


# Malaysia

## Malaysia: pension system in 2008

Private sector employees and non-pensionable public sector employees contribute to the provident fund.

## Key indicators

		Malaysia	OECD
Average earnings	MYR	25 400	142 900
	USD	7 200	40 600
Public pension spending	% of GDP		7.0
Life expectancy	At birth	74.3	78.9
	At age 65	80.3	83.1
Population over age 65	% of working-age population	7.3	23.6

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## Qualifying conditions

Normal pension age is 55.

## Benefit calculation

### Defined contribution

Employees pay 11% of monthly earnings to the provident fund according to wage classes, when aged up to 54 years, and 5.5% between age 55 and 75. Employers pay 12% of monthly earnings according to wage classes, for employees up to 54 years of age, and 6% between ages 55 and 75. Minimum monthly earnings for the contribution are MYR 10 and there is no ceiling for the contribution. Insured persons can make voluntary additional contributions. The contribution is made to two different accounts: 70% of contribution to Account 1 and 30% to Account 2. It is possible to receive pension in a lump sum, monthly instalments or a combination of both. The minimum total amount to be paid in monthly instalments is MYR 250 with the minimum period being 12 months, with a minimum withdrawal at any time of at least MYR 2 000, or a combination of these options. For comparison with other economies, for replacement rate purposes the pension is shown as a price-indexed annuity based on sex-specific mortality rates.

## Variant careers

### Early retirement

It is possible to withdraw savings before age 55 from Account 2.

### Late retirement

It is possible to defer retirement and continue to make contributions after normal pension age.

## Personal income tax and social security contributions

### Taxation of workers

The mandatory and voluntary provident fund contributions up to MYR 5 000 a month are tax deductible. Employees below age 55 earning MYR 2 000 or less a month and casual workers need to be covered by social insurance. The insurance does not cover old-age pension, but disability, survivor and other pensions and grants. The contribution rate is

0.5% of monthly earnings based on 24 wage classes. Social insurance contributions are tax deductible.

### **Taxation of worker's income**

Individual income tax rate ranges from 1 to 28% with eight income brackets.

Chargeable income	MYR	Rate (%)	Tax (MYR)
On the first	2 500	0	0
On the next	2 500	1	25
On the first	5 000	–	25
On the next	15 000	3	150
On the first	20 000	–	475
On the next	15 000	7	1 050
On the first	35 000	–	1 525
On the next	15 000	13	1 950
On the first	50 000	–	3 475
On the next	20 000	19	3 800
On the first	70 000	–	7 275
On the next	30 000	24	7 200
On the first	100 000	–	14 475
On the next	150 000	27	40 500
On the first	250 000	–	54 975
Exceeding	250 000	28	–

## **Social security contributions payable by workers**

### **Taxation of pensioners**

There is no additional tax relief for pensioners.

