IPS Forum on CPF and Retirement Adequacy

The Institute of Policy Studies organised a Forum on CPF and Retirement Adequacy on July 22, 2014, to get views and ideas on the Central Provident Fund (CPF) system from experts, and individuals from social and public organisations. Over 260 people attended the day-long event. They included academics, senior management of financial services and professional services firms, policymakers and representatives of non-governmental organisations focused on issues of ageing and social welfare.

IPS Director Janadas Devan opened the forum by setting out the focus of the day’s discussions. The first panel session, he said, would examine the demand side of the equation in retirement adequacy, in terms of what people want or need for retirement. The second panel session would look at supply side issues of how the CPF system can provide for retirement funding. Giving a historical perspective on social security systems, he said that in Germany and England, the private sector and conservative government respectively had paved the way for the genesis of social security systems, contrary to the popular assumption that liberal and left-leaning socialist parties would have been the advocates.

Mr Yee Ping Yi, Chief Executive Officer of the CPF Board then provided an overview of the CPF system. A mandatory savings scheme, the CPF is a key social security pillar in Singapore, alongside state measures to provide for the needy and vulnerable. CPF account holders can use their funds for home ownership and healthcare needs. In 2013, half of active CPF members met the Minimum Sum criteria. But, Mr Yee noted, even as CPF members are protected from investment and longevity risks, the CPF system is faced with global challenges of remaining financially sustainable with an ageing population, and navigating a more challenging and volatile investment environment.

Panel Discussion I

Opening the first panel session, Associate Professor Kalyani Mehta, a gerontologist, proposed that an assessment of retirement adequacy should go beyond projections of financial needs and economic trends, to look at social and health trends. Life expectancies have been on the rise but the actual years of disability have remained the same, and we should aim to reduce this, said A/P Mehta, who is Head of the Gerontology Programme of the School of Human Development and Social Sciences at the Singapore Institute of Management. Economic trends include the impact of inflation on the value of assets, the increase to the Minimum Sum requirement, and an increase in the percentage of the population that is able to meet it over the years. Social trends point to decreasing age-support ratios and single-person elderly households and the need to relook the paradigm of the family as a first line of defence. The community and state could step in to help to those who may need it. Health trends include a likely increase in the number of seniors that are less than ambulant, or suffer from dementia.

Associate Professor Tan Ern Ser, a sociologist at the National University of Singapore (NUS), commented on the financial adequacy of seniors and the role of the CPF, extrapolating from the findings of the 2011 National Survey of Senior Citizens. In comparing the financial situation and adequacy of seniors aged 55-64 years (a group he termed “young-old”), 65-74 years (“old”) and those aged 75 and older (“old-old”) across genders, he said the “young-old” did better than the “old-old”, and men generally fared better than women. The “old-old” and women tended to rely on income transfers from their children, and the “old-old” tended to depend more on their personal savings. Many seniors, said A/P Tan, who is Head of the IPS Social Lab, tend to be in low-paying jobs like cleaning, and having CPF savings could boost their retirement financial adequacy. Where CPF did not seem to matter, this could be because seniors had little or no CPF monies to begin with. However, when parent-child bonds are strong, seniors tend to feel more secure about their retirement.
He ended off optimistically, saying that the “young-old”, and those who are even younger tend to have higher income, more savings, a longer working life, and higher propensity for retirement planning among other things.

Associate Professor Lum Sau Kim of the Department of Real Estate, School of Design and Environment at NUS touched on the CPF framework and housing financing. Many Singaporeans have channelled a large proportion of CPF funds into housing, due to factors such as a strong pro-home ownership policy bias, the lack of viable avenues of investment that hedge against inflation, and attractive expected returns from investing in land in Singapore. Hence, retirement nest eggs are largely in illiquid assets, are poorly diversified and are vulnerable to housing sector shocks and wider systemic risks. The sustainability of housing as a nest egg hinges on the future path of housing prices, rents and interest rates and addressing leasehold value decay given that the HDB lease is a depreciating financial asset. The management of housing prices is a “wicked” problem where there is the need to balance contradictory tensions of improving affordability while preserving housing values. The key to this is with the management of price expectations to prevent clustering or cohort effects when Singapore hits demographic bumps.

