Further to this there is a small number of social insurance schemes which are employment based and a stringently means tested public assistance scheme, both these types of support contribute little to old age income. This section of the paper describes the issue of population ageing in Singapore before examining whether those schemes which are currently in place are adequate to meet the needs of an increasingly elderly population.

Ageing in Singapore

Average life expectancy (at birth) has grown from 69 years in 1970 to stand at 77 years by 1996 (Cheung, 1999). The annual population growth rate has fallen from 2.3% for the years 1975 to 2000, and is expected to average 1.1% for the years 2000 to 2015. This is reflected in a drop in fertility rates from 2.6 for the period 1970 to 1975, to 1.6 for 1995 to 2000. Singapore's population is set to age rapidly over the next 30 years. In the year 2000 the proportion of the population aged under 15 stood at 21.49% (of total pop), this is forecast to fall to 14% by 2015. Approximately 7% (235,000) of the population were 65 or above in 2000 and this is set to increase to 19% (796,000) by the year 2030. The old age dependency ratio, that is those above 65 to those aged 15-64, will rise from 10 per hundred to 35 per hundred in the same time period (CPF Annual Report, 2000). This however does not tell the whole story as it is expected that the 'old old', that is those 75 years old and above, will experience the fastest growth over the next 30 years. Lee (1998) citing figures form Chen and Cheung (1988) indicates that in 1980 the number of elderly over 75 were approximately 30,000, this figure is expected to increase to 243,000 by 2030. It should also be noted that amongst the elderly population, it is women who are most likely to be at risk of poverty due in part to greater longevity, late entry in the labour force, lower pay and so lower CPF balances. Lee (1998, p.296) citing figures from the 1986 Survey of the Aged Living Community argues that; "…over 90% of elderly women depended on their children and/or grandchildren for financial support. This problem is likely to increase in the next two decades as more of the older generation of women, who have little education and therefore earn less and save less, retire".

Central Provident Fund (CPF)

The CPF was established in 1955 by the then British colonial administration. The CPF is a fully funded defined contributions scheme and has developed from its initial aim of providing income in retirement into a "…comprehensive social security plan which has provided many working Singaporeans with a sense of security and confidence in their old age" (CPF website, 7/8/02). It is a compulsory scheme for all employees excepting foreign workers (who form approximately 20% of the labour force), the civil service, the self employed and casual workers in low paid, part time employment. Contributions are divided between both the employer and the employee, and each members' contributions are subdivided into 3 separate accounts which are broadly concerned with old age, housing and health. However, concerns persist that contributions to the CPF will prove inadequate in providing an old age income for Singapore's growing elderly population.

Structure

Each members' contributions are divided into three dedicated accounts, which each receive 75, 15 and 10 per cent of contributions respectively, as follows:

- Ordinary Account (75%) - from which savings can be used to purchase housing, pay for insurance (eg DPS) and for investment and education.
- Medisave Account (15%) – which can be used for hospitalisation expenses and approved medical insurance
- Special Account (10%) – which is for old age, contingency purposes and investment in retirement related financial products.

When a member reaches age 55 a Retirement Account is set up to hold the required amount under the Minimum Sum Scheme, which was instigated in 1986 in order to ring-fence an amount judged necessary to meet an individual's basic welfare needs in old age. Under this scheme minimum balances in the Retirement Account are set to reach S$80,000 by July this year, split equally between cash and property. The balance in this account can be used to purchase a life annuity, deposit with an approved bank or remain in their retirement account to earn interest.

The rates of contributions to the CPF have varied since its inception. In part, variations have been as a result of reduced contributions to facilitate economic recovery as was the case in the mid 1980s and again in response to the recent and ongoing recession brought about in part by the 1997 regional financial crisis. Prior to this event, contribution rates for those aged 55 and below were set at 40% of earnings split equally between employer and employee. As a result of the economic downturn employers contribution rates were reduced by 10% points as of January 1999, as part of a S$10 billion cost reduction package to help business weather the aftermath of the 1997 financial crisis (CPF Annual Report, 1999). It is expected that rates will shortly be restored to 40% of wages, split equally. As at January 2001 the contribution rates were set at 36% of earnings, incorporating a higher employers contribution of 16% (Table 1).

