

PENSIONS QUANDARY

CONTRACTUAL EMPLOYMENT THE WAY TO GO FOR PUBLIC SERVICE

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Global trends show public service pensions are no longer sustainable and the shift to contractual employment is all the more inevitable

PENSIONS gobble up a sizable chunk of public expenditure. Roughly RM27 billion will be paid out in retirement charges this year.

This expenditure will spiral further as the public service keeps on expanding to cater to an expanding population and ever-increasing demands placed on it.

For example, urbanisation puts pressure on healthcare, infrastructure, clean water supply and affordable housing.

Similarly, an ageing population will impose its own set of demands on the public service for better healthcare and old-folk homes as the concept of extended family support frays at its edges.

In the past, pensions have grown at an annual compound rate of 12 per cent. At that rate the pension bill will triple to RM84 billion in 10 years. With pensions calculated based on the last-drawn salary, handsome salary revisions in the future will bloat the pension bill even further.

Such are the opportunity costs that the ever-burgeoning pension bill must be brought to heel if more expenditure is to be shunted to welfare and subsidies.

The savings could profitably be used also to fight the increasing cost of living and in boosting capital investments for enhancing the nation's capacity for sustained development.

Last week, to rein in pension payments the government said it will replace the current lifetime employment in the public service with contractual employment.

What's more, the new scheme may be implemented as early as next year with a possible annual saving of RM5 billion — enough to build 50 250-bed hospitals or 80 24-classroom schools.

The previous government did moot such a scheme over a decade ago. It was shelved amid



Contractual appointments will ease the pension burden for the government and reduce pressure on public service employment as it loses its allure. FILE PIC

union hostility. Again, Cuepacs, an umbrella trade union for public servants, has started its war drums against contractual employment.

It considers that a non-pensionable employment scheme will jeopardise the welfare of public employees and their families.

But the proposed scheme will only apply to new appointments.

Existing employees will continue to enjoy their perks. As such, most would feel hard-pressed to understand Cuepacs' jumpiness over a scheme that promises newcomers employment contracts with improved terms and conditions.

This can only mean better pay coupled with contributions to a retirement fund such as the Employees Provident Fund or EPF.

Further, opposition to contractual employment rings hollow against the backdrop of a declining public-revenue base and modern employment practices of advanced countries.

With the replacement of the goods and services tax, or GST, with the sales and services tax, the government loses RM22 billion in annual revenue.

Our oil and gas reserves are expected to dry up in another 10 years. That will mean an estimated loss of annual oil revenue of RM24 billion by 2029, based on this year's pay-out by Petronas.

With the additional burden of escalating pensions, the government cannot possibly make ends meet in the years ahead without finding new oil reserves or alternative revenue streams.

Offering employment contracts rather than a lifetime tenure is a win-win situation for the government and new appointees. Obviously, it will ease the pension burden for the government. It will also ease the pressure on public-service employment as it loses its allure.

With appropriate safeguards against arbitrary dismissal, contractual appointments can make it easier for the government to rid itself of deadwood.

Contractual appointment will also help steer the government away from a career-based system to a position-based one.

While the former is about lifetime employment, recruitment under a position-based system is premised on skills or competencies required for a specific position or area of work.

Indeed, the World Bank had suggested such a position-based system of recruitment in its July 2019 biannual economic monitor on "Reenergising the Public Service".

Newly-appointed public servants too will profit from contractual employment.

FIRST, they need not be wed-

ded to a public-service career for life just to reap pension benefits at the end. Millennials will increasingly populate the public sector. These job-seekers are more motivated by instant gratification and the excitement of career switches that come with better remuneration.

Being on a contractual appointment will enable them to move from the public to the private sector and even to academia without any monetary loss.

Whenever they move jobs, they will be able to carry with them their and the government's contribution to their EPF.

SECOND, the government will be in competition with the private sector for talent. That will put pressure on the government to continuously make the terms and conditions of public-service contracts more lucrative.

We are inextricably enmeshed in the inexorable march of modernisation of human-resource management. Most countries in the Organisation for Economic Cooperation and Development, a rich-country club, have shifted to contractual employment in one form or other. It is timely therefore that we move with global trends than be stuck in the past.

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