1.0 BACKGROUND OF CIVIL SERVICE PENSION IN MALAYSIA

1.1 Malaysia had introduced pension schemes for both public and private sector in 1951 even before independence from the United Kingdom in 1957. The Pensions Ordinance was eventually replaced by the Pensions Act (1980), which continues to be the main legislation governing the pension system today.

1.2 The mandatory retirement age was originally 55 years in 1951, but was raised to 56 in 2001, to 58 in 2008, and to 60 in 2012.

1.3 A lump sum gratuity was introduced in 1968, while cash in lieu of leave-not-taken was introduced in 1974 and pension adjustment was introduced in 1980.
2.0 ABOUT KUMPULAN WANG PERSARAAN (DIPERBADANKAN) [KWAP]

2.1 Introduction

2.1.1 Kumpulan Wang Persaraan (Diperbadankan) [KWAP] or Retirement Fund (Incorporated) is a statutory body which manages the pension scheme for Malaysia's public employees. KWAP is one of three main bodies in Malaysia's pension system, the others being the Employees Provident Fund (for private sector employees) and Armed Forces Fund Board (for military personnel).

2.2 Legislature

2.2.1 KWAP was established on 1 March 2007 under the Retirement Fund Act 2007 (Act 662), replacing the Pensions Trust Fund Act 1991 (Act 454).

2.3 Background

2.3.1 KWAP is the long-term investment manager of Malaysia’s pension fund for civil servants. It manages contributions from the Federal Administration and relevant agencies to obtain maximum returns through sound management and investment.

2.3.2 In 2015, KWAP also officially took over the Public Service Department (PSD)’s Post Service Division roles, for pension payment, gratuities and other benefits.

2.3.3 KWAP aims to empower retirees with not only wealth through prudent and strategic investments, but also to enable them to achieve a better quality of life through programmes that facilitate more meaningful retirement.
2.4 Functions

2.4.1 Enhance pensioners’ and pre-pensioners’ knowledge on financial management for their retirement.

2.4.2 Management of contributions from the Federal Administration, Statutory Bodies, Local Authorities, and other agencies.

2.4.3 Administration, management and investment of the Fund in equity, fixed income securities, money market instruments and other forms of investment as permitted under the Retirement Fund Act 2007 (Act 662).

2.4.4 Management and payment of pension benefits.
2.5 Organisation Structure
3.0 CIVIL SERVICE PENSION

3.1 Non-Contributory System
   i. For the first 3 years, both employees and employers contribute to the Employees Provident Fund (EPF).
   ii. After the 3rd year of service employee has the option to elect for the defined benefits (pension) or defined contributions scheme.

3.2 Contribution Rate

<table>
<thead>
<tr>
<th>Government Employees</th>
<th>Government</th>
<th>Contribution Rate</th>
<th>Contribution Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>17.5% of the basic salaries of pensionable employees</td>
<td>5% of the annual budgeted emoluments from the Federal Governments, State Governments, Statutory Bodies and other relevant entities</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3.3 Age Requirement
   3.3.1 Effective 2012, the mandatory retirement age: 60 years old. Optional retirement must be above 40 years old, with at least 10 years of service
   3.3.2 Benefits from the scheme shall be forfeited on voluntary resignation before 40 years old or less than 10 years of service.

3.4 Pension Benefits
   3.4.1 Pensioner

<table>
<thead>
<tr>
<th>No.</th>
<th>Benefits</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gratuity</td>
<td>A lump sum payment made to all retirees based on the following calculation: 7.5% x service length (month) x last drawn salary</td>
</tr>
<tr>
<td>2</td>
<td>Pension</td>
<td>A monthly payment made to a retiree based on the following calculation: 1/600 x service length (month) x last drawn salary The above is subject to maximum 60% from last drawn salary [which is equivalent to a 30 years (360 months) cap]</td>
</tr>
<tr>
<td>3</td>
<td>Cash award in lieu of leave</td>
<td>Cash in lieu of accumulated leave is a one-off payment made for the retiree based on the following calculation: 1/30 x leave accumulated (maximum 150 days) x (last drawn salary + fixed allowance)</td>
</tr>
<tr>
<td>No.</td>
<td>Benefits</td>
<td>Description</td>
</tr>
<tr>
<td>-----</td>
<td>-------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>4</td>
<td>Medical benefits</td>
<td>Free medical benefits similar to what the retiree was entitled to while in service, in any government hospital or clinic.</td>
</tr>
<tr>
<td>5</td>
<td>Pensioner’s card</td>
<td>A card use as identification of pensioner which provides medical benefits and also part of the discount card under certain provider / outlet.</td>
</tr>
<tr>
<td>6</td>
<td>Disability pension</td>
<td>An additional pension paid to retirees if he/she was asked to retire due to health matters caused by is/her job scope due to accident while travelling. The pension is given depending on the degree of the retiree’s disability.</td>
</tr>
<tr>
<td>7</td>
<td>Pension adjustment</td>
<td>All retirees will receive adjustments on their monthly pension base with an increase of 2% annually, beginning from January every year.</td>
</tr>
</tbody>
</table>

3.4.2 Pension Benefits

<table>
<thead>
<tr>
<th>No.</th>
<th>Benefits</th>
<th>Description</th>
<th>Eligible Dependents</th>
</tr>
</thead>
</table>
| 1   | Derivative Gratuity           | A lump sum payment made to dependants of a deceased officer based on the following calculation: 7.5% x service length (month) x last drawn salary | • The spouse;  
• Children under 21 years old and/or:  
• Mother of the deceased officer |
| 2   | Derivative Pension            | A monthly payment made to dependants based on the following calculation: 1/600 x service length (month) x last drawn salary  
The above is subject to a maximum of 60% from last drawn salary [which is equivalent to a 30 years (360 months) cap] | • The spouse;  
• Children under 21 years old; or  
• Children with a permanent disability of the deceased officer |
| 3   | Cash award in lieu of leave   | Cash in lieu of accumulated leave is a one-off payment made for the dependant(s) of the deceased based on the following calculation: 1/30 x leave accumulated (maximum 150 days) x (last drawn salary + fixed allowance) | • The spouse;  
• Children under 21 years old and/or:  
• Mother of the deceased officer |
| 4   | Medical benefits              | Free medical benefits similar to what the dependents were entitled while in service, in any government hospital or clinic. | • The spouse;  
• Children under 21 years old of the deceased officer |
<table>
<thead>
<tr>
<th>No.</th>
<th>Benefits</th>
<th>Description</th>
<th>Eligible Dependents</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Pensioner’s card</td>
<td>A card use as an identification of dependent which provides access to the medical benefits and also offers a discount on goods or services under certain provider / outlet.</td>
<td>The spouse of the deceased officer</td>
</tr>
</tbody>
</table>
| 6   | Dependent Pension    | An additional pension paid to dependents if an officer passed away while performing his/her duties or due to an accident while traveling. The pension is given based on the number of eligible dependents. | • The spouse;  
• Children under 21 years old; and  
• Mother of the deceased officer                                                   |
| 7   | Pension adjustment   | All dependents will receive adjustments on their monthly pension base with an increase of 2% annually, beginning from January every year. | • The spouse;  
• Children under 21 years old; and  
• Mother of the deceased officer                                                   |
| 8   | Derivative Ex-Gratia | A lump-sum payment made to dependents in a case where a deceased officer who does not leave any dependents who is eligible to receive derivative pension (no spouse or child under 21 years old when the death occur) | Mother of the deceased officer                                                    |

Source: Public Service Department and KWAP’s Annual Report

KWAP, Malaysia