

## **Understanding the Employment Insurance Scheme in Malaysia**

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### **Abstract**

The Social Security Organisation (SOCSO) is a statutory body in Malaysia that provides social security protection to employees in the event of work-related accidents and occupational diseases. In 2018, SOCSO introduced the Employment Insurance Scheme (EIS) to provide temporary financial assistance to eligible employees who have lost their jobs due to retrenchment or closure of their employer's business. The article begins by providing a background on the Employment Insurance Scheme, highlighting the need for such a scheme in Malaysia. The paper then outlines the benefits of the EIS, which include job search allowance, early re-employment allowance, and training allowance. The job search allowance is provided to eligible employees who are actively seeking new job opportunities, while the early re-employment allowance is provided to eligible employees who have found new employment opportunities but have yet to receive their first salary. The training allowance is provided to eligible employees who undergo training to enhance their employability. The paper then identifies the eligibility criteria for the EIS, which includes Malaysian citizens or permanent residents who have contributed to the scheme for a minimum of 6 months before the date of retrenchment or closure of their employer's business. The paper highlights that employees must not have been terminated for misconduct or voluntarily resigned from their job to be eligible for the scheme. The paper also notes that employees must register with SOCSO within 60 days of the date of retrenchment or closure of their employer's business and actively seek new job opportunities during the period of assistance to remain eligible for the scheme.

The paper provides insights into the implementation of the Employment Insurance Scheme, which is managed by SOCSO and is funded by contributions from employers and employees. The paper highlights that the EIS is a voluntary scheme for employers, but contributions are mandatory for employees earning less than RM4,000 per month. The article concludes by emphasizing the importance of the Employment Insurance Scheme in providing a safety net for employees who are facing job loss due to retrenchment or closure of their employer's business. The EIS provides temporary financial assistance to eligible employees while they search for new job opportunities and offers training and job search support to enhance their employability. The article suggests that the EIS can contribute to the overall well-being of employees and the economy by providing support during a period of job loss.

This journal article provides a comprehensive overview of SOCSO's Employment Insurance Scheme, highlighting its benefits, eligibility criteria, and implementation. The paper emphasizes the importance of the scheme in providing a safety net for employees who are facing job loss and suggests that the EIS can contribute to the overall well-being of employees and the economy.

**Keywords:** EIS, SOCSO, Workers, Employers, Eligibility Criteria.

### **Introduction**

The Employment Insurance Scheme (EIS) is a social security system implemented by the Social Security Organisation (SOCSO) in Malaysia. It is designed to provide income support to workers who have lost their jobs due to involuntary termination or retrenchment. The EIS was introduced on January 1, 2018, as part of the government's efforts to strengthen the social safety net for workers in the country. Prior to the implementation of the EIS, Malaysia did not have a comprehensive social safety net for workers who lost their jobs. The only form of financial assistance available to them was the Severance Payment Scheme (SPS), which was a voluntary scheme for employers. The SPS required employers to pay retrenched workers up to 20 weeks of wages, depending on the length of their service. However, many employers did not participate in the scheme, and workers were left without any financial assistance when they lost their jobs. To be eligible for the EIS, a worker must have contributed to the SOCSO fund for at least six months in the past 12 months before the date of their job loss. The worker must also not have voluntarily resigned from their job, and their dismissal must not be due to their misconduct. The EIS also covers workers who have been retrenched due to business closures or restructuring (Jumaniyazov & Xaydarov, 2023).

The EIS provides two types of benefits to eligible workers: job search allowance and temporary financial assistance. The job search allowance provides financial assistance to workers who are actively seeking employment after losing their jobs. It covers up to three months of job search, with a maximum amount of RM 1,000 per month. The temporary financial assistance provides income support to workers who have lost their jobs and are not able to find new employment. It covers up to six months of unemployment, with a maximum amount of RM 1,000 per month. The EIS is an important social safety net for workers in Malaysia, providing them with income support during times of job loss. It helps to alleviate the financial burden on workers and their families and provides them with the resources they need to find new employment. While the EIS has faced some challenges and limitations, such as low awareness among workers and employers and limited funding, it has the potential to be an effective tool in promoting social protection for workers in Malaysia (Cao, 2012).

### **Benefits of SOCSO's Employment Insurance Scheme (EIS)**

The EIS provides financial assistance and other benefits to employees who are affected by job loss, illness, or injury. The benefits provided under the EIS include (Chek, Ismail, et al., 2022)

**Job Search Allowance:** This allowance is paid to workers who are retrenched or have their employment contract terminated due to business closure or downsizing. The allowance is paid for a maximum of six months or until the worker finds a new job, whichever comes first.

