



**INVESTMENT ASSETS ALLOCATION OF SOCIAL
SECURITY ORGANIZATION
(PERKESO)**

JIMMY HENDRICK ANAK KIJON

2004277481

**BACHELOR OF BUSINESS ADMINISTRATION
(HONOURS) (FINANCE)
FACULTY OF BUSINESS MANAGEMENT
MARA UNIVERSITY OF TECHNOLOGY**

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CHAPTER ONE: INTRODUCTION

1.0 Background of the Study

Abstracting from its disability and life insurance aspects, Social Security can be understood as a financial intermediary that specializes in providing two distinct kinds of financial services. In Malaysia, SOCSO provide two social security schemes to protect the welfare of employees and their dependents. The two schemes are The Employment Injury Scheme and The Invalidity Pension Scheme.

In order to make sure that the funds meet the cash flow needs and to provide competitive investment return for the SOCSO, the fund must be managed in a manner consistent with the investment policy set by the organization.

Asset allocation is the process of determining how much you will invest in each specific asset class in your portfolio. Research has shown that the decision of how to allocate the asset is the most important factor affecting portfolio's performance (see Robert G. Ibbotson and Paul D. Kaplan, "Does Asset Allocation Policy Explain 40, 90 or 100 Percent of Performance?", *Financial Analyst Journal*, January/ February 2000, pp. 26-33).

In general, the first decision we should make when we are determining our asset allocations is between stocks and bonds. The second decision we should make when we determining our assets allocations is an understanding our risk tolerance.

CHAPTER TWO: AN OVERVIEW OF SOCSO

2.0 Background

The Social Security Organisation (SOCSO) was established on the 1st of January 1971 as a Government Department to enforce the Employees' Social Security Act, 1969. On the 1st of July 1985, SOCSO became a Statutory Body. SOCSO's function includes registration of employer and employee, collecting contribution, processing benefit claims and make payment to the injured worker and their dependents. SOCSO also provide vocational and physical rehabilitation benefits and enhance occupational safety and health awareness of workers.

2.1 Vision and Mission Statement

SOCSO's vision is to establish SOCSO as a premier social security organisation as part of the effort of transforming Malaysia into a developed country. SOCSO's Mission is to support of the government's endeavour to create a caring society, SOCSO is committed to ensure social security for all working Malaysian citizens including their dependants, in line with the Employees' Social Security Act, 1969.

2.2 SOCSO Investment Policy

SOCSO is required to invest 40% of its fund in Government Securities as stipulated in the Investment Guidelines. Under the said Guidelines, SOCSO is allowed to invest up to 30% of its fund in Money Market, 15% in Equities, 10% in Private Debt Securities and 5% in Properties.

CHAPTER THREE: PRELIMINARY DETAILS

3.0 Literature Review

Jeffrey L. Kunkel (1999), stated that with trust fund assets growing from just under \$46 billion at the end of September 1986 to over \$730 billion at the end of September 1998, interest earnings from the investment of trust fund assets have been an increasing percentage of trust fund income. As the trust funds continue to grow over the next several years, this trend will continue. Without changes to present law, future expenditures are expected to first exceed future tax income in 2013 or thereabouts. Interest earnings will then play an even more important role in financing the Social Security program.

Stewart C. Myers (1998), stated that The Financial Economists' Roundtable met in July 1997 to consider long-run problems facing the Social Security system. The Roundtable reached definite conclusions on the following points:-

- i) Investing part of the Social Security Trust Fund in common stocks does not help solve the basic problems facing the current, pay-as-you-go Social Security system.
- ii) A reformed Social Security system should be partly funded through individual retirement accounts.
- iii) Individual retirement accounts should be invested in well-diversified portfolios of securities, including common stocks.
- iv) Individual retirement accounts should be fully owned by workers.