

EFFECTIVE MECHANISMS FOR ENSURING SOCIAL SECURITY IN THE CASE OF JAPAN AND MALAYSIA

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Annotation: This article examines effective mechanisms for ensuring social security using the examples of Japan and Malaysia. Both countries, despite their different socio-economic and cultural contexts, have developed systems that address the needs of vulnerable populations while ensuring economic sustainability. Japan’s system emphasizes universal coverage and aging population management, whereas Malaysia focuses on social insurance, provident funds, and targeted assistance. Comparative analysis highlights lessons for developing integrated, resilient, and inclusive social security systems worldwide.

Keywords: Social security, Japan, Malaysia, welfare state, pensions, healthcare, social insurance, economic sustainability, comparative analysis.

Social security is one of the key pillars of modern state policy, providing protection against risks such as old age, illness, unemployment, and poverty. Effective mechanisms of social security differ across countries depending on demographic, economic, and cultural characteristics. Japan, as a highly developed nation with a rapidly aging population, and Malaysia, as a middle-income developing economy, offer interesting comparative insights into how nations design their social safety nets. This article explores their approaches, highlighting both strengths and challenges.

Social security systems aim to protect individuals and households from risks such as old age, disability, illness, unemployment, and work-related injuries through mechanisms like insurance, pensions, and benefits. Japan's system is one of the most comprehensive in Asia, evolved post-World War II to achieve universal coverage amid rapid economic growth and demographic challenges like an aging population. Malaysia's system, while less universal, focuses on contributory schemes for formal workers, with recent expansions to include foreign workers and self-employed individuals, supported by mandatory employer contributions and

government oversight. Both countries emphasize sustainability through reforms, but Japan prioritizes demographic adaptations, while Malaysia targets coverage gaps in informal sectors.

Effective Mechanisms in Japan

Japan's social security is built on universal insurance principles, covering pensions, healthcare, long-term care, unemployment, and work injuries via social insurance models. Key effective mechanisms include:

- Universal Coverage and Mandatory Enrollment: All residents aged 20-59 must join the National Pension (NP), with supplementary Employees' Pension Insurance (EPI) for workers. This ensures near-total coverage (91.4% of working-age population in 2019), reducing exclusion risks. Health insurance is universal for residents up to age 75, integrating cash and medical benefits.

- Multi-Source Funding and Government Subsidies: Contributions are shared among insured individuals, employers, and the government (e.g., 50% of NP benefits covered by the state). This spreads financial burden and enhances sustainability, with automatic benefit adjustments tied to wages and prices to handle inflation and demographic shifts.

- Reforms for Demographic Sustainability: Ongoing reforms since the 1980s address aging (old-age to working-age ratio projected to rise to 81.6 by 2084), including an automatic balance mechanism introduced in 2004 to adjust pensions and prevent insolvency. Retirement age is 65, with penalties for early retirement (4.8% per year) and bonuses for deferral (8.4% per year), promoting longer workforce participation.

- Integrated Support Systems: Linkages with employment services for unemployment benefits (50-80% of wages for 90-330 days) encourage job-seeking. Family allowances are means-tested, and work injury benefits are employer-funded with no employee contributions, ensuring broad protection.

- Philosophical Foundation: Based on "self-reliance and solidarity," the system integrates state, community, market, and family roles, with consumption tax hikes (e.g., to 10% in 2015) funding pensions, healthcare, and childcare for long-term viability.

These mechanisms result in high replacement rates (e.g., 32.4% gross for average earners) and effective risk pooling, though challenges like low birthrates necessitate continuous adaptations.

Effective Mechanisms in Malaysia

Malaysia's system combines the Employees Provident Fund (EPF) for pensions, Social Security Organisation (SOCSO/PERKESO) for work injuries and invalidity since 1971, and

universal healthcare via public funding. It protects formal workers primarily but has expanded to self-employed and foreign workers. Key effective mechanisms include:

- **Mandatory Contributory Schemes:** Employers contribute 13-14% to EPF and 1.75% to SOCSO, with employees adding 11% to EPF and 0.5% to SOCSO, based on wage classes. This ensures funding for old-age savings (EPF) and protections against invalidity, survivors' benefits, and employment injuries, recently extended to migrants effective July 2024.

- **Targeted Expansion and Inclusion:** Coverage reaches 47.2% of the labor force (2021), with schemes like the Self-Employment Social Security Scheme protecting against occupational diseases. Public-private partnerships (PPPs) enhance service quality and extend to informal sectors, reducing gaps.

- **Monitoring and Enforcement:** Strong legal frameworks for labor inspections, incentives for compliance, and integration of programs minimize redundancy and ensure benefits reach beneficiaries. SOCSO provides risk pooling, offering protections individuals couldn't afford alone.

- **Flexible Pension Options:** Retirement age is 55 (no mandatory retirement), with defined contribution (DC) schemes allowing lump sums or annuities. Replacement rates are around 37.8% gross for average earners, with contributions up to 24% supporting adequacy.

- **Holistic Vision:** Emphasizes social safety nets, insurance, and labor market policies to address economic distress, with calls for integration to improve efficiency amid evolving needs.

Japan's model highlights the benefits of universalism but also reveals vulnerabilities in aging societies. The high costs of pensions and healthcare threaten fiscal sustainability, requiring reforms such as raising the retirement age and diversifying funding sources. Malaysia, on the other hand, demonstrates the importance of provident funds in mobilizing domestic savings and ensuring retirement income. However, its system struggles to provide adequate protection for informal workers and the poor.

A comparative view suggests that Japan could adopt more targeted assistance and digitalized service delivery to improve efficiency, while Malaysia could learn from Japan's universalism and introduce broader coverage mechanisms to include informal sector workers.

Conclusions

For Japan: Reform pension schemes to adjust to demographic realities. Strengthen preventive healthcare to reduce long-term costs. Enhance digitalization in social service delivery.

For Malaysia: Expand social protection to informal workers through flexible contribution schemes. Improve adequacy of EPF savings via financial literacy and policy reforms. Strengthen social safety nets for vulnerable groups, especially the elderly and disabled.

General Lessons: Effective social security requires a balance between universal coverage and financial sustainability. Hybrid models combining public provision with individual savings may provide resilience. Cross-country learning can improve policy design, particularly for developing nations facing demographic or economic pressures.

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