Table 1: Allocation of contributions as of 1 January 2001

Age Group	Ordinary Account %	Special Account %	Medisave Account %	Total %
35 years and below	26	4	6	36
Above 35 – 45 years	23	6	7	36
Above 45 – 55 years	22	6	8	36
Above 55 – 60 years	10.5	0	8	18.5
Above 60 – 65 years	2.5	0	8.5	11
Above 65 years	0	0	8.5	8.5

Source: Adapted from Tan (2001) Table 15-4, p. 328

However, the allocation of contributions to the varying accounts will change as a result of the findings of the Inter-ministerial Committee on the Ageing Population, formed in 1998, which recommended that greater emphasis should be placed on accumulating funds in members' Special and Medisave accounts to age 60 and maintaining the increase to the Medisave account after age 60 (Table 2). In effect contributions to the Ordinary account will be reduced to facilitate this shift in policy.

Coverage and Investments

As at the end the year 2000, the CPF had a membership of 2.87 million. Of this total figure, only 1.27 million (44.25%) were active contributors which is equal to approximately two thirds of the labour force (CPF Annual Report 2000). Lee (2001) estimates that 25% of the working population have no CPF coverage, including unpaid family workers as well as temporary and part-workers. Asher (1994) notes that under the provisions of the CPF Act the Board of the CPF must invest members accumulated funds in government bonds, from which interest is derived. Citing figures for 1990, Tan (2001) notes that according to the CPF Act interest is based on the average of savings and fixed deposit rates of four local banks, subject to a minimum of 2.5%. In addition to this, funds in the Special and Retirement Accounts earn an additional 1.5% (minimum 4%) interest. The way in which interest earned on members' contributions is calculated was amended in July 1999 to better reflect prevailing market conditions and to enhance the rate of return on CPF savings. Interest rates are now adjusted quarterly and the new calculation gives an 80% weighting to 12 month fixed deposits and 20% weighting to month end savings deposit rates (CPF Annual Report 2000)

Table 2: Long-term CPF Allocation Rates

Age Group	Ordinary Account %	Special Account %	Medisave Account %	Total %
35 years and below	29	4	7	40
Above 35 – 45 years	26	6	7	40
Above 45 – 55 years	23	8	8	40
Above 55 – 60 years	11	-	9	20
Above 60 – 65 years	2.5	-	9	11.5
Above 65 years	-	-	9	9

Source: CPF Annual Report 1999

Public Sector provision

Singapore also has long standing provision for a publicly funded pension scheme for civil servants, although increasingly restrictions on the eligibility criteria has ensured that, at present only high ranking civil servants, members of the judiciary, armed forces and the legislature are included. Pensionable officers also contribute to the CPF and Asher (2000) indicates that as of January 1999 the combined contribution rate stood at 22.5%, which was split as 15% employee and 7.5% employer, this was down from 30% in 1997 as a result of employer contributions being reduced by 50% (CPF Annual Report 1997). On reaching pensionable age retiring officers has three choices. They can opt to receive a lifelong monthly pension equivalent to two thirds of final pay for those with at least 400 months of service. They can decide to receive a lump-sum payment the amount of which is equivalent to 26 years of the pension, less 5% per year to account for the interest the recipient will earn on the lump-sum. Or, providing they were employed before 1994, they can opt to take part pension and part lump-sum which is calculated as a 60/40% spit. In addition Ramesh and Asher (2000) note that the introduction in 1997 of The Savings and Employees Scheme will result in military personnel who compete 20-25 years service and retire at age 40-45, receiving similar benefits to those non-military personnel who retire at age 60. Benefits equivalent to 10-12% of monthly salary will be deposited in an officers' account, which are accessible after completion of a specified length of service. This is over and above normal employer CPF contributions.

Singapore's social insurance schemes

Singapore currently operates two separate social insurance schemes as well as a stringently means tested Public Assistance Scheme.
The Dependants' Protection Scheme (DPS) is a low cost term-life insurance scheme which was introduced in 1989 and is operated under the auspices of the CPF. All active CPF members under 60 are covered, unless they choose to opt out. The scheme provides dependents' benefits at a fixed rate of S$36,000 in case of death or permanent injury to the household's main wage earner. Premiums are variable dependant upon age, ranging from S$36 a year for those under 35 to S$360 for those age 55-59 (Tan, 2001; CPF, 2002)

The Workmen's Compensation Act covers all manual workers and includes non-manual workers earning not more than S$1,600 per month, those excluded from the scheme include domestic workers, casual workers and outworkers. The insurance scheme is funded by employers' contributions and is designed to compensate those who are injured at work or, in event of death, compensate their dependants. As of January 1996, the maximum compensation payable for permanent injury is S$147,000 and S$111,000 in the event of death.