Mr Donald Low, Associate Dean (Research and Executive Education) and Senior Fellow of the Lee Kuan Yew School of Public Policy provided several behavioural perspectives on the CPF system. One of its strengths was in its fiscal sustainability. But even as the CPF system fosters self-reliance, such an approach can have the unintended effect of fostering an individualistic and “each-man-for-himself” mentality. This may constrain the government’s ability to undertake unpopular reforms for the greater good of the citizenry and limit the CPF system’s ability to be an institution that promotes equity. Mr Low noted that in making decisions, citizens tend to focus on present needs, rather than future-biased preferences. They find it difficult to accept delayed gratification, and empirical evidence suggests that they are overly optimistic about their own capabilities. However, a paternalistic approach is inherently limited in what it can achieve. Rather, possible tweaks to the current CPF system could include allowing CPF members some choice on the levels of risk they wish to take with their investments; for the government to provide more timely information on how the CPF monies are managed and invested; an independent unit that makes projections of the adequacy of the CPF system for different income groups and household types; and to use a wider range of non-government messengers to explain CPF and CPF policy changes.

Discussion

The discussion was moderated by Mr Lee Tzu Yang, a member of the IPS Academic Panel. Responding to a question from the floor, Mr Low suggested that adjustments to the pension system could be made automatic and directly tied to life expectancy, as Sweden had done from the mid-1990s. This would insulate unpopular but necessary policy changes from populist sentiments, and allow the system to adjust according to known factors like a probable increase in life expectancy.

To a participant who said that the CPF system was not universal in that it only caters to those employed or previously employed in work, A/P Mehta said that women indeed tended to be disadvantaged on this regard because they play the care-giving role, and also due to cultural factors which keep them from work. Mr Low added that there was a need to create another system for those who were not in the workforce. The discussion also touched on what more the state can do to help individuals. One participant suggested that there was a need to look beyond savings to avenues like the redistribution of taxes for the financing of retirement. Other points raised include comments on the biological and physical aspects of ageing. One participant said there was a need to pay attention to those in their 40s, as the health testing of those in this age group would allow many illnesses or symptoms to be detected at an early or pre-formative stage, which would be much easier to manage.
Dialogue with Mr Tan Chuan-Jin, Minister for Manpower

Manpower Minister Tan Chuan-Jin began by describing the changing parameters of the CPF system. When the CPF was introduced in 1955, the retirement age of workers was 55 and life expectancy was between 60 to 62 years. Since then, the goalposts have shifted significantly, with retirement age being raised and life expectancy increasing greatly. Correspondingly, the challenges for the CPF system have changed, as the single most important factor that shapes any pension system is longevity. He detailed a few key questions:

- What is the impact on retirement adequacy when we live longer?
- What happens to us when we stop working or run out of money?
- How do we ensure that our system is sustainable?

In particular, Mr Tan stressed the importance of sustainability. The system should not place an undue burden on future generations to support current – many systems overseas have begun to realise the difficulty of sustaining payouts in the future. Mr Tan followed up by showing a presentation slide on the two phases of CPF, namely the Accumulation and Decumulation Phases. The Accumulation Phase is where citizens contribute to the CPF through work and grow their savings, with the parameters being frequency of work, wages, contribution rates, and withdrawals. Meanwhile, the Decumulation Phase is where citizens retire from work and begin taking money from the accumulated nest egg, with the parameters being the Draw Down Age and payout quantum.

Here, Mr Tan explained that changes in each parameter would affect others; for example, withdrawals for needs such as housing would decrease the amount available to individuals in retirement. A higher payout quantum would deplete savings more quickly, while a later retirement age would conversely increase the amount in one’s nest egg due to additional contributions from work. Overall, Mr Tan pointed out that most people believe that there should be some kind of system in place and some level of assistance provided. The CPF system is not comprehensive, but offers a basic level of insurance in citizens’ retirement years, he said. It also helps facilitate home ownership and healthcare, providing pillars to support Singaporeans. The government would look into ways to strengthen these pillars, as the game has changed in the last half century and we will have to keep up with that.

Discussion

Mr Hsieh Tsun-Yan, Chairman and Lead Counselor of LinHart Group and a member of the IPS Academic Panel chaired the discussion. Several issues of concern, such as the sustainability of wage growth, and the reach of the CPF system, emerged in the questions directed to the Manpower Minister. One participant argued that the retirement age cannot be easily raised for people in certain professions due to considerations such as their age and physical capability. Would Medishield Life place an additional burden upon the younger generation, given that a significant proportion of Medisave payments are now being made by children on behalf of their parents, he asked.

