Malaysia: Pensions important for working class civil service employees.

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Kerajaan Madani has thrown a spanner in the works of the civil service by ending the pension scheme. Although the current civil service staff will still receive their pensions when they retire, all those entering the service beginning February 1, 2024, will only benefit from the Employees Provident Fund like other private sector workers.

The rationale for ending the pension scheme is basically to reduce the financial burden on the government. Currently, the government forks out nearly RM 32.45 billion every year to pay pensions for around 1 million pensioners. The government argues that this is a huge commitment, as it is nearly 10.7% of its total operating expenditure this year.

The unpopular decision was made in view of the expected increase in pension allocation in the coming years. Professor Geoffrey Williams of the Malaysia University of Science and Technology (MUST) said pension costs are estimated to rise to RM46 billion by 2030.

Although Anwar Ibrahim attempted to somewhat soothe the announcement by saying that the review of the current public service remuneration scheme would not be limited to civil servants but would also apply to politicians, it still left a scar amongst the workforce.

Compared to politicians, who are eligible to receive pensions (and sometimes multiple pensions) after serving for 3 years, civil servants will have to serve a minimum of 25 years to receive 60% of their last drawn salary as pensions. After their demise, their spouse is entitled to receive 70 percent of the last drawn pension amount.

While Malaysians despise politicians and their high salaries with huge pensions, what really matters is how much the faithful civil servant who has served loyally for more than 25 years will be affected in the long run.

Is the civil service too big?

Unfortunately, most commentaries on the matter have only discussed how these allocations for pensions will be unsustainable for the government. Some argue that the problem is that we have a disproportionately large civil service compared to our population. They assert that 1.4 million civil servants for a population of 33 million is unjustifiable.

But I would argue that it is unfair to blame and 'punish' the civil service by removing pensions and employment benefits. They are merely working within the structure set out by the government. It is the government that has to ask the question of whether it's using its staff productively to serve the rakyat.

Let us not forget that not all government services are provided by civil service employees. Since the 1990's, civil service has been transformed by a wave of privatisation in coherence with the rise of neoliberal ideas amongst global leaders. Overnight, government employees in most utility-provider departments were transferred to privatised entities. Janitors and security personnel working at government schools and hospitals found themselves no longer government employees but private contractor workers. These workers, until today, suffer various deprivations, such as receiving minimum wages despite long service, loss of job security and other benefits. They were axed, in the name of privatisation, to make the civil service ‘lean’ and ‘efficient’.

What about the civil servant at the lower pay grade?

Let’s not overlook how the transition from the pension scheme to the EPF will affect employees, especially those in lower pay grades.

Unlike EPF, which is based on a contributory model, pensions are actually deferred salaries. The government makes contributions to Kumpulan Wang Persaraan (KWAP) Incorporated. It might surprise some that the lowest-rung civil servant, gred N11 ‘Pembantu Operasi, has a starting pay of only RM 1,216.

Even though the starting salary is far lower than the minimum wage in the private sector, which is RM1,500, the public service employee is drawn to serve the government because of the guaranteed benefits such as pensions, medical benefits, and cheap housing loans.

So when a public service employee retires after 25 years in service, he would be eligible to receive about RM 2,100 monthly as pensions if his last drawn salary was RM3,500 per month. On top of that, he is assured of lifelong coverage for his or her medical bills, including those of the spouse.

Comparatively, those in the EPF scheme can only save approximately RM200,000 after 25 years, based on an average wage of RM2,500 per month. If you withdraw RM2,000 from that amount every month, it will only last you for 8 years! This is a far cry from the pensionable scheme, where you are guaranteed a stable income plus medical coverage for the rest of your life. Clearly, the EPF contribution will not be enough to sustain those in the non-managerial and non-professional categories, i.e., the support group of public service employees, which make up approximately 60% of the public servants currently.

More study is required.

Before hastily ending the pensionable scheme for financial reasons, the government must study how the public service employees who opted for the EPF scheme in April 1991 fared.

Those in statutory bodies and local authorities were in fact given the option to choose the EPF scheme much earlier in 1975. Did they benefit in the long run, or are they facing multiple financial difficulties now? Pension provides a crucial lifeline especially for manual labourers, clerks and other low grade civil service employees compared to the higher grade civil servant.

EPF insufficient

In view of the various reports from EPF alerting that retirees simply don’t have sufficient savings to pull through their golden years, how is it beneficial to scrap the pension scheme? It is reported that 71% of contributors who are aged 55 and below do not have enough funds to raise them above the poverty level. Even DS Anwar, as the Finance Minister, agreed that the number of active members who had reached the basic savings target of RM240,000 by the age of 55 had gone down from 36% in 2020 to 29% at the end of last year. So why are we proposing an EPF contributory scheme to replace pensions?

IMF-style manœuvres?

Reforming the pensions regime has always been a contentious matter for governments to balance their fiscal expenditures. Employees in France are up in arms against Macron's persistent attempts to raise the retirement age from 62 to 64 and increase the necessary contribution period to 43 years.

Cutting back on pensions and social protections has always been the advice of proponents of IMF-style austerity measures to reduce government deficits. Reducing deficits is one of the prerequisites to improving your ratings to borrow from international financial institutions. On the other hand, governments are warned against 'offending' investors by increasing corporate tax or introducing capital gains tax, wealth tax, etc.

The Ministry of Finance, led by Anwars, does not seem exceptional, persuaded by the same logic to reduce deficits. The same determination to dissolve the pension scheme is not replicated in taxing the top 20 in our society. While proposals for a wealth tax have been shot down, the upcoming capital gains tax too seems to come with several exemptions.

Tripping people into poverty

Anwar Madani's promise to uplift the poor can only be realised if he does not lose sight of how adversely scrapping pensions will affect lower-grade public sector employees. Thousands of government service pensioners who served as manual labourers with lower-grade salaries are better off than their counterparts in the private sector because of income security via monthly pensions. Private sector retirees with low or depleted EPF savings have no choice but to return to work after 60 to survive.

Pensions provide an important safety net for the people who have contributed to nation-building. Removing it will only push them into poverty, inevitably.

Sivarajan A. Secretary-General, Parti Sosialis Malaysia

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