



# Luther.

## Malaysia News:

Social Security: Implementation of  
an Employment Insurance System  
(EIS)

December 2017

# Social Security: Implementation of an Employment Insurance System

In response to a significant rise in the number of retrenchments over the past years, the government announced several months ago its intent to introduce a new scheme in order to improve the protection of retrenched employees. The Employment Insurance System (“EIS”) Bill 2017 was finally passed on 25 October 2017. It provides retrenched employees with new benefits by implementing financial aid for retrenched employees and additional support in job’s search, which will be financed by a new social contribution. This new scheme will be managed by the Social Security Organisation (short “SOCSO”) and is expected to come into force on 1 January 2018.

## New social contribution to be shared equally by employers and employees

This new scheme will be primarily financed by a new social contribution, to be shared equally by employers and employees.

### 1- Scope

The personal scope of this new scheme is very broad.

- Employers

All private employers having one or more employees must register and contribute to this new scheme.

- Employees

All employees between 18 and 60 years old have to contribute to this scheme, save for the following categories of employees:

- Employees who have attained the age of 57 and in respect of whom no contributions were payable under this Act before they attained the age of 57;
- Members of the public service of the Federation and the States;
- Employees of local authorities or statutory bodies;
- Domestic servants;
- Spouses of employers;

- Employees whose employment are of casual nature and who are employed otherwise than for the purposes of the employer’s industry;
- People detained in any prison, Henry Gurney School, approved school place of detention, mental hospital or leper settlement; and
- People who are permitted to win minerals or produce of any kind from or on the land of another and who, in consideration of such permission, give a proportion of the minerals or produce so won to that other person or pays to him the value of such proportion.

### 2- Contribution rate

The contribution rate is currently set at 0.4% of the actual monthly wage. The amount of the contribution shall be based on an “assumed monthly wage” as follows:

Actual monthly wage	Corresponding assumed monthly wage	Amount of the contribution (= 0.4% of the assumed monthly wage)
Up to RM 30	RM 20	10 sen
RM 31 – RM 50	RM 40	20 sen
RM 51 – RM 70	RM 60	30 sen
RM 71 – RM 100	RM 85	40 sen
RM 101 – RM 140	RM 120	50 sen
RM 141 – RM 200	RM 170	70 sen
RM 201 – RM 300	RM 250	RM 1.00
RM 301 – RM 400	RM 350	RM 1.40
RM 401 – RM 500	RM 450	RM 1.80
RM 501 – RM 600	RM 550	RM 2.20
RM 601 – RM 700	RM 650	RM 2.60
RM 701 – RM 800	RM 750	RM 3.00
RM 801 – RM 900	RM 850	RM 3.40
RM 901 – RM 1,000	RM 950	RM 3.80
RM 1,001 – RM 1,100	RM 1,050	RM 4.20
RM 1,101 – RM 1,200	RM 1,150	RM 4.60
RM 1,201 – RM 1,300	RM 1,250	RM 5.00
RM 1,301 – RM 1,400	RM 1,350	RM 5.40
RM 1,401 – RM 1,500	RM 1,450	M 5.80

RM 1,501 – RM 1,600	RM 1,550	RM 6.20
RM 1,601 – RM 1,700	RM 1,650	RM 6.60
RM 1,701 – RM 1,800	RM 1,750	RM 7.00
RM 1,801 – RM 1,900	RM 1,850	RM 7.40
RM 1,901 – RM 2,000	RM 1,950	RM 7.80
RM 2,001 – RM 2,100	RM 2,050	RM 8.20
RM 2,101 – RM 2,200	RM 2,150	RM 8.60
RM 2,201 – RM 2,300	RM 2,250	RM 9.00
RM 2,301 – RM 2,400	RM 2,350	RM 9.40
RM 2,401 – RM 2,500	RM 2,450	RM 9.80
RM 2,501 – RM 2,600	RM 2,550	RM 10.20
RM 2,601 – RM 2,700	RM 2,650	RM 10.60
RM 2,701 – RM 2,800	RM 2,750	RM 11.00
RM 2,801 – RM 2,900	RM 2,850	RM 11.40
RM 2,901 – RM 3,000	RM 2,950	RM 11.80
RM 3,001 – RM 3,100	RM 3,050	RM 12.20
RM 3,101 – RM 3,200	RM 3,150	RM 12.60
RM 3,201 – RM 3,300	RM 3,250	RM 13.00
RM 3,301 – RM 3,400	RM 3,350	RM 13.40
RM 3,401 – RM 3,500	RM 3,450	RM 13.80
RM 3,501 – RM 3,600	RM 3,550	RM 14.20
RM 3,601 – RM 3,700	RM 3,650	RM 14.60
RM 3,701 – RM 3,800	RM 3,750	RM 15.00
RM 3,801 – RM 3,900	RM 3,850	RM 15.40
RM 3,901 – RM 4,000	RM 3,950	RM 15.80
More than RM 4,000	RM 3,950	RM 15.80