Public Assistance Scheme
This scheme reflects the government's view that assistance should not be available to all those in poverty, and suggests images of the deserving and undeserving poor. As such is operated under stringent means testing and is available only to the destitute, chronically ill and the aged (Lee: 1998; Aspalter: 2002). Benefits, which are set at S$200 per month for single adults, S$295 for married couples and S$530 for a family of two adults and two children, are recognised by the state as below that which is necessary for subsistence (Ramesh: 2000). The figures for those applying for public assistance is expected to rise in future years as an increased numbers of Singaporeans face life beyond retirement with insufficient funds accrued under the CPF, in particular it is women and the Malay population who are most at risk (Lee: 1998; 2001).

In addition to the above schemes, the Singaporean government has dispensed cash and tax benefits on an ad hoc basis (Ramesh and Asher, 2000; Ramesh, 2000; Aspalter, 2002). A short and selective summary includes performance related bursaries to children whose parents had not completed secondary school, earned less than S$750 per month and where the wife was under 35 years of age. Increased tax relief for those who cohabitated with their elderly parents, as well as one off payments to CPF Medisave accounts of all Singaporeans age 21 and over, amounting to S$100 million in 1997. In March 2000, the government announced a S$250 CPF top-up payment which was given to 1.5 million Singaporeans, amounting to S$381 million. Further to this the government announced another S$2 billion CPF top-up in August 2000 (CPF Annual Report 2000). As Ramesh (2000) notes, such benefits do not impose long term commitments on the state.

Part 2: **MALAYSIA**

Malaysia's total population currently stands at approximately 22.8 million of which approximately 21.5 million qualify as citizens (Mid-term Review of the Seventh Malaysia Plan (MTR7MP), 1999, Table 4.1). The population is split between 3 main ethnic groupings, Bumiputera, Chinese and Indians. According to the Eighth Malaysian Plan, which employs preliminary figures from 2000 Population Census, Bumiputeras account for 66.1% of the population whilst the Chinese and Indian groups account for 25.3% and 7.4% respectively. As a result of economic expansion and industrialisation the population of Malaysia has shifted from a predominantly rural to an increasingly urban population. In 2000, 60% of the population were residing in urban areas, this was up from 51% in 1991. Classified as an upper middle income country (World Bank, 1997), Malaysia enjoyed strong economic growth throughout much of the 1980s and 1990s. The per capita income currently stands at RM 12,135and this reflects Malaysia's swift recovery from the regional financial crisis which began in 1997, and saw GDP rate (at 1987 prices) of –7.5% in 1998 recover to stand at +5.4% in 1999 (Department of Statistics, 2000).

In part Malaysia's economic growth can be linked to policy initiatives carried out under the New Economic Policy 1970-90. This was succeeded by the National Development Policy 1991-2000, which in turn was replaced by the National Vision Policy 2001-2010 which maintains the national economic policy with the same aims of the poverty eradication and economic and societal restructuring in favour of the Bumiputera majority. The long serving Prime Minister Dr Mahathir bin Mohamad has periodically spoken out strongly against western forms of welfarism, arguing that economic growth should be the route to an affluent society, in which individuals and their families are rightfully regarded as the mainstays in the provision of care. As in the case of Singapore, the provident fund is the main mechanism through which individuals aim to secure an income beyond retirement. Malaysia too is experiencing a demographic shift towards an ageing population, albeit at a slower rate, and it is this which gives Malaysia a window of opportunity to address income protection in old age before any sort of crisis point is reached. The following section of the paper describes the issue of population ageing in Malaysia before examining whether those schemes which are currently in place are adequate to meet the needs of an increasingly elderly population.

