



ADVANCED INTERNATIONAL JOURNAL OF
BANKING, ACCOUNTING AND FINANCE
(AIJBAF)
www.aijbaf.com



OVERVIEW OF SOCIAL INSURANCE IN MALAYSIA: INVALIDITY PENSION SCHEME (IPS)

Mohd Zaki Awang Chek^{1*}, Isma Liana Ismail²

¹ Department of Actuarial Science, Universiti Teknologi MARA, Malaysia
Email: mohdz220@uitm.edu.my

² Department of Statistics and Decision Science, Universiti Teknologi MARA, Malaysia
Email: ismal246@uitm.edu.my

* Corresponding Author

Article Info:

Article history:

Received date: 08.04.2021

Revised date: 23.04.2021

Accepted date: 30.04.2021

Published date: 15.06.2021

To cite this document:

Chek, M. Z. A., & Ismail, I. L. (2021). Overview of Social Insurance in Malaysia: Invalidity Pension Scheme (IPS). *Advanced International Journal of Banking, Accounting, and Finance*, 3 (7), 37-46.

DOI: 10.35631/AIJBAF.37003

This work is licensed under [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/)



Abstract:

Social insurance is a public insurance programme that provides protection against various economic risks such as loss of income due to sickness, old age, invalidity, death, or unemployment, where participation is made to be compulsory. Social insurance is regarded as a type of social security, and the two terms are sometimes used interchangeably. Social insurance programmes differ from private insurance in several ways. Firstly, the contributions are normally compulsory and may be made by the insured's employer, by the state, as well as by the insured himself. Benefits are also not as strictly tied to contributions as is the case with private insurance. For example, to make the programmes serve certain social purposes, some contributors are included among the beneficiaries even though they may not have contributed for the required period of time. Next, benefits may be increased in response to the rising cost of living, which reduces the amount between contributions and benefits. The main objective of this study is to understand the contribution and benefits of social insurance coverage under the Social Security Organisation (SOCISO)'s Invalidity Pension Scheme (IPS).

Keywords:

Social Insurance, SOCISO, Invalidity Pension Scheme, Contribution

Introduction

In Malaysia, SOCSO is mandated to administer and enforce the Employee Social Security Act 1969 (the Act) and Employee Social Security General Regulations 1971 (Regulations).

Through the Act and Regulations, SOCSO can provide free medical treatment, facility for physical or vocational rehabilitation, and financial assistance to employees who have suffered from accidents or diseases that have taken away or reduced their ability to work or rendered them incapacitated.

If an employee dies, their dependents are financially supported through pensions (Malaysian Government, 2006).

Social Security Principles

In fulfilling its responsibilities, SOCSO is guided by three core principles, as follows:

Solidarity Fund

Solidarity is the cardinal value of social protection. In practice, it is a series of mechanisms for the redistribution of income to people who are disabled or invalid and families with dependent children. Generally, contributions made by SOCSO members to SOCSO are channelled to the solidarity fund. The determining factor when calculating the quantum for an employee's contribution is based on his or her monthly salary. Through this understanding, employees share the same level of exposure and risk regardless of the industry in which they work.

The sharing of risk in this context brings the understanding that all contributors agree and are united in allowing SOCSO to use the solidarity fund to pay benefits to employees who have suffered disability or invalidity and to pay pension to dependents in the case of death.

For employees who have not received any benefits until retirement, they are helping other employees who suffer from disabilities or invalidity and helping families who have lost family members due to death. In the long-term, this may also happen to their own families. On top of that, the retiree's and other contributor's contributions are also used to help their families based on the core principles of 'solidarity fund'.

Replacement of Income

This principle applies when determining the amount of benefit payments. It is related to the amount of contributions paid based on the employees' salary.

This concept is to ensure that the employees would not be financially affected if they have disabilities or invalidity. In the case of death of an insured person, replacement of income is provided to the dependents in the form of monthly pensions.

Equality

The fundamental basis of this principle is inherent within the Act and Regulation itself. By virtue of the concept of social justice, the coverage of the scope must encompass all employers and employees registered with SOCSO.

Through this concept, prevention of accidents with the objective of zero accident and fostering a culture of healthy lifestyle should be implemented because the real aim of social security is to keep employees in the workforce until they retire.

If this can be done, the real income of an employee would be higher, in line with the new economic model that focuses on high income society.

This concept also provides space and opportunity for a motivated employee to return to work. In addition, rehabilitation is also given to employees who suffer disability and invalidity.

