

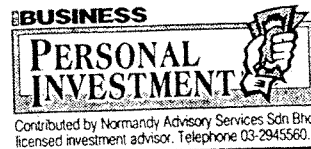
Table 1

Name of Bank or Finance Company	Present Savings Rate (%) for RM5000	Effective Rate Before Tax	
		20%	30%
Maybank	3.35	4.19	4.79
Kwong Yik Bank	2.75	7.60	8.71
Public Bank	3.75	4.70	5.36
Hong Leong Bank	3.75	1.88	2.14
UMBC Finance	3.50	4.40	5.0
Mayban Finance	4.25	6.35	7.26
Arab-Malaysian Finance	4.25	5.30	6.07
Malaysian Credit Finance	5.00	6.25	7.14

Table 2

Mr Investor's Total Savings in EPF (RM)	
Year 5	11,709
Year 10	34,949
Year 15	79,126
Year 20	160,995
Year 25	310,319
Year 30	579,905

EPF savings alone not enough for old age living



IN the 1996 budget speech by Finance Minister Datuk Seri Anwar Ibrahim, one of the topics was increasing savings.

The rate of gross national savings to the gross national product (GNP) is 34 per cent which is to be increased to at least 40 per cent.

The government want us to save around 40 per cent of our earnings so that there will be sufficient money to match the investment rate required to reach Vision 2020.

The rate of gross national savings of 34 per cent to GNP is comparable with that of South Korea and higher than Japan.

However, it is not sufficient to meet Malaysia's investment needs, which is now 40 per cent.

The increase in savings rate is crucial if the country is to achieve sustainable economic growth.

Some of the actions taken to increase savings were:

The rate of EPF contribution by employee was increased from 10 to 11 per cent in January this year. In 1993, the employer's contribution was increased from 11 to 12 per cent;

- The corporate sector to establish private pension funds for the benefit of their workers. A maximum deduction of 17 per cent is allowed, for income tax purposes, for contribution by employees to the EPF and approved private pension funds;

- Another national savings bond of RM1 billion to be issued this year. This was due to the encouraging response to the previous issue;

- Tax relief provided for contributions to EPF and premiums on life insurance (or *takaful*) is increased from RM5,000 to RM7,000. The RM2,000 increase was especially to cover premiums on education and medical insurance; and

- Exemption from income tax on the interest income received by individuals on savings and fixed deposit accounts with financial institutions (inclusive of interest free banking schemes) as follows:

- Savings accounts of up to RM100,000;
- Fixed deposits of less than 12 months and up to RM100,000; and
- Fixed deposits of 12 months or more.

The importance of these savings initiative should not be lost on investors.

For example, the exemption from income tax means substantial benefits for investors as seen from Table 1.

Take the savings rate for Mayban Finance which is at 4.25 per cent after tax exemption. If the tax was imposed, say at 20 per cent, your account would have to earn about 6.35 per cent to enable you to get 4.25 per cent.

The same thing happens if the tax imposed is 30 per cent. Your account needs to earn at least 7.26 per cent to actually enable you to receive an interest of 4.25 per cent.

Another example is tax relief for EPF contribution and life insurance premiums increased to RM7,000 makes policy cost substantially cheaper.

In other words, a portion of the insurance premium is effectively subsidized

by the government.

Most investors are aware that our EPF savings can go a long way to helping them have sufficient for retirement. But will EPF savings be enough?

Mr Investor is a 25-year-old clerk earning RM600 per month with annual increments of 4.0 per cent per year in tandem with the rate of inflation. Assume the EPF dividend is 7.5 per cent per annum.

At retirement Mr Investor will have RM579,905 savings with EPF. This sure sounds a lot and based on today's costs it appears Mr Investor will have a very comfortable retirement.

Mr Investor retires at 55 years of age and he survives another 15 years until the age of 70. From retirement onwards he will have about RM3,200 per month for his living expenses from the EPF.

However, after the effects of inflation of just 4.0 per cent per annum, RM3,200 is only equivalent to a mere RM987 per month in today's ringgit.

From the above example it is apparent that Mr Investor's EPF savings will probably not be enough.

If you want to have a comfortable retirement then you must supplement your EPF savings with other savings.

The government's encouragement for you to increase your savings rate has two spin-off effects:

- You will have a bigger nest egg for retirement; and

- The country will have the necessary capital to achieve its Vision 2020 objectives.

One attractive way to save is through unit trust savings plans. Some of the plans are summarized in Table 3.

While not too much regard should be paid to one-year performance as per Table 3, unit trusts can deliver very attractive rates of return. The compounding effect of higher returns will mean your savings grow into a substantial amount.

Apart from unit trust companies, some investment advisors recommend savings plans which invest in various types of investments.

With an initial investment of RM1,000 and a monthly installment of RM100 for 10 years, expected return of say, 12 per cent per annum, your nestegg becomes a substantial amount.

Table 4 shows how your deposit of RM1,000 and a monthly deposit of RM100 grows.

With time flying by you will find that suddenly you have about RM26,000 in your savings.

Just imagine the RM100 being spent in a single trip to a hypermarket instead of being placed in your savings.

The major benefit of investment advisor's recommended savings plans is not all your money is in one particular investment.

Your money is spread over several different types of investment so you are likely to enjoy more stable returns.

These are some of the ways to save. All it needs is discipline.

Savings is not just to combat inflation but is a way for you to have something just when you need it.