Ageing in Malaysia

The population is expected to increase at an average rate of 2.3%, with a growth rate for those aged 65 and above estimated at 4.5% (8MP, 2001, Table 4.1). Life expectancy in Malaysia has continued to increase from 68.8 years for males and 73.4 years for females in 1991 (Asher, 1994), to 70.4 years for males and 75.3 years for females in 2002 (Department of Statistics, 2002). The elderly share of the population, which currently stands at 7%, is estimated to reach 21% by the year 2050. This will be reflected in an estimated increase of elderly persons age 60 and above from 1.56 million in 2002 to 7.87 million in 2050 (UN Commission on Population and Development, 2000 Revision. Women's participation in the labour force is calculated as 49% of which the vast majority is in predominantly low paid employment which will have detrimental effects on contribution rates to the EPF. As such it is expected that women will be at greater risk from poverty in old age. Taking account of the fact that the public sector retirement age on the attainment of the individuals 56 year, and that the retirement age for private sector employees is age 60, this results in an extended period of life into old age, for which at present individual savings appear inadequate.

The Employees Provident Fund (EPF)

The EPF is a publicly mandated savings plan with contributions shared between employers and employees. The Malaysian EPF is the oldest such provident fund dating back to the EPF Act 1951 and currently operates under the 1991 Act, amended 1995. As expected, this type of scheme is a defined contribution fully funded scheme and as such differs from other pay-as-you-go social insurance based schemes such as that operated by the Employees Social Security Organisation (SOCSO). As stated in the Chairman's statement in the 1999 Annual Report: "…the primary responsibility of the EPF is to ensure that its members have financial security in their old age in the form of adequate savings to support their retirement." (EPF, 2000). However the nature of provident funds, reliant as they are on long term contributions which are susceptible to variances in income inequality, the relatively young age at which funds are accessible, the nature of this access and the sub-division of contributions into dedicated accounts calls into question the ability of the EPF to meet its central raison d'être.

Structure

All employees, irrespective of the size of their employer's business, are covered by the scheme with both employees and employers contributing to the EPF at a current rate of 11% and 12% of wages respectively (Table 3). The employee contributions for the year 2001-02 were reduced by 2% to 9% in an attempt by the government to boost consumer spending and give a fillip to a somewhat moribund economy. As part of the ongoing reform of the EPF, measures introduced in January 2002 to replace the less than successful annuity scheme sees the possibility of each member's contributions now being separated into four dedicated accounts, each with specific withdrawal requirements. At present, 60% of contributions are deposited into Account 1 and cannot be withdrawn until the member reaches age 55. At age 55, members can withdraw their funds either as a single lump sum, part lump sum with balance paid in periodical payments, periodical withdrawal or withdraw the dividend annually leaving the balance within the account. A further 30% is deposited in Account 2 and withdrawals are permitted for the purchase or building of a house, or the payment of housing loans. In addition to this there was until recently a scheme, applying to Account 2, which allowed contributors with children at university to withdraw between RM3500 and RM5000 to buy computers, however, due to concerns regarding the validity of withdrawals this option has been discontinued. The balance of this account, that is total contributions plus compound interest, may be withdrawn at age 50. The final 10% is held in Account 3 and may only be withdrawn to meet the costs of defined critical medical conditions. The newly initiated Account 4 allows members to transfer a maximum of 50% of the balance held in Account 1. Providing Account 4 has a minimum balance of RM24000 members, upon reaching the age of 55, will be able to opt to withdraw monthly payments for a maximum period of 20 years. If the balance held in Account 4 is below the threshold and the member opts not to top up the balance with monies from Accounts 1, 2 or 3 (or these amounts are insufficient) then all four accounts are merged and the total withdrawn in a single lump sum.

Table 3: EPF contribution rates

Year	Employee	Employer	Total
1952 – Jun 1975	5%	5%	10%
Jul 1975--Nov1980	6%	7%	13%
Dec1980--Dec1992	9%	11%	20%
Jan1993--Dec1995	10%	12%	22%
Jan 1996--Dec1999	11%	12%	23%
April 01—Mar 02	9%	12%	21%
April 02 --	11%	12%	23%

Adapted from EPF Annual Report 1999

Coverage

As at the end of 1999 the EPF had 9.54 million members, this figure included approximately 4.78 million active contributors (EPF Annual Report, 2000). Asher (1998) illustrated that the coverage as measured by the ratio of active contributors to labour force as at end of 1995 stood at 49.5%. Current figures, using the same calculation, show that the coverage has marginally increased to approximately 53.1% (Asher, 2000), thereby implying that approximately 47% of the labour force, or just less than one in two workers does not enjoy the basic EPF coverage.[2] However two points should be noted, firstly that membership of the EPF should continue to rise as the formal sector expands, and that public sector employees are, in part, provided for under the Pension Trust Fund. Estimates suggest that this accounts for approximately 5-7% of the work force, which increases slightly the overall coverage of the work force to approximately 60%.

