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Annuity scheme insurers to impose 7pc penalty

Habhajan Singh

EXISTING policyholders of the discontinued Employees Provident Fund (EPF) annuity scheme previously offered by conventional insurers now stand to lose 7 per cent of the premium they have paid.

It is understood that the six insurers involved in marketing the scheme before it was suspended five months ago will impose the penalty for withdrawals despite intense lobbying by unionists for them to take a flat RM50 processing fee.

"The withdrawal penalty is in their contract. It is there to cover the costs incurred for marketing and establishing the scheme," said an insurer.

But unlike the conventional scheme, the country's two Islamic insurers which offered the Takaful version only impose a RM50 exit fee regardless of the premium amount.

The EPF said in a statement yesterday that the scheme, introduced in July 2000, will no longer accept new participants following the Government's decision to the effect.

Prime Minister Datuk Seri Dr Mahathir Mohamad had said last Friday that the EPF would manage a new annuity scheme itself.

Under it, contributors would be paid a monthly sum for 20 years after retirement based on the balance in their EPF accounts.

Contributors have the option of either withdrawing the total amount upon reaching the age of 55, or just a portion of it.

Dr Mahathir, who is also the Finance Minister, outlined the new format in his speech at the EPF's golden jubilee celebration dinner.

In its statement, the EPF said the previous scheme will continue for its existing 286,000 policyholders as per the agreed terms and conditions. The EPF said it was working out the details for the new optional scheme, to be announced shortly. It will be a refinement of the existing periodic payments scheme introduced in 1994, the EPF said.

The annuity scheme was suspended on May 8 following objections from the Malaysian Trades Union Congress (MTUC) and other organisations.

When first introduced, eight insurers were selected to market the scheme : Malaysian Assurance Alliance Bhd (MAA), MCIS Insurance Bhd, Hong Leong Assurance Bhd, Malaysia National Insurance Bhd, Maybank Life Assurance Bhd, John Hancock Life Assurance Bhd, Takaful Nasional and Syarikat Takaful.

As of March, they had roped in 137,692 participants who contributed RM2.7 billion in total premiums. The amount came from their EPF savings.

The EPF manages over RM180 billion in funds.

In a separate statement, MAA chief executive officer Razman Hafidz Abu Zarim reassured policyholders that the company will honour their policy benefit guarantees and contract provisions.

The largest player in the annuity scheme, MAA said its assurance is backed by the RM130 million paid-up capital of parent company MAA Holdings Bhd and the close supervision of the regulators.

Razman Hafidz also took to task some of the statements made by MTUC president Senator Datuk Zainal Rampak, alleging that the latter had made false and misleading statements regarding the payment of interest due to policyholders.

"A proper knowledge of the scheme would show that the scheme provides guaranteed lifetime pension income and is not a lump sum benefit like

members' EPF accounts.

"Therefore, profit from the insurer's annuity fund is not distributed in the form of interest. Rather, profit is distributed in the form of bonus pension income," he said.

Razman Hafidz also said that Zainal's claim that there has been no distribution of profits to policyholders was misleading and questions the reputation of MAA and other insurers.

"In fact for the year ending December 31 2000, we had previously announced our first declaration of bonus pension income of RM6,645,946. Furthermore, the amount of profit allocated to shareholders was nil," he said.

Zainal was not available for comment.

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