Mr Tan pointed out that re-skilling and retooling professional skills through continuing education and training (CET) would be essential for this group of people. He added that CPF would need to work in tandem with other aspects of the social safety net. For those who wish to pay for their parents, they would still contribute to their CPF if they were working. Ultimately, a range of schemes exist to help those who are in need.

Noting that the Minimum Sum has been raised in accordance with inflation, another participant said that wages have remained stagnant relative to rising costs of living in recent
years and asked what the Manpower Ministry was doing to raise salaries. Mr Tan highlighted that many countries are grappling with this problem, and Singapore has seen real wage growth of 2% to 3% in the last few years. He again stressed the importance of remaining competitive and Equipping individuals with the capacity to exploit opportunities. Programs such as Workfare have been implemented to target those who struggle, and have started to work. The government is also looking at strengthening safety nets in the long term.

A participant argued that women are not fully benefitting from the risk pooling brought about by CPF Life, as CPF annuities penalise women for dropping out of the workforce and women live longer than men. She also noted that CPF may inadvertently favour the more wealthy as they benefit from tax deductions when making additional voluntary CPF contributions, effectively placing an implicit tax on the poor. On the former point, Mr Tan agreed that women do generally live longer, but the wider question is who the vulnerable are and whether we are able to provide for them. He explained that CPF, while important, is part of a larger system and some needs may be better met through other social safety nets. On the latter point, Mr Tan replied that the tax system in Singapore is designed to be progressive and redistributive, pointing out that only one-third of Singaporeans pay taxes. Additionally, tax revenues fund other schemes within the social safety net, such as education and housing subsidies, which benefit poor families most.

Another participant asked about the viability of the Minimum Sum and the number of people who were able to meet the Minimum Sum from cash contributions to CPF alone, rather than cash contributions combined with property value. Mr Tan acknowledged that many older Singaporeans went through a phase during which wages were relatively low, and do indeed face a challenge in meeting the Minimum Sum. He also pointed out however that the Minimum Sum was merely intended to be a guideline to meet retirement needs comfortably, and is pegged to costs of living for that reason. The CPF is intended to provide a basic level of insurance that people can draw upon when in need – younger Singaporeans will increasingly be able to meet the Minimum Sum.

On this issue, Mr Tan also touched on the issue of discouraging “overconsumption” in housing, with people depleting their CPF savings by spending on public housing. He explained that this is ultimately a value decision made by individuals: they have a range of choices that range from low to high leverage, and some consciously choose the latter option. The Housing Development Board (HDB) has put in place measures to manage expenditure, but people are still free to make their choices. This then raises the question of to what degree the system should allow people such flexibility.

The question of why CPF payouts have not been pegged to inflation also came up. Citing the example of inflation-protected bonds provided by certain governments, a participant asked if this would change in future. Mr Tan explained that the government was looking into the matter, and would explore how it could address some of the concerns on inflation. The government, he said, is currently looking at additional ways to strengthen the system and ensure viability of returns and payouts for individuals.

**Panel Discussion II**

Ms Wong Su-Yen, Singapore Chairman of Marsh and McLennan Companies, began the second panel session by comparing the CPF system with different forms of retirement funding around the world. She discussed the key issues that we should use to assess the CPF, such as adequacy, sustainability and integrity. And while the CPF fared well overall, there were areas where the fund came up short in comparison, such as a lack of a minimum pension amount.
Professor Joseph Cherian, Practice Professor of Finance and Director of the Centre for Asset Management Research & Investments at NUS Business School, spoke on the myths and facts about the CPF. He stated that he believed that the CPF and its component parts, such as CPF Life and Minimum Sum requirement, represented a good system, but there were still opportunities to improve it. Stating that transparency and clear, frank communication between the government and its citizens was necessary to maintain trust, Professor Cherian expressed a hope that the CPF Board would consider offering what he termed CPF So Shiok LIFE, which was a similarly annuitised scheme like CPF LIFE, but inflation-indexed and with opportunities to further invest at a risk and returns rate commensurate with the member’s risk profile.

The presentation by Mr Alfred Chia, CEO of SingCapital Pte Ltd, centered on the CPF Investment Scheme and the need for more education for both members of the CPF and the financial advisors meant to help them make investment decisions. Nearly 85% CPF members who took part in the CPFIS lost money and amongst the reasons for this, in Mr. Chia’s opinion, was the inability of investors to make unemotional and informed decisions about their investments. The CPFIS was important to help Singaporeans get more from their CPF, he said, but could be further altered to bring out the best of the system.