The contribution shall be shared equally by employers and employees. For instance, where the total contribution amounts to RM 10.20, the employer shall pay RM 5.1 out of his own pocket and shall deduct RM 5.1 from the employee's salary. It should be noted that the law expressly forbids employers from reducing, directly or indirectly, employees' salary solely because of their liability for this new contribution.

### 3- Penalty

Employers who do not comply with this scheme and the aforementioned rules shall be liable to a fine of up to RM 10,000 and/or to imprisonment up to two years.

## EIS's benefits in favour of retrenched employees

The Employment Insurance System provides eligible retrenched employees with several new benefits.

### 1- Qualifying criteria

In order to qualify for the benefits of the Employment Insurance System, an employee must fulfil the following requirements:

- **Loss of employment:** cessation of employment due to any reason other than the following:
  - Voluntary resignation;
  - Expiry of the contract of employment;
  - Termination of the contract by mutual consent;
  - Completion of the work in accordance with the terms of the contract;
  - Retirement; or
  - Termination of contract due to misconduct.
- **Payment of contributions for a sufficient period of time:** for a first claim, the employee must have paid at least 12 months of contributions in a period of 24 consecutive months immediately preceding the loss of employment.
- **Period for making claim:** The application any benefits under the EIS shall be submitted within sixty days from the date of loss of employment.

It is up to the SOCSO to determine whether an employee fulfils the aforementioned criteria and is thus eligible for the benefits. If it finds that the employee is eligible, the first payment shall be made after the expiration of a waiting period of seven (7) days from the date of approval of the claim.

### 2- Job Search Allowance and Reduced Income Allowance

Under the EIS Scheme, employees who lose their employment are entitled to receive a job search allowance, according to the terms and conditions detailed herein below.

It should be noted that where an employee has two or more employments at the same time and only loses one of them, he will not be eligible for the job search allowance but is entitled to a reduced income allowance. The same rules apply with regards to the period of payment and the amount of the allowance. However, the amount of this allowance shall be calculated on the basis of the salary received in respect of the lost position only. In addition, it should be noted that in such a case the employee is not entitled to receive a training allowance or an early re-employment allowance as explained further.

■ Period of payment

The period of payment of the allowance depends on the number of monthly contributions paid by the employee within the period of 24 consecutive months immediately preceding the loss of employment. In the case of a first claim, it is determined as follows:

Number of monthly contributions	Period of payment for job search / reduced income allowance
12 to 15 months	3 months
16 to 19 months	4 months
20 to 23 months	5 months
24 months	6 months

It is important to note that these figures are valid only in the case of a first claim. The more claims an employee lodges, the higher are the requirements with regards to the number of contributions.

In any case, the allowance cannot be paid for more than 6 months and the payment shall stop as soon as the employee finds a new position (subject to the payment of the Early Re-employment Allowance).

■ Amount of the allowance

The amount of the allowance shall gradually decrease and shall be calculated as follows:

Month	Amount of the allowance
1 <sup>st</sup> month	80% of the assumed monthly wage
2 <sup>nd</sup> month	50% of the assumed monthly wage
3 <sup>rd</sup> month	40% of the assumed monthly wage
4 <sup>th</sup> month	40% of the assumed monthly wage
5 <sup>th</sup> month	30% of the assumed monthly wage
6 <sup>th</sup> month	30% of the assumed monthly wage

3- Early re-employment Allowance

If an eligible employee accepts an offer of employment and reports duty for work within the waiting period (i.e. after his claim for benefits was approved) or within the period of receiving a job search allowance, he is entitled to an early re-employment lump-sum amounting to 25% of the total balance of the job search allowance.

It should be noted that employees receiving the reduced income allowance are not eligible for the early re-employment allowance.

4- Training Allowance and Training Fees

In addition of financial aid, eligible employees may apply to undergo a training provided by a training provider approved by the SOCSO. This training shall take place:

- Within the period the employee receives the job search allowance;
- Within the period 12 months after the period the employee receives the job search allowance; or
- Within the period of 6 months after accepting an offer of employment and reporting duty for work.

In any case, the maximum period of training cannot exceed the period of payment of the job search allowance which the employee is entitled to.