Investments

Under the 1991 Act, the EPF can only utilise approved investments. These include Malaysian Government Securities (MGS), debenture loans, money market instruments, equities and property. The Act stipulates that the EPF is required to invest at least 70% of its funds in MGS, but is restricted from investing more than 25% of its total funds in equities. As at the end of 1997, the EPF investments in MGS amounted to 29.4% compared to 73.6% in 1991. This figure was expected to show an increase in the wake of the large budget deficit for 1999 of some RM16.6billion, part of which is to be met by the EPF. This has in fact been the case as MGS holdings rose initially to 31.58 in 1999

[2] Labour force figures obtained from Dept of Statistics, April 2001.

before rising further to 37.44% as of September 2001. Investments in equities again rose to stand at 22.27% by the end of the third quarter, 2001 (The Star, 1999; Asher, 1998, EPF, 2001).

Dividends are calculated on a compound basis and are paid annually. The rate of dividend is determined by the EPF board, subject to approval from the Minister of Finance, under the EPF Act the dividend cannot be less than 2.5%. The real rate of return, that which has exceeded the increase in the consumer price index, has consistently been positive. That is, the rate of dividend has exceeded the rate of inflation for 43 out of its 47 years in existence form 1951 to 1998. Indeed figures indicate that the real rate of return on an individual's savings has remained fairly consistent at on or around the 4% mark for the previous 30 years. Asher (1998) has noted that the shift in investments away from MGS to alternative investment destinations has affected the ability of the EPF to maintain its accustomed high nominal dividend rate. The continued growth in the level of investment allocation directed towards equities, which at present are restricted to those based on the Kuala Lumpur Stock Exchange (KLSE), will continue to have a direct and increasing bearing on the ability of the EPF to produce consistent dividend returns to members. Another aspect of this shift away from MGS can be attributed to one of the roles that the EPF has assumed in recent years, that of housing provider. Asher (1998) comments that the amendment to the 1991 Act enabled the EPF not only to encourage private home ownership through Account II, but to act as housing provider through the offices of its subsidiaries Malaysia Building Society Berhad (63.02% equity held, whose principal activity is the granting of loans on the security of freehold and leasehold properties) and YTR Harta Sdn Berhad (85% equity held) and Affordable Homes Sdn Berhad (100% equity held) both of which are property development companies (EPF Annual Report 1999).

Whilst it is relevant to highlight the developments of the EPF investment strategy, and the possible impact of this upon the level of dividend payments to its members, it should also be noted that the EPF maintains a high degree of efficiency in the management of accounts. A common criticism of national provident funds has been the often high administrative burden associated with such schemes. As far as the EPF is concerned however, this has been demonstrated not to be the case with operating costs amounting to less than 3% of total income (The Star 1999). That is not to say that there is no room for improvement. Great store has been placed upon investment in IT, not only by the state in general, but by the EPF in particular as it seeks to become more responsive and transparent in its dealing with its members. The hope is that administration costs can be further restricted as the organisation moves towards a greater reliance on non-paper administration and communication.

Public sector provision

The Old Age Pension Scheme (OAPS), which is a non-contributory retirement benefit, is available to those permanent officers who have completed not less than three years service. In line with the changes made through the establishment of the Pension Trust Fund, those public sector employees appointed on or after the 12 April 1991 can make a choice between the pension scheme or alternatively the EPF. Employer contributions to the EPF, made by the public sector, are returned to it once an employee joins the pensionable category or retires, or in the case of death. Employee's personal contributions remain within the EPF scheme. On retirement public sector employees covered by the OAPS receive a gratuity and a pension up to a maximum of 50% of last drawn salary, the scheme also provides survivor and disability pensions. Due to the increasing burden of retirement benefits payable to public sector employees, the Malaysian government established the Pension Trust Fund (PTF) in 1991. A figure equivalent to 5% of the annual civil service bill is met by the PTF. Contributions to the PTF are made at a rate of 17.5% of the salary of pensionable employees by statutory and local authorities. Asher (1998) notes that as at the end of 1996 the total resources of the PTF stood at M$7,600 million.