**Early Re-employment Allowance:** This allowance is paid to workers who have been retrenched or have had their employment contract terminated due to business closure or downsizing. The allowance is paid for a maximum of three months or until the worker finds a new job, whichever comes first.

**Reduced Income Allowance:** This allowance is paid to workers who are unable to work due to illness or injury and have a reduced income. The allowance is paid for a maximum of six months or until the worker is able to return to work, whichever comes first.

**Training Allowance:** This allowance is paid to workers who are undergoing training or skills upgrading to improve their employability. The allowance is paid for a maximum of six months.

The EIS covers all employees in Malaysia, including foreign workers, except for domestic servants, public servants, and self-employed individuals. However, self-employed individuals can opt to voluntarily contribute to the scheme (SOCSO, 2021).

### **Eligibility of SOCSO's Employment Insurance Scheme (EIS).**

The Employment Insurance Scheme (EIS) under the Social Security Organisation (SOCSO) in Malaysia is a social security program aimed at providing financial assistance to employees who have lost their jobs. The scheme is funded through contributions from both employees and employers, and it is important for both parties to understand the eligibility criteria for the scheme. This article will explore the various subtopics related to the eligibility criteria for the EIS in Malaysia, with proper text citations. One of the key eligibility criteria for the EIS in Malaysia is that employees must have contributed to the SOCSO fund. This contribution is mandatory for all employees, both local and foreign, who are employed under a contract of service or apprenticeship. The contribution rate for employees is 0.2% of their monthly salary, while the contribution rate for employers is 0.4% of their employee's monthly salary. Self-employed individuals may also voluntarily contribute to the scheme. These contributions are used to fund the EIS, which provides financial assistance to employees who have lost their jobs due to company downsizing, closure, or retrenchment (Jamaluddin. N et al., 2015).

Employees who have lost their jobs due to company downsizing, closure, or retrenchment are eligible for financial assistance under the EIS. However, employees who resign voluntarily or who are terminated for misconduct are not eligible for the scheme. Additionally, employees who are under probation are also not eligible for the scheme. Employees who have worked for a minimum of six months in the same company are eligible for EIS benefits. This duration is calculated based on the employee's total duration of employment with the company. However, if an employee has worked for less than six months but has made contributions to the SOCSO fund, they may still be eligible for partial benefits (Chek et al., 2019, 2021).

Employees who are between the ages of 18 and 60 are eligible for EIS benefits. However, employees who are 60 years and above are not eligible for the scheme. This age limit is in place to ensure that the scheme benefits those who are still in the workforce and have the potential to find new employment opportunities. Employees who are legal residents of Malaysia are eligible for EIS benefits. However, foreign workers who are not legal residents of Malaysia are not eligible for the scheme. This eligibility criterion is in place to ensure that the scheme benefits those who are legally employed in Malaysia and have contributed to the SOCSO fund (Chek et al., 2018; Chek et al., 2019).

The eligibility criteria for the Employment Insurance Scheme under SOCSO in Malaysia are clear and straightforward. Employees who have contributed to the SOCSO fund, have lost their jobs due to company downsizing, closure, or retrenchment, have worked for a minimum of six months, are between the ages of 18 and 60, and are legal residents of Malaysia are eligible for EIS benefits. It is important for both employers and employees to fulfil their obligations and ensure the necessary contributions are made to the scheme to ensure adequate coverage for all eligible employees. Finally, the EIS is a valuable social security program that provides financial assistance to employees during difficult times and helps them with their daily expenses while they search for new employment opportunities (Awang Chek et al., 2019).

### **Impact on Workers and Employers**

The Employment Insurance Scheme (EIS) under the Social Security Organisation (SOCSO) in Malaysia is a social security program aimed at providing financial assistance to employees who have lost their jobs. The scheme is funded through contributions from both employees and employers, and it has had a significant impact on both workers and employers in Malaysia. The EIS has had a positive impact on workers in Malaysia by providing them with financial assistance during times of unemployment. The scheme provides workers with a safety net, which enables them to focus on finding new employment opportunities without worrying about their daily expenses. Workers who are eligible for EIS benefits receive up to 75% of their last drawn salary for a maximum of six months. This financial assistance helps workers to maintain their standard of living while they search for new employment opportunities (Benítez-Silva et al., 1999; Wibbels & Ahlquist, 2011).

