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EPF rises to the challenge

IT WAS the first time in over two decades that the Employees Provident Fund (EPF) has declared a dividend lower than 7 per cent. In 1975, it paid out a sub-7 per cent dividend of 6.6 per cent. Between 1984 and 1987, it gave 8.5 per cent dividends to members, between 1988 and 1994 it paid out 8 per cent, in 1995 it was 7.5 per cent and in 1996 7.7 per cent. By this measure, the 6.7 per cent dividend for 1997, announced on Wednesday by EPF executive chairman Tan Sri Sallehuddin Mohamed, was no big cheer for contributors. But the ability to pay - the EPF will have to cough up RM1.15 billion for the 6.7 per cent dividend compared with RM998.1 million for the 7.7 per cent in 1996 - means that the custodian of the working Malaysian's savings is in good shape despite the tight economic situation.

Even the Malaysian Trades Union Congress (MTUC), which represents some 500,000 EPF-contributing workers, appreciates the fact that the lower dividend for 1997 is no reason for protests. For many years, the Congress had been among the most vociferous in demanding higher dividends for contributors. However, Encik Zainal Rampak, the MTUC president, has taken note of the current economic downturn. Analysts contacted by this newspaper said the lower dividend was understandable. They agreed with Prime Minister Datuk Seri Dr Mahathir Mohamad that in view of losses on the Kuala Lumpur Stock Exchange (KLSE), the dividend announced by EPF was expected.

According to the EPF, its income for last year from investments in equities declined to RM994.27 million from RM1.19 billion in 1996. The rest of its income is derived mainly through Malaysian Government Securities (MGS), loans and bonds, money market instruments and property. Investments in MGS contributed the lion's share of its 1997 income at 33.49 per cent or RM2.94 billion but this was still a drop of 2.15 per cent from the 1996 figure of RM3.01 billion. The reduction of income from the MGS was due to the reduced allocation made to this class of investment following a decline in the issuance of MGS by the Government since 1989. Gross income last year was 6.7 per cent or RM552.86 million higher than the RM8.23 billion posted in 1996. Uncertainty surrounding the investment environment has also exerted upward pressure on the interest rates regime. The EPF has taken this opportunity to increase its investment in money market instruments, which contributed the second largest share to its income in 1997. With an allocation of 25.06 per cent as at the end of last year, money market instruments contributed RM2.55 billion or 28.99 per cent to EPF's total income.

What's important to note, though, is that the EPF was able to improve its gross income for last year. This grew by 6.7 per cent or RM552.86 million to RM8.78 billion despite the turbulence in the financial markets. This was made possible by the diverse investment portfolios adopted by the EPF. Such a huge portfolio underscores the EPF's role as a long-term investor and minimises the risks involved when billions of ringgit are at stake. As the institution that "guarantees life after retirement", its management has taken a very prudent approach in dealing with the economic downturn by investing in profitable and low-risk counters. And as far as the rakyat's money is concerned, the EPF has performed quite respectably to ensure that they get decent returns from their investments, something that many corporations may wish to emulate.

As such, the lower dividends for last year is no reason to question the

ability of the people running the EPF. On the contrary, it is proof that the fund has been prudent even if it has been rather conservative in its performance. EPF contributors can look ahead with confidence. Once the economy recovers its momentum, they can expect higher dividends to be announced and for the fund to continue introducing innovative products to benefit members - as it had been doing before the economic downturn. More importantly, contributors have seen that through the worst of times those who have been trusted with safeguarding their savings seem more than equal to the task.

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