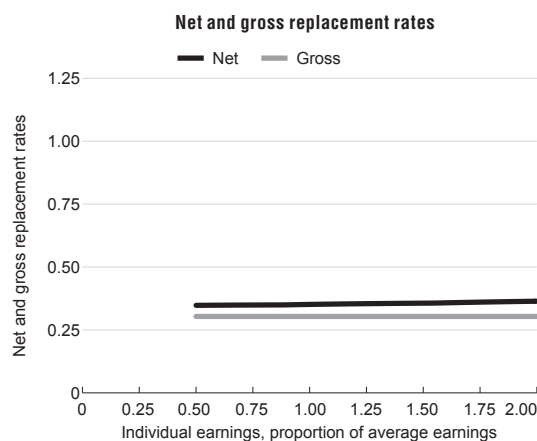
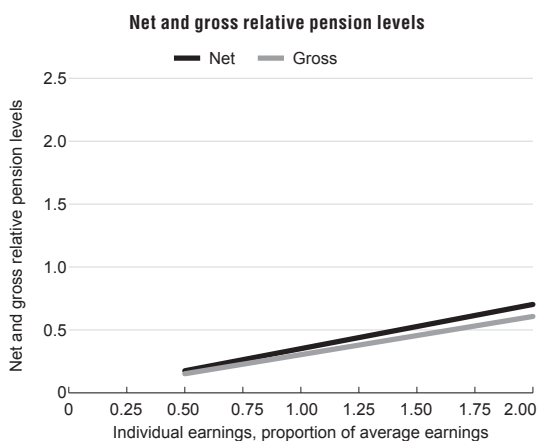
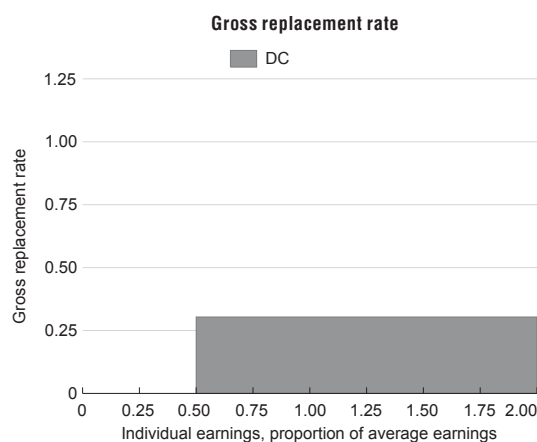
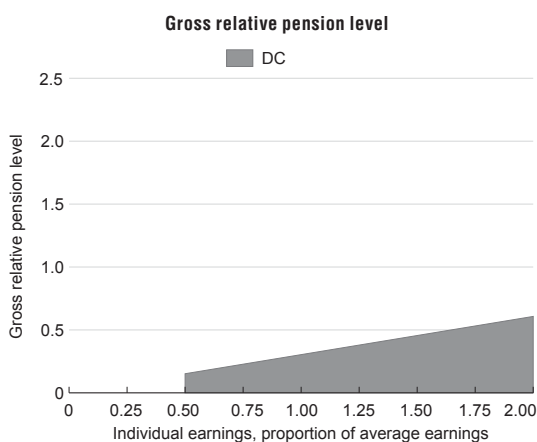
### **Taxation of pension income**

Pension income is tax exempted.

### **Social security contributions payable by pensioners**

Pensioners do not pay any social security contributions.

### Pension modelling results: Malaysia



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	24.6	15.2	22.8	30.4	45.5	60.7
(% average gross earnings)	21.9	13.5	20.3	27.1	40.6	54.2
Net relative pension level	28.5	17.6	26.4	35.1	52.7	70.3
(% net average earnings)	25.4	15.7	23.5	31.3	47.0	62.7
Gross replacement rate	30.4	30.4	30.4	30.4	30.4	30.4
(% individual gross earnings)	27.1	27.1	27.1	27.1	27.1	27.1
Net replacement rate	34.9	34.8	34.9	35.1	35.6	36.4
(% individual net earnings)	31.1	31.0	31.1	31.3	31.8	32.5
Gross pension wealth	6.4	6.4	6.4	6.4	6.4	6.4
(multiple of individual gross earnings)	6.4	6.4	6.4	6.4	6.4	6.4
Net pension wealth	6.4	6.4	6.4	6.4	6.4	6.4
(multiple of individual gross earnings)	6.4	6.4	6.4	6.4	6.4	6.4

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### Alternative economic and career length assumptions

40 year career under OECD economic assumptions

Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	29.3	18.1	27.1	36.2	54.2	72.3
<i>(% average gross earnings)</i>	26.1	16.1	24.2	32.2	48.4	64.5
Net relative pension level	33.9	20.9	31.4	41.8	62.8	83.7
<i>(% net average earnings)</i>	30.2	18.7	28.0	37.3	56.0	74.6
Gross replacement rate	36.2	36.2	36.2	36.2	36.2	36.2
<i>(% individual gross earnings)</i>	32.2	32.2	32.2	32.2	32.2	32.2
Net replacement rate	41.6	41.4	41.6	41.8	42.4	43.4
<i>(% individual net earnings)</i>	37.1	36.9	37.1	37.3	37.8	38.7
Gross pension wealth	7.6	7.6	7.6	7.6	7.6	7.6
<i>(multiple of individual gross earnings)</i>	7.6	7.6	7.6	7.6	7.6	7.6
Net pension wealth	7.6	7.6	7.6	7.6	7.6	7.6
<i>(multiple of individual gross earnings)</i>	7.6	7.6	7.6	7.6	7.6	7.6

