

CHAPTER 1: WHAT IS SOCIAL SECURITY ALL ABOUT?

1.1 Introduction

The term "social security" may mean different things to different people. This chapter is intended to quote a common thread for it. Historical development shows that the need and search for the greater security has always been present. People have always done their best to provide the necessities to sustain clothing, food, shelter and transportation. As the centuries unfolded, communities organized themselves into groups with similar problems and concerns.

During the nineteenth century, industrialization had posed new social and economic problems. The drift away from rural areas to towns where wage employment might be found, had caused the workers to become reliant on the wages for clothing, food, shelter and transportation.

'Social security' was found to describe the situation where benefits were introduced in order to replace lost wages and incomes when it happens. Hence, there arises a desire to know more about the subject of social security; what it is, what it provides and what had drawn my attention to this research topic.

1.2 Definition

The generic term for social security is the natural desire of communities for greater protection (from problems in life, from uncertainty, disease and deprivation). [International Labor Office, Geneva, (1992).] In Malaysia, social security may be specifically defined as protection given by society to individuals and families through a series of public measures to relieve

them from economic and social distress e.g. illness, maternity, workmen's compensation, employment injury, invalidity, old age, disability, and death security. [Source: Karto, D. (1986)]

1.3 Types of Social Security

Social security can be categorized into two types, namely, Pay-As-You-Go (PAYG) (Non-Funded) and Fully Funded social security.

In a PAYG system, current contributions pay for current benefits. The Employees Provident Fund (EPF) of Malaysia is a form of PAYG social security for selected areas and for those who subscribe. Apart from the private life insurance schemes, Malaysia has programmes for retirement and death, covered by EPF, begun in 1952. According to the General Manager of EPF, Malaysia in 1986, Tan Sri Lee Siow Mong, among the provident funds in Africa, Asia, and Oceania, EPF of Malaysia stands out as an example of how a developing country can, with foresight, careful planning, and patience, build up a system which is realistic, practical, easy to understand and administer, self-supporting and benefiting quite a few people. Social security has already developed into a significant financial institution in Malaysia.

Brief elaboration on Fully Funded system, current contributions pay for future benefits, will be included.

1.4 Importance of Social Security

In the case of Organization for Economic Co-operation and Development (OECD) countries, the dominance of the social security expenditures is the payment of pensions, supplementary benefit and childcare, followed by

unemployment and invalidity benefits. This level of benefit provision is required to alleviate poverty.

In the case of Malaysia, there are already demands for a comprehensive social security system for universal coverage and from protection from "cradle to grave". However, Malaysia has not reached this stage. There are still many scopes for extension of coverage and improvements of benefits.

There is a need for positive private and public measure designed to alleviate poverty and to ensure progress in the economic development of the country. It has become increasingly reliant for the standard and quality of human's life on cash wages and on the goods and services provided. Thus, in the absence of wages or income when we are old, we have often been unable to cushion ourselves from the uncertainties of life. Social security plays a crucial role in redistributing lifetime income to ensure a socially adequate level of consumption by the senior citizens.

Recent changes in Malaysia – economic, social and demographic conditions, indicate the need for a re-evaluation of the existing social security system. The shift of agrarian society to urbanization and industrialization necessitated a wholesale revision in social security systems and strategies.

1.5 Objective of the Study

- 1) To provide an analytical description and understanding of EPF in Malaysia.
- 2) Using Overlapping Generations (OLG) - based models to understand the impact of EPF onto savings, capital accumulation and economic growth.

In Malaysia, pension and provident fund provides social security to those who subscribe; the larger the subscription, the larger the protection. Also, pension and provident fund currently covers certain aspects only. This study evaluates a model used for social security to see the application in the Malaysian context through the EPF.

1.6 Sequence of this Study

This study adapts the OLG model from the work of Diamond (1965). The major reference for the nature of this model is from Romer, D. (1996), "The Diamond Model" in *Advanced Macroeconomics* pp.72-88. However, this model is being modified to both the analysis of absence and presence of social security system. The preceding Chapter 2 is basically a brief explanation on how this research is conducted. Chapter 3 provides some knowledge on the background of 'social security system' in Malaysia, to the nearest context. In addition to that, a discussion is held in Chapter 4 and Chapter 5 to see the walk from a simple and basic OLG model to a more complicated OLG model with social security being incorporated into the model. Ultimately, Chapter 6 presents the simulation results and concludes them in Chapter 7.