The Armed Forces Fund (AFF) was established through the Armed Forces Act (1973) to provide superannuation benefits for members of the armed forces who are not eligible for pensions. Mid year calculations for 1996 saw the total resources of the AFF stand at RM3.587 billion (The Star, 1996). In addition to the AFF there exists the non-contributory Regular Armed Forces Pension Scheme, the National Defense Fund, a non-contributory additional assistance fund and the National Heroes Donation Trust Fund designed to assist the survivors of armed forces personnel who died on active service.

Malaysia's social insurance schemes

Employees Social Security Organisation (SOCSO)

The Employment Injury Insurance Scheme and the Invalidity Pension Scheme were created by the Employees' Social Security Act 1969 and implemented in 1972 and 1974 (Peninsular Malaysia) respectively. A pilot scheme was initially based in larger towns and rolled out to the whole of the Peninsular in 1980 (Asher, 1994 p.23, citing Singh, 1992 p.10). The Act covers all employers employing one or more persons and relates to those employees earning less than RM2000 a month. Total membership of SOCSO for 1998 stood at 8,428 589 (cumulative) while the total number of registered employers was 358 543 (Ministry of Human Resources). Once covered by the scheme employees remain insured against work-related injury, invalidity or death, even if subsequently the employees' earnings rise above the qualifying threshold. In addition any employee who has never been registered with, or contributed to, SOCSO and who is earning more than RM2000 a month is given the option to be covered by the Act dependant upon their employers agreement. Again once covered such employees will continue to be covered irrespective of future wage levels. Employers contribute 1.25% of an employee's monthly wage towards the Employment Injury Insurance Scheme, which covers industrial accidents, occupational diseases and commuting accidents. In the case of the Invalidity Pension scheme, both employers and employees contribute 0.5% of the monthly wage.

The Employment Injury Insurance Scheme has no minimum qualifying period and provides a temporary disability benefit equivalent to 80% of wages subject to a minimum of RM9 per day. This benefit is payable after a four-day waiting period and paid in arrears should the disability last longer than four days. Permanent disability benefit is equivalent to 90% of wages if totally disabled, subject to a minimum of RM9 per day. Up to one-fifth of contributions is payable where disability exceeds 20%. If the disability is assessed to be less than 20% the lump sum is paid to the injured party. There is provision for a constant attendance supplement, which is equal to 40% of the pension up to a maximum of RM500 per month. Medical benefits such as treatment costs, hospitalisation, medicines, artificial limbs and other prosthetic appliances, and physical and vocational rehabilitation are provided for under the scheme. As are dependants' benefits in the form of a survivors pension, equivalent to 60% of the permanent disability pension payable to the widow, dependant children each receive a payment equivalent to 40% (60% if orphaned) of the permanent disability pension up to age 21. A funeral grant of up to RM1000 is payable to cover incurred expenses.

The Invalidity Pension Scheme provides coverage against invalidity or death from whatever cause. Qualifying criteria apply to this scheme, namely that a minimum of 24 contributions from the previous 40 month period should have been made prior to the incidence of invalidity. The full pension is set at 50%, plus 1% for every 12 contributions made in addition to the basic 24, subject to a maximum of 65% of earnings and a minimum pension of RM171.43 per month (as at January 1995). Similar additional benefits to those mentioned above are applicable under this scheme in the form of survivors' pension (widow and orphan) and a funeral grant.

The Workmen's Compensation Scheme is in effect an employer's liability scheme. Based on the 1952 Workmen's Compensation Ordinance, the scheme covers employment injury and occupational diseases. Those covered by SOCSO are excluded from the scheme, which is applicable to both manual (unrestricted) and non-manual workers (subject to a wage limit), including foreign workers.

Part 3: **Common issues, shared concerns**

This section of the paper identifies some common issues that pertain to both Singapore and Malaysia with regard to income security in old age.
That both Singapore and Malaysia employ the provident fund mechanism as their preferred option for the provision of income security in old age is unsurprising, given their shared colonial and short lived unified past. Both the CPF and the EPF have relatively low administrative costs, 1% and 2.3% of gross income respectively. Further in the case of the EPF it is hoped that greater efficiencies can be achieved through investment in ICT which will not only drive down costs in the long term, but should increase informational access for members. Williamson and Pampel (1998) argue that the transparency of the provident fund mechanism makes it suitable to ethnically diverse nations as it is less open to abuse, or favouring one interest group over another.
Both the Singaporean CPF and its Malaysian counterpart have played a huge part in the increase in home ownership levels. In fact 92% of households in Singapore are owner-occupier which ranks Singapore as one of the highest home ownership nations (CPF Annual Report 2000). Similarly, the 1999 EPF annual report notes that the highest number of withdrawals in 1999 was for housing, up by 25.59% on the previous year and totalling RM2.54 billion. In one respect this would appear a positive indication of

preparedness for old age, having the ability to purchase housing in full prior to retirement and thus reducing one of the largest household outgoings, namely rent. However this also points to a shared concern for these two funds and that is early access to savings before retirement.