30 year career under OECD economic assumptions

Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	20.2	12.5	18.7	25.0	37.5	50.0
<i>(% average gross earnings)</i>	18.1	11.1	16.7	22.3	33.4	44.6
Net relative pension level	23.4	14.5	21.7	28.9	43.4	57.9
<i>(% net average earnings)</i>	20.9	12.9	19.3	25.8	38.7	51.6
Gross replacement rate	25.0	25.0	25.0	25.0	25.0	25.0
<i>(% individual gross earnings)</i>	22.3	22.3	22.3	22.3	22.3	22.3
Net replacement rate	28.7	28.6	28.7	28.9	29.3	30.0
<i>(% individual net earnings)</i>	25.6	25.5	25.6	25.8	26.2	26.7
Gross pension wealth	5.2	5.2	5.2	5.2	5.2	5.2
<i>(multiple of individual gross earnings)</i>	5.2	5.2	5.2	5.2	5.2	5.2
Net pension wealth	5.2	5.2	5.2	5.2	5.2	5.2
<i>(multiple of individual gross earnings)</i>	5.2	5.2	5.2	5.2	5.2	5.2

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**Economy specific assumptions**

40 year career under economy specific assumptions

Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	29.3	18.1	27.1	36.2	54.2	72.3
<i>(% average gross earnings)</i>	26.1	16.1	24.2	32.2	48.4	64.5
Net relative pension level	33.9	20.9	31.4	41.8	62.8	83.7
<i>(% net average earnings)</i>	30.2	18.7	28.0	37.3	56.0	74.6
Gross replacement rate	36.2	36.2	36.2	36.2	36.2	36.2
<i>(% individual gross earnings)</i>	32.2	32.2	32.2	32.2	32.2	32.2
Net replacement rate	41.6	41.4	41.6	41.8	42.4	43.4
<i>(% individual net earnings)</i>	37.1	36.9	37.1	37.3	37.8	38.7
Gross pension wealth	7.6	7.6	7.6	7.6	7.6	7.6
<i>(multiple of individual gross earnings)</i>	7.6	7.6	7.6	7.6	7.6	7.6
Net pension wealth	7.6	7.6	7.6	7.6	7.6	7.6
<i>(multiple of individual gross earnings)</i>	7.6	7.6	7.6	7.6	7.6	7.6

30 year career under economy specific assumptions

Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	20.2	12.5	18.7	25.0	37.5	50.0
<i>(% average gross earnings)</i>	18.1	11.1	16.7	22.3	33.4	44.6
Net relative pension level	23.4	14.5	21.7	28.9	43.4	57.9
<i>(% net average earnings)</i>	20.9	12.9	19.3	25.8	38.7	51.6
Gross replacement rate	25.0	25.0	25.0	25.0	25.0	25.0
<i>(% individual gross earnings)</i>	22.3	22.3	22.3	22.3	22.3	22.3
Net replacement rate	28.7	28.6	28.7	28.9	29.3	30.0
<i>(% individual net earnings)</i>	25.6	25.5	25.6	25.8	26.2	26.7
Gross pension wealth	5.2	5.2	5.2	5.2	5.2	5.2
<i>(multiple of individual gross earnings)</i>	5.2	5.2	5.2	5.2	5.2	5.2
Net pension wealth	5.2	5.2	5.2	5.2	5.2	5.2
<i>(multiple of individual gross earnings)</i>	5.2	5.2	5.2	5.2	5.2	5.2

Real earnings: 6% per year converging steadily to 2%, giving an average of 4%.

Price inflation: 5% per year converging steadily to 2.5%, giving an average of 3.75%.

Real rate of return: 7.5% per year converging steadily to 3.5%, giving an average of 5.5%.

Discount rate (for actuarial calculations): 2% per year.

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