In conclusion, payment of benefits are made to eligible employees or dependents under the Act and Regulations. This is to ensure that fairness and equality to all employees are achieved. In the spirit of fairness, the service is rendered with the aim to please the customers and to go beyond their expectations. To this end, SOCSO attempts to execute benefit payments as fast and as accurately as possible.

Definition of Employer and Employee

Merican, et al., (1994) stated that any employer who ceases to be an employer shall notify SOCSO of such cessation by submitting Form 1 together with other relevant documents to SOCSO within 30 days of such cessation.

Employers are divided into two categories, namely principal employer and immediate employer. Principal employer is an employer who directly employs an employee under a contract of service or apprenticeship. All matters relating to services and payment of wages are handled by them too.

However, an immediate employer is an employer who employs an employee to perform work under the supervision of a Principal Employer. This includes a person who has a contract of service with an employee and temporarily lends or leases the service of that employee to a principal employer (Baharudin et al., 2013).

Principal and immediate employers who employ one or more employees are responsible to register with and pay the contributions. The principal employers are also responsible to ensure the registration and payment of contributions for all employees who are employed by the immediate employer. For failure to do so, and in the absence of the immediate employer, the principal employer will be deemed liable under the Act (SOCSO, 2015).

In addition, a person that takes employment under an employer under a contract of a service or an apprenticeship contract is defined as an employee under the Act. It is important to highlight that SOCSO coverage and protection is only limited to Malaysian citizens and permanent residents.

All employees are eligible to register regardless of their employment status whether temporary, part-time, or on probation, thus including those employees who are not yet confirmed in their employment. Employees who are eligible for coverage and protection under the Act are:

Monthly Wages of RM 4,000.00 or Less

Employees who receive monthly wages of RM 4,000 or less are eligible under the Act and are required to register and contribute.

Monthly Wages Exceeding RM 4,000.00 With Option Notice

Employees receiving monthly wages of more than RM 4,000 are not eligible under the Act, however they can still be covered upon mutual agreement between employer and the employee by submitting a notice in the specified form, together with Form 2.

'Once-In-Always-In' Principle

Pursuant to the 'Once-In-Always-In' principle, employees who have already contributed and whose monthly wages later increases until exceeding RM 4,000.00, are required to continue contributing. However, these are employees who are not eligible to contribute under the Act, such as:

- a. Earning more than RM4,000.00 per month;
- b. Spouse of a principal or immediate employer;
- c. Any person whose employment is of a casual nature and who is employed otherwise than for the purposes of the employer's industry;
- d. Employees who are employed for household-related services in a private residence or individual capacity, and not commercially or business-based;
- e. A tributer, that is, a person who is permitted to win minerals or produce of any kind from or on the land of another and who, in consideration of such permission, gives a proportion of the minerals or produce to that other person or pays to him the value of such proportions;
- f. Any member of the Malaysian Armed Forces;
- g. Any police officer;
- h. A person who has been detained in any prison, Henry Gurney School, approved school, detention camp, mental hospital, or leper settlement;
- i. An employee who has attained the age of 60 and in respect of whom no contributions were payable before he attained the age of 55 years;
- j. An employee who has attained the age of 60 years; or
- k. A certified invalid who is in receipt of IPS.

Definition of Wages

The Malaysian Government (2006) defines wages for contribution purposes as all remuneration payable in the form of money by an employer to an employee. They include:

1. Basic salary;
2. Overtime;
3. Commission;
4. Service charge;
5. Allowances (e.g: incentive, attendance allowance, cost of living allowance and so forth); and
6. Payments in lieu of annual leave, medical leave, maternity leave, rest days, off days, public holidays, and so forth.

Contribution Rate

The Malaysian Government (2006) stated that principal employers are required to make monthly contributions for every employee who is eligible according to the rates as stipulated under the Act. The current contribution rates (Appendix B) are based on the total sum of the monthly wages received by an employee. Contribution begins on the first month when the employee commences employment. Types and categories of contribution are as follows:

First Category (Employment Injury and Invalidity Schemes)

All employees who have not attained 60 years of age are required to contribute under the first category, except those who have attained 55 years of age and have made no prior contributions before reaching 55.

Second Category (EIS)

The rates of contribution under this category comprise 1.75% employer's share and 0.5% of employee's monthly wages. Under this category, the contribution is paid by the employer for the EIS. The rate of contribution under this category is only 1.25% of the employee's monthly wages solely borne by the employer.