The training fees (including meals and materials for the training) shall be borne by the SOCSO, but be capped at an amount of RM 4,000. In addition, employees attending such trainings are entitled to a training allowance amounting to 25% of the assumed monthly wage calculated on daily basis, subject to a minimum of RM 10 per day and a maximum of RM 20 per day. This training allowance shall be paid monthly according to the number of training days attended.

Re-employment Placement Programme: Beneficiaries' Obligations

As soon as his claim for benefits is approved, the retrenched employee shall commence participation in the re-employment placement programme. This entails several obligations:

- Complying with any direction given by the SOCSO in respect of the re-employment placement programme;
- Being able and available to work and actively eking for work;
- Undergoing any training as determined by the SOCSO;

- If the SOCSO informs the employee of a suitable offer of employment, the employee may refuse it only if he has a reasonable ground for such refusal (subject to the SOCSO's judgment);
- When the employee accepts an offer of employment during the period of receiving the job search or reduced income allowance, he has to notify the SOCSO within seven (7) days from the date of acceptance, failing which, he shall be liable to a fine up to RM 10,000 and/or imprisonment up to two years.

Non-compliance with these obligations may lead to the deprivation of all the benefits.

## Your Contacts

### German Desk



**Pascal Brinkmann, LL.M. (Stellenbosch)**  
 Managing Director  
 Luther Corporate Services Sdn. Bhd.  
 Malaysia  
 Phone +60 3 2166 0085  
[pascal.brinkmann@luther-services.com](mailto:pascal.brinkmann@luther-services.com)

### Entry into force

The EIS will enter into force on 1 January 2018. However, since employees need to contribute at least 12 months in order to be eligible for these new benefits, no payment of benefits shall be made before January 2019.

Where required, Luther can of course assist implementing the necessary to comply with the above mentioned latest changes.

### French Desk



**Caroline Pelaez**  
 Head of French Desk  
 Luther Corporate Services Sdn. Bhd.  
 Malaysia  
 Phone +60 3 2166 0085  
[caroline.pelaez@luther-services.com](mailto:caroline.pelaez@luther-services.com)

### Imprint

Luther Rechtsanwalts-gesellschaft mbH, Anna-Schneider-Steig 22,  
 50678 Cologne, Phone +49 221 9937 0, Fax +49 221 9937 110,  
[contact@luther-lawfirm.com](mailto:contact@luther-lawfirm.com)

*Editor:* Caroline Pelaez, Head of French Desk, Unit 17-2, Level 17, Wisma UOA II,  
 No. 21, Jalan Pinang, Phone: +60 (0)3-21660085,  
[caroline.pelaez@luther-services.com](mailto:caroline.pelaez@luther-services.com)

*Copyright:* These texts are protected by copyright. You may make use of the information contained herein with our written consent, if you do so accurately and cite us as the source. Please contact the editors in this regard  
[contact@luther-lawfirm.com](mailto:contact@luther-lawfirm.com)

### Disclaimer

Although every effort has been made to offer current and correct information, this publication has been prepared to provide information on recent regulatory and legal developments in Malaysia only. It is not exhaustive and thus does not cover all topics with which it deals. It will not be updated and cannot substitute individual legal and/or tax advice. This publication is distributed with the understanding that Luther, the editors and authors cannot be held responsible for the results of any actions taken on the basis of information contained herein or omitted, nor for any errors or omissions in this regard.

Luther Corporate Services Sdn. Bhd.

Luther Corporate Services, the Corporate Services arm of Luther lawfirm enables us to offer our clients a “one-stop” solution for all their business needs. Our accountants, company secretaries and tax consultants provide the whole range services, which our clients expect from such a one-stop concept, from corporate secretarial services, outsourced administration, payroll and accounting to tax compliance. We assist our clients comprehensively in all stages of a business lifecycle, from the formation of a business vehicle, to ongoing support and statutory compliance matters and to the dissolution of a company.

Delhi-Gurgaon, Kuala Lumpur, Shanghai, Singapore, Yangon

Luther Corporate Services Sdn Bhd (872040W) | Unit 17-2, Level 17 | Wisma UOA II | No. 21, Jalan Pinang | 50450 Kuala Lumpur | Malaysia  
Phone +60 3 2166 0085 | Fax +60 3 2166 0087

Your contact:

Pascal Brinkmann, [pascal.brinkmann@luther-services.com](mailto:pascal.brinkmann@luther-services.com)

Further contacts can be found on our website [www.luther-services.com](http://www.luther-services.com).



**Hits the mark. Luther.**

