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'EPF may shift investment strategy'

By Asila Jalil - April 16, 2024 @ 7:10am

The rollout of Account 3 by the Employees Provident Fund (EPF) may shift the fund's investment portfolio to highly liquid assets to allow for withdrawals. - NSTP/ASYRAF HAMZAH

KUALA LUMPUR: The rollout of Account 3 by the Employees Provident Fund (EPF) may shift the fund's investment portfolio to highly liquid assets to allow for withdrawals.

This, in turn, would affect the fund's investment returns given that highly liquid assets often yield low returns.

Bank Muamalat Bhd chief economist and social finance head Dr Mohd Afzanizam Abdul Rashid said the pension fund might need to keep highly liquid assets in its portfolio to meet the possible withdrawals from Account 3.

"It really depends on the size of the withdrawals and how such a trend would evolve in a given year.

"Safe to say, the share of the money market may need to be bumped up. In the process, it would alter the investment return profile as highly liquid assets carry low returns. These are some of the trade-offs that need to be endured by the EPF and its members," he told the *New Straits Times*.

Details of Account 3, including its implementation date and rate of contribution, have yet to be announced.

Account 3, which is also known as the Flexible Account, was first announced by Prime Minister Datuk Seri Anwar Ibrahim at the tabling of the 2024 Budget in October last year.

Economist Dr Geoffrey Williams said a higher allocation of contributions to Account 1 would address issues concerning pension inadequacy.

Currently, 70 per cent of employee contributions are channelled into Account 1 while the rest goes to Account 2.

Williams said the rollout of Account 3 would change the ratio and that Account 1 should receive a higher percentage of funds.

"The effect (of Account 3) on Account 2 depends on how the split is made. If Account 1 remains at 70 per cent of contributions and Account 2 is reduced to 20 per cent with 10 per cent going to Account 3, this would make more sense and protect long-term savings in Account 1.

"It would be better to raise Account 1 to 80 per cent and have 10 per cent in each of Account 2 and Account 3 because this would protect long-term savings better and help address pensions inadequacy rates due to withdrawals,"

Williams believes that the introduction of Account 3 would not reduce overall contributions to the pension fund as only a small portion of the funds would go into the new account that was immediately accessible.

This move, however, is not expected to have an impact on the dividends.

"The dividend should be the same on all accounts or Account 3 should be voluntary. Otherwise it would force 10 per cent of savings into a low-dividend account that many would not use.

"Alternatively, Account 3 could be voluntary but with a lower dividend and higher dividends in Account 1 to encourage long-term savings.

"The EPF had assets above RM1 trillion and the new Account 3 will not be a big part of that. The money is still invested until it is withdrawn," he added.

EPF chief executive officer Ahmad Zulqarnain Onn had said that the pension fund was not expecting any change in mandatory contribution rates once Account 3 was rolled out.

The current mandatory contribution rates are 11 per cent for employees and 13 per cent for employers.

Account 1 cannot be accessed until retirement, and funds in Account 2 can be withdrawn for limited purposes, such as education or housing.

It also allows for a partial, one-time withdrawal at age 50.