Associate Professor Hui Weng Tat from the Lee Kuan Yew School of Public Policy gave suggestions on how the CPF system could be improved. He highlighted that ever since the introduction of the Minimum Sum and the extension of the official CPF withdrawal age to 65, years, changing the official retirement age has been considered the “third rail” of Singaporean politics. The change to the draw down age has caused dissonance and unhappiness, and this has been further compounded by public perception that the government has behaved inconsistently in tweaking the CPF system. In order to ensure that people’s CPF savings would allow them to maintain a similar standard of living, particularly those from middle income backgrounds, CPF members should realise that they have to start saving early in their working lives.

Discussion

Mr Manu Bhaskaran, IPS Adjunct Senior Research Fellow and Partner and Member of the Board at Centennial Group chaired the discussion. Several themes which emerged included the expectations that CPF members have with regard to their CPF funds, the adequacy of their funds, and how the disadvantaged could also benefit from a social security system.

Several questions focused on the how CPF members should view their CPF savings and its adequacy in providing for their retirement. Would CPF members tolerate the volatility that came with pegging the CPF rate of return to market rates? Also, was it practical to expect to maintain one’s standard of living once one entered retirement, as was the very notion of the age of withdrawal being placed at 55 years? One participant described the retirement age of 55 years as a “colonial hangover”, saying it was not a realistic notion and not appropriate in today’s context, when people were living much longer.

The panel replied that as the demographics of the population changed, so did the expectations of what one’s working life and thus retirement would be. For example, many young graduates in this day and age expect the lines between their day-to-day working life to blur and blend, and it might be realistic to expect that they may look at their retirement in the same light. The panel also said that within the current structure, the best way to maximise gains from the CPF system was by better educating citizens and their advisors in financial matters. These factors would be instrumental in helping them plan better for retirement.
There was also some focus on how the CPF system did not cover everyone, such as those who did not work or had dropped out of the workforce for various reasons. The panel noted that the CPF was not a social safety net, and it could not be turned into one. The government would have to utilise other means to help these groups of Singaporeans.

However that line of questioning raised the case of lower wage level workers who had, since the 1980s, experienced three cuts in the employer’s contribution for their CPF. At that time, Singapore had attempted to use the employer’s contribution as a tool of macroeconomic policy, cutting the contribution to lower business costs and keep companies in Singapore. But that left the workers in a lurch and rates had taken a long time return to their original levels, and since the last cut, rates have still failed to return to the original 20% rate. This left large numbers of lower-wage workers unable to meet their minimum sums and negatively affected their ability to retire. The panel lacked an answer for this it was suggested that decisions sometimes had to be taken where the negative portion of the decision could not be separated from the positive. In such cases, it would be best to either have tried to offset the pain from that decision or make it up to those affected at a later time.

In conclusion, Mr. Bhaskaran reiterated that while the CPF system was generally good, it was not yet top of the class, with retirement adequacy a primary worry. It would take some effort to deal effectively with these concerns.

**Dialogue with Mr Tharman Shanmugaratnam, Deputy Prime Minister and Minister for Finance**

Mr Tharman started the session by providing a historical account of the development of the retirement savings policy to highlight how it has evolved and will continue to do so to meet the basic needs of most Singaporeans.

He said that when it first began, the CPF system worked more like a savings plan for home ownership. People were all poor; savings were withdrawn at 55 years of age. The merit of that is that today 90% of elderly Singaporeans own their homes, ensuring that they will not need to pay rental income out of their retirement funds.

In the second phase of the mid-1990s, there was a re-balancing of the system to boost savings for retirement. The limits on how much policyholders could withdraw for property were introduced. The Medisave system was introduced, and interest payments were made on monies held in the CPF. The CPF scheme still helps most to own their homes.

On top of savings and interest payments, today, the government funds out of its budgets, top-ups to CPF accounts of low-wage workers. This means that they receive the equivalent of 6% returns on their savings when amortised over their full working life. There are also other subsidies that work through the healthcare system, such as the top-up for premiums to the new Medishield Life insurance policy.