A less positive characteristic, which is common to both the CPF and the EPF, is the predominance of low rates of savings, due on the whole to the low level of wages earned during the members' working life. Lee (2001) provides figures which suggest that more than half of those contributing to the CPF earn less than S$1,000 per month. Whilst this would indicate that such savings are an important source of old age income for those in low paid employment, the current levels of contributions set at 36% of earnings would yield small balances upon retirement. Lee (2001, p. 173) also suggests that;"…20% of men and 35% of women reaching the age of 60 in the year 2005 will have no CPF coverage. In addition 23% of those covered by the CPF will have a final balance of less than S$10,000". In addition to this Ramesh (2000) points out that after thirty five years of contributing at 40%, members will have accrued a retirement income of only 20 – 40 per cent of final take-home pay, well below the required two thirds level. From a Malaysian perspective, Yaacob (2000) notes that approximately 60% of active EPF members are earning less than RM1000 a month and that as at December 1996, the average amount available to be withdrawn at age 55 was RM19,501. Such low final balances indicate not only relatively low wages, but also a highly unequal wage structure. Ramesh and Asher (2000) note that in 1996, approximately 40% of EPF members were earning less than RM600 per month, accounting for 11.8% of total EPF balance, whereas 2.8% of members earned more thanRM5000 per month and accounted for 22.1% of the total EPF balance.

Early withdrawals from individual member's account, for housing purpose for example, will take their toll, not only on the final balance but also on the dividend yield. In the case of the EPF early withdrawals from Accounts II and III for housing and health care, a possible 40% of all contributions and dividends, will result in lower returns (Williamson and Pampel, 1998). The relatively young age at which lump sum withdrawals can be made from the EPF (age 55) casts serious doubt on the ability of the accumulated balance lasting the required length of time. The increasing life expectancy combined with inexperience in individual private investments could leave the elderly vulnerable to an increased risk of poverty.

The preference for a lump-sum payment, rather than a phased withdrawal scheme, can be found in figures published in EPF annual reports. In 1999 only 177 persons opted for the periodical payment as opposed to 72,719 who took the lump sum at age 55. Those opting for the lump sum may find that their balances are inadequate to providing a life long income. In the majority of instances; "…the benefits were exhausted within three years of receipt at age 55." (Beattie, 1998 p.70 citing a study carried out by Professor Mokhtar Abdullah for the EPF in 1995). In cases were lump sums are managed appropriately to give a longer lasting source of income, inflation will inevitably affect the level of income return. Therefore lump sum payments cannot be relied upon as an efficient means for the provision of income beyond retirement. Both Singapore and Malaysia have attempted to address this via the Minimum Sum Scheme and the creation of Account 4 respectively, both of which require minimum balances which are to be used for income provision in old age.

However, as noted above, in the case of EPF Account 4 if there are insufficient funds in the account at age 55 and the shortfall cannot be met with monies from the other accounts then all four accounts are merged and the total withdrawn in a single lump sum. Plainly this arrangement does not meet the criteria for a secure income which will last the contingency of old age.

Singaporeans have been subject to somewhat stereotypical images and regularly portrayed as high savers. However, as Ramesh and Asher (2000) suggest the empirical evidence is mixed, and that disregarding CPF and Public sector savings leaves the level of voluntary household savings is unremarkable. The Singaporean governments implementation of the Supplementary Savings Scheme in April 2001 could be viewed as an attempt to address this issue, but this option is likely to be attractive only to those with the disposable income available to save, and take advantage of the tax benefits offered. It will not be a viable option to those on low incomes, whom, it is supposed, are exactly those who would benefit most from increased cash assets.

