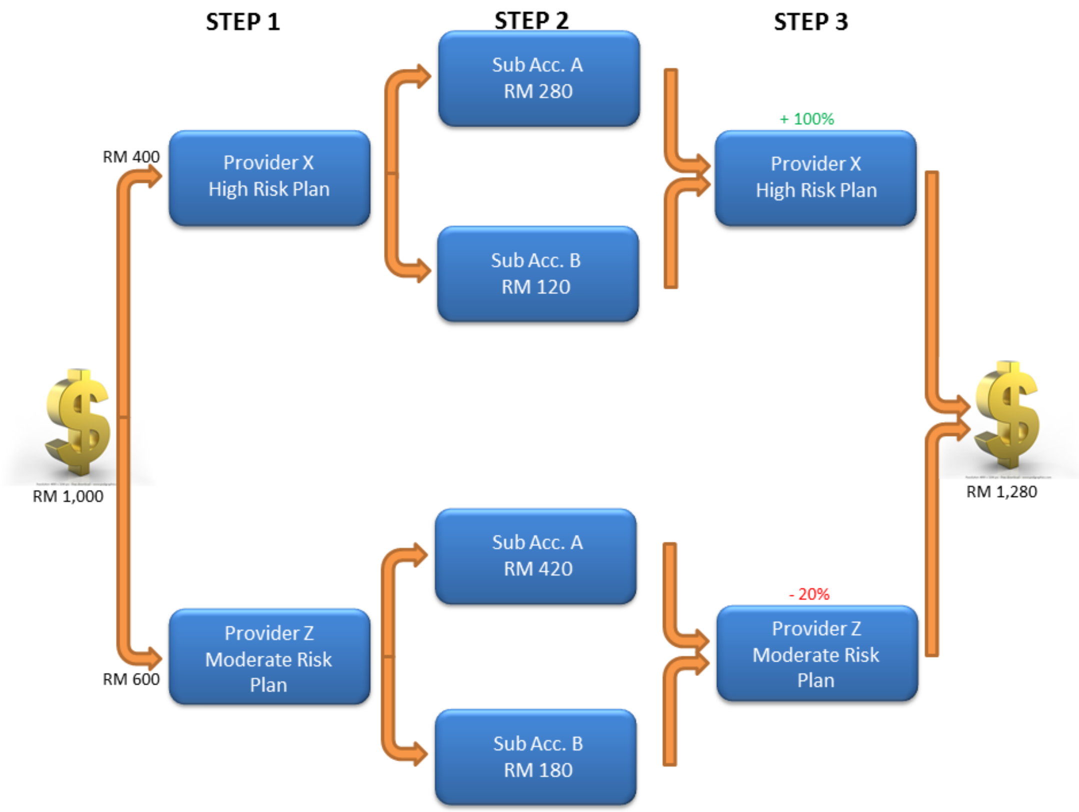
How Your Funds Are Invested In a Private Retirement Scheme (PRS)

For you to choose the Private Retirement Scheme (PRS) that is best suited for you, you'll need to understand how the big picture works. This article is meant to show you in a simple way, how your funds are invested when they are contributed to a PRS.



Step 1: Choosing a PRS Plan

Using the above example, let us assume that you have RM1,000 and you want to contribute to PRS. Because of your own financial strategy, you decide to go with two different PRS Providers – 40% on a high-risk plan and 60% on a moderate risk plan. Take note you can always opt to go with one plan or multiple plans. The choice is yours.

Step 2: Segregation of Funds

After receiving your contributions, your PRS services providers on their parts are obligated by statute to place 70% of your contributions into a sub account (A), which comprises of funds which can only be withdrawn during retirement. Meantime 30% of your contributions are to be allocated to a sub account (B), from which you can withdraw once a year subject to a tax penalty of 8% on the withdrawal amount.

Step 3: Reaping the Rewards

Your funds are now fully managed by the PRS providers. Depending on the performance of the plans you've contributed to, the monetary value of your account may grow or shrink over the years.

Gauging the performance of your PRS contribution is very straightforward. In the example above, your high-risk plan does exceptionally well and doubles in value. However, your moderate-risk plan doesn't do so well and loses 20% of its original value. In the end, you'll end up with RM800 from the former and RM480 from the latter for a combined amount of RM1,280.

Take note this example assume that you did not carry out any withdrawals from your sub account (B), did not receive any dividends over the years and made no further contribution. It also did not take into considerations factors such as increases in monthly contribution and inflation.

Conclusion

Though PRS is a viable option to plan for your retirement, ultimately, you'll need to keep in mind that the returns are not guaranteed. You bear the whole risk if your PRS plan performs poorly, but you stand to gain if it performs well.

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