The government is committed to improving retirement security for all Singaporeans with special help for the low income; in a way that addresses the effect of inflation with the interest returns on CPF savings; and also by helping people unlock the value of their housing asset. It must also do so recognising that not all can take high risks for high returns as perhaps the better off can. In 2007, the government was prepared to review the scheme but felt that the balances in policyholders’ accounts were too low to see if they could be allowed to portion part for their savings into private pension plans. Generally, such plans are not a “walk in the park”, Mr Tharman said. There is higher exposure to risk and while it is with the expectation of higher returns, one can go through many years without seeing any improvement in returns. Furthermore, the current investment environment has changed with
low yields in money markets. It is not something that will last forever but it will be the case for the foreseeable future.

Discussion

Mr Patrick Daniel, Editor-in-chief of English Publications at Singapore Press Holdings, chaired the discussion. A number of participants said that many wish for a bigger payout when they reach 55 years of age rather than the $5,000 payout that has not changed over the past 10 years. Others noted that only 50% met the Minimum Sum anyway, and asked if there should be a way in which some other social pension scheme could be devised.

Mr Tharman reminded participants that there is a tension between the desire for flexibility to withdraw monies and the quantum of payout upon retirement, while also ensuring that payout accounts for the effect of inflation. If it were possible to withdraw larger sums, one would not just lose that sum, but also the compound interest that the money would have otherwise earned.

On the other hand, another participant asked if the government could do more to incentivise companies to set up supplementary retirement schemes and Section 5 programmes that allow for tax-exempt contributions from employers to retirement funding programmes for employees. Mr Tharman said that the government will also consider doing this – especially with regard to supplementary retirement schemes – but it would not affect the majority of the policyholders.

Mr Tharman noted that while the CPF system is often thought of as a single-pillar retirement scheme, it is a very broad pillar. It is a hybrid system that incorporates good aspects of defined contribution and defined benefit retirement policies. It is also boosted by government subsidies and there is further targeted support for low-income policyholders.

Questions were asked on how CPF monies were invested, whether Temasek Holdings ever received or managed these monies, and finally whether the Government Investment Corporation (GIC) knows that it took charge of investing CPF monies.

Mr Tharman clarified that Temasek Holdings has never received CPF monies. Before 1992, CPF monies were invested in government securities that could be used to finance infrastructure. This was changed in 1992 with the passing of the Government Securities Act, requiring that all the monies had to be invested. Before the establishment of GIC in 1981, CPF funds were managed very conservatively by the Monetary Authority of Singapore (MAS), but GIC now has the mandate to invest them in long-term assets. GIC manages all government monies – including CPF monies – with no regard or concern to the first source of that money. Its mandate is to invest for the long-term, take the appropriate level of risk and get returns that beat the global rate of inflation.

The invested funds are unencumbered funds and the government is therefore able to guarantee the returns. The government takes the risks of this guarantee, as the assets of the state are much larger than its liabilities thanks to prudent fiscal planning over the past five decades with an accumulation of what is the total notion of ‘state reserves’.

At the end of the day, the CPF scheme is aimed at providing for basic retirement needs. That is why the withdrawal sum at 55 years is $5,000 and that the income ceiling for maximum CPF contributions is $5,000. It is pegged at providing a stream of income through CPF Life of $1,200. It is pegged as a national scheme and clearly would not meet the needs of those who are better off and have higher expectations about the quality of life they want when they retire. Many Singaporeans do also have their housing asset, which is important,
but in government surveys about what people rely on for retirement, there is evidence that those who are better off do have significant financial assets as well.

Mr Tharman listed a few key priorities – to make sure that housing prices moderate and rise in a manner that does not spiral beyond the increase in incomes, and to reduce the ratio of median income to the cost of the mode of housing that a citizen at that income level would buy. Another is to rely more on social risk pooling as people are living longer. The system has moved from one that is based on individualised accounts to now, one that is a hybrid with risk-pooling elements. Overall, when one adds the government budget-financed enhancements and the reforms that have taken place over the past seven years, whether through the Workfare system, housing grants, healthcare subsidies and how these feed into the CPF system, it is clear that there is a different social compact and improved social support system in place today than there ever has been. Today, a low-waged couple will receive the equivalent of $160,000 in subsidies and assistance by the time they are 65 years of age.

Mr Tharman assured participants that he would consider the suggestions shared at the Forum to ensure that the CPF system serves some of the groups of people who seem to have been left out. This includes the self-employed, homemakers and the disabled. More generally, the CPF system will be strengthened as a basic pillar of retirement funding of Singaporeans.