Example:

Basic salary = RM1,000.00; Overtime allowance = RM250.00

COLA Allowance = RM100.00; Total wage= RM1,350.00

Contribution to SOCSO is RM30.40 (Appendix B)

Payments that are not defined as wages are:

- a. Any contribution payable by the employer towards any pension or provident fund;
- b. Any travelling allowance or concession;
- c. Any gratuity payable on discharge or retirement; and
- d. Annual bonus.

For employees who are aged above 60 years and continue to be in employment, his employers shall contribute to SOCSO for such employees. The principal employer must make monthly contributions for each eligible employee according to the rates as specified under the Act (Patent No. 1, 2013, 2014).

Furthermore, where an employer fails to pay contributions within the required period, such employer shall be liable to pay interest. Interest payable will be calculated at the rate of 6.7% per annum in respect of each day of default or delay beyond the end of such period, subject to a minimum payment of RM5.00 (Oum & Asher, 2010).

Social Security Protection Schemes

All Malaysian employees are entitled to IPS, due to any cause before the age of 60 (SOCSO, 2014b).

Invalidity Pension Scheme and Benefits

An insured person shall be considered as suffering from invalidity by reason of specific morbid condition of permanent nature which is either incurable or is not likely to be cured and no

longer capable of earning (by work corresponding to his strength and physical ability) at least one-third (1/3) of the customary earnings of a sound insured person.

The IPS provides 24-hours' coverage to employees against invalidity and death due to any cause not connected with employment before the age of 60. The benefits provided under this scheme are Invalidity Pension, Invalidity Grant, and Survivors Pension. However, the remaining 4 benefits, namely Constant Attendance Allowance, Funeral Benefit, Rehabilitation and Educational Loan, offer the same coverage as stated in the EIS (Seng, 2006).

Invalidity Pension Benefit

The Malaysian Government (2006) stated that invalidity means a serious disease or disablement of a permanent nature that is either incurable or not likely to be cured as a result of which an employee is unable to earn at least 1/3 of what a normally able person could earn. Heart attack, kidney failure, cancer, mental illness, chronic asthma, and other similar conditions are chronic ailments or diseases that could be considered for invalidity. The following conditions must be fulfilled by an employee to be eligible for Invalidity Pension:

- a. at the time the notice of invalidity is received, the employee has not reached 60 years of age;
- b. if the employee has completed the age of 60 years when the notice of invalidity is received, such employee has to provide proof that the invalidity occurred before he reached 60 years of age and he had ceased employment at that time;
- c. certified as an invalid by a Medical Board or Appellate Medical Board; and
- d. has fulfilled the contribution qualifying conditions.

There are two contribution qualifying conditions, either full qualifying condition or reduced qualifying condition. An employee is deemed to have fulfilled full qualifying conditions if before the month in which the notice of invalidity is received, an employee's monthly contributions within a period of 40 consecutive month's reach at least 24 months. In addition, an employee has made monthly contributions for at least 2/3 of the number of full months in the period between the date of first coverage under the Invalidity Pension Scheme and the date the notice of invalidity is received by SOCSO. This is subject to the condition that the total number of monthly contributions made during the stated period is at least 24 months.

Invalidity Grant

This is an outright payment paid to a worker or employee who does not qualify for the Invalidity Pension, as he does not meet any of the contribution qualifying conditions stated, but has made at least 12 monthly contributions.

The Invalidity Grant is equivalent to the total amount of contributions paid by the employee and the employer for the IPS, including the interest thereof. If an employee is severely incapacitated and requires constant personal attendance, the recipient of the Invalidity Pension is also entitled to Constant Attendance Allowance.

The Medical Board or an Appellate Medical Board will decide on the eligibility to receive this allowance and will pay the benefit to the recipient directly. Subject to a maximum of RM500.00 per month, the benefit amounts to 40% of the rate of Invalidity Pension (Malaysian Government, 2006).

Survivors Pension

The Malaysian Government (2006) stated that in the case of an employee who dies in any of the following situations, irrespective of the cause of death, the employee's dependents will be paid Survivors Pension:

- a. while an employee is receiving invalidity pension irrespective of his age an employee who is not a recipient of the invalidity pension and has not reached the age of 60 years but meets either the full contribution qualifying condition or the reduced contribution qualifying condition;
- b. Where the deceased is a recipient of Invalidity Pension, the rate of the Survivors Pension is equivalent to the rate of the Invalidity Pension received by him; and
- c. Where the deceased is not a recipient of the Invalidity Pension and has met the full contribution qualifying conditions, the full rate of the Survivor's Pension is between 50% to 65% of the average monthly wage, depending on the number of contributions made on his behalf.