The EIS has also had a positive impact on the mental health of workers. Losing a job can be a traumatic experience, and the financial stress that comes with it can exacerbate the situation. The EIS provides workers with a sense of security and helps to alleviate the stress and anxiety associated with job loss. This support is crucial in helping workers to cope with the challenges of unemployment and in preparing them for their future employment opportunities. The EIS has had a significant impact on employers in Malaysia. The scheme has increased the financial burden on employers, as they are required to contribute 0.4% of their employee's monthly salary to the SOCSO fund. However, the EIS has also provided employers with benefits in the form of reduced turnover costs. The financial assistance provided by the scheme enables workers to maintain their standard of living and reduces the likelihood of them leaving the workforce entirely. This, in turn, reduces the costs associated with hiring and training new employees. The EIS has also had a positive impact on the relationship between employers and employees. The scheme demonstrates that employers care about the well-being of their employees and are willing to support them during difficult times. This support helps to build trust between employers and employees and can lead to increased job satisfaction and loyalty among workers (Cheng et al., 2014; Wang et al., 2017).

The Employment Insurance Scheme under SOCSO in Malaysia has had a significant impact on both workers and employers. The scheme provides workers with a safety net during times of unemployment and helps to alleviate the financial stress associated with job loss. The EIS has also reduced turnover costs for employers and has helped to build trust and loyalty among workers. While the scheme has increased the financial burden on employers, the benefits it provides to both workers and employers are significant and have contributed to the overall stability of the Malaysian workforce (Chek et al., 2012; Leong, et al., 2022).

### **Challenges and Limitations**

The Employment Insurance Scheme (EIS) under the Social Security Organisation (SOCSO) in Malaysia is a social security program aimed at providing financial assistance to employees who have lost their jobs. While the scheme has had a significant impact on both workers and employers in Malaysia, there are also several challenges and limitations that need to be addressed. One of the main challenges of the EIS in Malaysia is the low participation rate among employees. Many employees are not aware of the scheme, and some employers are not registering their employees for the scheme (Chek et al., 2019, 2021).

This low participation rate has resulted in a low collection rate, which can make it challenging for the scheme to provide financial assistance to all eligible workers. Another challenge is the limited coverage of the scheme. Currently, the scheme only covers employees who have been terminated from their jobs due to retrenchment or business closure. This means that employees who have been terminated for other reasons, such as misconduct or resignation, are not eligible for EIS benefits. This limited coverage can create a sense of inequality among workers and can make it challenging for some workers to cope with the financial stress of job loss (Cao, 2012; Jumaniyazov & Xaydarov, 2023).

One of the limitations of the EIS in Malaysia is the limited duration of financial assistance. The scheme provides workers with financial assistance for a maximum of six months, which may not be sufficient for some workers to find new employment opportunities. This limitation can create additional financial stress for workers who are unable to secure new employment during the six-month period. Another limitation of the EIS is the limited amount of financial assistance provided to workers. The scheme provides workers with up to 75% of their last drawn salary, which may not be sufficient for workers who have dependents or who were earning a high salary before losing their job. This limitation can make it challenging for some workers to maintain their standard of living while they search for new employment opportunities (Feldstein, 2005).

While the Employment Insurance Scheme under SOCSO in Malaysia has had a significant impact on both workers and employers, there are also several challenges and limitations that need to be addressed. The low participation rate among employees and the limited coverage of the scheme are two of the main challenges that need to be addressed. The limited duration and amount of financial assistance provided to workers are two of the main limitations of the scheme. Addressing these challenges and limitations can help to make the EIS a more effective social security program for workers in Malaysia (U.S. Social Security Administration, 2014).

### **Conclusion and Recommendations**

In conclusion, the Employment Insurance Scheme (EIS) in Malaysia is an important social protection mechanism that provides financial assistance and other benefits to workers who have lost their job or are unable to work due to illness or injury. The scheme also promotes re-employment and skills upgrading to enhance the employability of workers. The

EIS has a significant impact on workers and employers in Malaysia, providing financial assistance and reducing the financial liability of retrenchment or illness (Chek et al., 2022).

However, there are some challenges and limitations that need to be addressed, such as the limited coverage for certain categories of workers and the potential abuse of the scheme. Therefore, it is essential to continuously monitor and evaluate the EIS to ensure that it remains relevant and effective in meeting the needs of workers and employers in Malaysia (Iyer, 1999).

Additionally, the government should consider expanding the coverage of the scheme to include more vulnerable groups of workers and provide greater incentives for employers to comply with safety regulations and standards to prevent workplace accidents or illnesses. Overall, the EIS plays a crucial role in promoting social protection and improving the welfare of workers in Malaysia (Finkelstein et al., 2012).

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