Again, it could be argued that both funds have introduced schemes which would allow for greater exposure to the equity markets in the hopes that this would yield a higher return on contributions invested. Certainly in the case of Malaysia equities now form a greater share of the EPF portfolio, although this does result in greater exposure to the vagaries of the international markets. On an individual basis, members can opt to invest in approved unit trusts, and figures from the 1999 Annual Report indicate an 88.41 increase in applications. In the case of the Singaporean CPF, investment in approved equities has been available since 1986 with the introduction of the Approved investment Scheme, later replaced by the Basic and Enhanced Investment Schemes, which in turn were superseded by the 1997 CPF Investment Scheme (Aspalter, 2002). Under the slogan 'Defined Contributions, Centrally Administered, Individually Invested' the 2000 CPF Annual Report states that; "Individuals are expected to take greater personal responsibility for their old-age financial security."

However, the liberalising of individual investments by both schemes introduces the possibility of members inexperienced in investment jeopardising their savings and thus security of income into old age. Despite the claims made by the two funds regarding the rise in membership rates and the drop in defaults by employers, many self-employed, including agricultural workers, and casual workers are simply not covered by either scheme. Given the lack of alternatives this poses serious problems for the future elderly.

Added to this, there is an ethnic dimension to future old age poverty in both Singapore and Malaysia. In the case of Singapore, Lee (2001: 174) cites figures which indicate that "Mandatory savings provided a means of sustenance for less than 43% of elderly Malays". In the case of Malaysia, it is the rural elderly, the majority of whom are Bumiputera and female (Yaacob, 2000), left behind by the migration of the young to urban areas in search of employment. It is true that intergenerational transfers continue to play a vital role in both instances. However, it is unclear what the long term effects of the changing family structures (Chan, 1997), both as a result of urbanisation (Malaysia), the shift to nuclear families and increased female participation in the labour force and a declining birth rate (Yaacob, 2000), will have on attitudes to the support of the elderly. Ramesh (2000: 251) cites the findings of nearly twenty years ago of the Committee on the Aged which concluded that the; "…younger generation was moving away from Asian traditions and cultural concepts towards a more materialistic way of life…They believe that the welfare of the underprivileged, the destitute, the old, the sick and the disabled is the primary responsibility of the State".

Finally, there remains a degree of doubt over the mixed messages which are being sent to both populations regarding the primary reason of the provident fund mechanism. Although the rhetoric places great emphasis on the need to maintain regular savings over a long period of time, both the Singaporean and Malaysian governments are not averse to reducing contribution rates in times of economic downturn. Singapore is more at fault than Malaysia over this as recent events have indicated. In fact as Asher (1994: 35) stated in response to rate reductions to combat the 1985 recession; "The government has realised that using the CPF contribution rates as an instrument for tackling recession adversely affects its goal of making each individual responsible for old age. It has indicated to eschew this instrument in the future.". This has clearly not been the case and indeed Prime Minister Goh Chok Tong went further when he indicated that the government would "…probably allow people to draw upon their Central Provident Fund accounts to pay for daily living expenses" in the event of a deep recession lasting two to three years (The Straits Times, Nov 1 2001).

Concluding remarks

Social security arrangements under the auspices of the CPF are more elaborate and further developed in Singapore than they are under the Malaysian EPF. The PAP led government has been at pains to avoid committing Singapore to long term state welfare provision, preferring ad hoc payments to boost individual savings in times of economic prosperity. Malaysia too has been opposed to the extension of state welfare to cover income in old age and it could be argued that, from the evidence included above, the development of the CPF has provided something of a model for the ongoing amendments to the EPF.

However, both schemes share common faults, which include low final balances, early access to savings linked to a relatively low retirement age, lack of guaranteed income into old age (despite the minimum sum schemes), mixed messages on individual savings, nor in the case of Malaysia continuing to develop the EPF along similar lines to that of the CPF, which as this paper clearly demonstrates, does not meet basic requirements of old age income equitably for all members. Malaysia is in the somewhat enviable position of having time on its side. The rate at which the Malaysian population is ageing, allows for the implementation social policy reforms, such as the introduction of a social insurance based pension, which would offer a minimum guaranteed income to those on low incomes, alongside the undoubted benefits which are available under the EPF, but would also include the sizeable proportion of the labour force who are not covered at present by any scheme. The current arrangements in Singapore and Malaysia, under the auspices of the CPF and EPF respectively, can both be described as a form of social security umbrella. However as we have seen, neither scheme is able to protect all sections of society, nor indeed all current members, from future inclement weather.

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