The rate of Survivors Pension will be 50% of the average monthly wage for an employee who meets the reduced contribution qualifying condition. Dependents who are entitled for the pension are the same as those under the Dependent Benefit under the EIS.

Constant Attendance Allowance

This allowance is paid to employees who suffer from permanent total disablement or 100% loss of earnings capacity, and is so severely incapacitated that he constantly requires the personal attendance of another person. Subject to a maximum of RM500.00, the allowance is equivalent to 40% of the rate of permanent total disablement benefit. The Medical Board or the Appellate Medical Board will determine the eligibility for this allowance and the payment will be paid directly to the recipient of the benefit (Asher, 1994; Oum & Asher, 2010).

Funeral Benefits

The Malaysian Government (2006) stated that when an employee dies as a result of an employment injury or while receiving disablement benefit, an amount of RM1,500.00 will be paid. Payment will be made to the eligible next-of-kin. Where there is no next-of-kin, the person who incurred the funeral expenditure will be paid the benefit. The maximum amount for the benefit is the actual amount incurred or RM1,500 whichever is lower.

Rehabilitation Benefit

Facilities for vocational and physical rehabilitation are provided by SOCSO to employees who suffer from permanent disablement. Physical rehabilitation includes physiotherapy, occupational therapy, reconstructive surgery, as well as the supply of artificial limbs such as artificial leg, hand, eye, and dentures. It also includes other prosthetic appliances such as wheelchairs, hearing aids, crutches, spectacles, calipers, and orthopedics shoes, including their repair and replacement.

An employee who is unable to find a suitable job due to his permanent disablement can apply to undergo vocational training in courses such as radio or television repair, metal trade, electrical wiring, repairs of refrigerator and air-conditioner, tailoring, plumbing, typing, and secretarial work. SOCSO will bear all expenses incurred for the purpose of vocational and physical rehabilitation based on rates and conditions as determined by it (SOCSO, 2014).

Education Benefit

The Malaysian Government (2006) stated that this benefit is in the form of an education loan given to dependent children of employees who are in receipt of a monthly benefit either in the form of Dependants' Benefit, Survivor's Pension or children of an employee who is in receipt of a monthly benefit for Permanent Disablement and Invalidity Pension. As informed by the Malaysian Government (2006), the eligibility requirements for the application of educational benefits are:

Dependant children of an employee receiving Invalidity Pension or periodic permanent disablement who are below 21 years of age and unmarried at the time of the application; or

- a. Dependent children of an insured person who has died due to an employment injury or while receiving invalidity pension or before reaching 60 years of age and who fulfils the contribution qualifying conditions, which is to be below 21 years of age and unmarried at the time of the application. If the child has exceeded 21 years of age and is receiving a monthly benefit and is continuing his education in an institution of higher learning and is unmarried at the time of the application:
- b. Has been offered a place and has registered in any university or college or local institutions of higher learning, including an institution that has a twinning programme, (on condition the degree is completed locally), which is registered with the Ministry of Education to acquire a degree, diploma or a certificate which is awarded by the National Vocational Training Council or Ministry of Human Resources;
- c. Has not been given any other scholarship or loan by any other authority; and
- d. The family finances are insufficient to support the cost of the education.

Conclusion

Every family desires to have a comfortable, trouble-free lifestyle, protected and shielded from any unforeseen events and accidents. Typically, families spend millions of dollars to protect themselves against the risk of calamities or accidents occurring (Bowers et al., 1997).

Redja (2014) stated that commercial insurers do provide several insurance products or financial security contracts to enhance individual coverage through premiums charged. However, many families cannot afford to pay for the high premiums.

There is therefore a strong need for them to have basic protection, which is normally provided by their governments through social security (M.Z.A. Chek, Ismail, & Jamal, 2019; Mohd Zaki Awang Chek, Ismail, & Jamal, 2018a, 2018b, 2019b, 2019a, 2019c; Zulkifli et al., 2012).

Social security can also be understood as a form of universal welfare-oriented system. It was established to provide society with financial protection from uncertainties that may occur in

the future. It has been developed to include coverage throughout the life span of the individuals. ILO¹ (2011) reported that nearly 90% of countries worldwide practice social security measures.

Under the social security system, each individual will be protected for the betterment of the country's continuous economic growth. Normally, the individual would be covered under some form of social insurance (Asher, 1994).

References

- Asher, M. G. (1994). *Social security in Malaysia and Singapore* (1st ed.). Kuala Lumpur: ISIS Malaysia.
- Baharudin, M. R., Siang, L. C., Yeng, S. W., & Nazmin, H. (2013). *Effectiveness of SOCSO's accident prevention program in Klang Valley, 2012*. Kuala Lumpur.
- Bowers, J., Hans, G. U., Hickman, J. C., Donald, J. A., & Nesbitt J. Cecil. (1997). *Actuarial Mathematics* (2nd ed.). United States: Society of Actuaries.
- Chek, M.Z.A., Ismail, I. L., & Jamal, N. F. (2019). Descriptive research on socso's invalidity pension scheme (IPS) claims payment. *International Journal of Recent Technology and Engineering*, 8(2 Special Issue 11). <https://doi.org/10.35940/ijrte.B1104.0982S1119>
- Chek, Mohd Zaki Awang, Ismail, I. L., & Jamal, N. F. (2018a). Descriptive Analysis of Trends in Frequency of Invalidity Pension Scheme (IPS) in Malaysia. *Multidisciplinary Informatics Journal*, 1(1), 53–61. Retrieved from <https://mijournal.wixsite.com/index/volume-1-issue-1>
- Chek, Mohd Zaki Awang, Ismail, I. L., & Jamal, N. F. (2018b). Optimising Contribution Rate for SOCSO ' s Invalidity Pension Scheme : Actuarial Present Value (APV). *International Journal of Engineering and Technology*, 7, 83–92. <https://doi.org/10.14419/ijet.v7i4.33.23491>
- Chek, Mohd Zaki Awang, Ismail, I. L., & Jamal, N. F. (2019a). Assessing Contribution Collection: A Case of SOCSO's IPS. *International Journal of Recent Technology and Engineering*, 8(2S11), 621–623. <https://doi.org/10.35940/ijrte.b1096.0982s1119>
- Chek, Mohd Zaki Awang, Ismail, I. L., & Jamal, N. F. (2019b). Descriptive research on SOCSO's Invalidity Pension Scheme (IPS) claims payment. *International Journal of Recent Technology and Engineering*, 8(2 Special Issue 11), 660–663. <https://doi.org/10.35940/ijrte.B1104.0982S1119>
- Chek, Mohd Zaki Awang, Ismail, I. L., & Jamal, N. F. (2019c). Personal Financial Planning through Massive Open Online Course. *International Journal of Academic Research in Business and Social Sciences*, 9(5), 618–622. <https://doi.org/10.6007/IJARBS/v9-i5/6004>
- Journal, M. L. (1993). *Employees' Social Security (General) Regulations 1971*. Pesuruhjaya Penyemak Undang- Undang, Malaysia.
- Malaysian Government. (2006). *Employees' Social Security Act 1969*. Kuala Lumpur: The Commissioner of Law Revision, Malaysia.
- Merican, R., Abdul, B., & Merican, R. (1994). *Employees ' Rights under the Malaysian Social Security Organisation*. 3(1), 24–44.
- Oum, S. O., Asher, M. G., & Parulian Friska. (2010). *Social protection in East Asia: Current state and challenges*. Singapore.

¹ ILO is the abbreviation for International Labour Organisation, which main aims are to promote rights at work, encourage decent employment opportunities, enhance social protection, and strengthen dialogue on work-related issues. For details, refer to the website: <http://www.ilo.org/>

- Seng, S. C. (2006). Social Security: Concept and reality with reference to Malaysia SOCSO. *Malaysia Labour Review*, 1(1).
- SOCSCO. (2014). Life changing stories after return to work. Disability: Not a tragedy.
- SOCSCO. (2014). *Patent No. 1, 2013*. Malaysia: SOCSCO.
- SOCSCO. (2015). *SOCSCO Annual Report 2014*. Kuala Lumpur.
- Zulkifli, F., Ismail, I. L., Chek, M. Z. A., Jamal, N. F., Ridzwan, A. N. A. A., Jelas, I. M., ... Ahmad, A. B. (2012). Time series forecasting of future claims amount of SOCSCO's Employment Injury Scheme (EIS). *AIP Conference Proceedings*, 1482. <https://doi.org/10.1063/1.4757502>