Ways to improve CPF

Once meant to provide a pension, it now helps fund housing, education and health care. Amid rising costs of living and other pressures, Insight looks at what could be done to ensure CPF still provides peace of mind about retirement.

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Over mahjong or a casual chat, when Madam Susan Tan meets up with her fellow MacPherson seniors, one topic often crops up - their future. Specifically, how to afford it.

At 65, Madam Tan still works to boost her Central Provident Fund (CPF) payouts. But the part-time bus attendant is happier spending time with her grandchildren.

Admin clerk Celestine Chong, 53, has been working since she was 16 but worries she will not have enough to meet her CPF Minimum Sum requirement in two years' time.

Madam Margaret Chng, 66, is not on the CPF Life scheme and withdrew her CPF savings at 55. Now the money has run out and she relies on her family.

These MacPherson residents are some of the many faces of the CPF system now under the spotlight.

From its colonial roots in the 1950s as a fund purely to meet retirement needs, the CPF is now a multi-headed beast that helps pay for housing and health care, and has a life annuity scheme.

The pressures on it will only grow amid a rapidly ageing population that is living longer.

Acknowledging the challenges ahead, Prime Minister Lee Hsien Loong promised in Parliament this week that CPF Life would be enhanced so payouts would keep pace with the cost of living.

Lower-income groups who have little in their CPF will also get greater assurance, said PM Lee, who will disclose more during the National Day Rally.

But these two aspects of the CPF system are just the tip of the iceberg when it comes to tackling the complex issues surrounding an institution that is older than the nation itself.

Add to that the emotive nature of the subject - Singaporeans' hard-earned retirement money - and it is clear that the issue, if not managed well, could well become a political minefield.

Just this week alone, at least eight MPs of all political stripes rose during the debate on the President's Address with critiques of the CPF.

A defamation suit filed by PM Lee against blogger Roy Ngerng has also drawn attention to the latter's posts about the CPF system.

How can CPF be improved? Insight looks at some of the issues.

REBALANCING CPF AND HOUSING

THE current CPF system takes on too many functions, say some observers. However, solutions they propose to ensure cash flow in the golden years strike at the very heart of Singaporeans' aspirations - property ownership.

Ang Mo Kio GRC MP Inderjit Singh and CIMB regional economist Song Seng Wun want the CPF to return to its 1955 founding goal of ensuring workers can support themselves with dignity in retirement.

Mr Song wants to simplify the system, with 80 per cent of funds set aside for pension purposes. "All the other goals such as housing, education and health care should be dealt with through separate agencies or schemes."

But tell that to Singaporeans who have poured their funds into the hot property market over the past decade and seen their assets appreciate each year.

On the other hand, this over-commitment of CPF savings to property purchases is a key reason many are unable to meet the Minimum Sum, points out finance professor Benedict Koh from the Singapore Management University (SMU). The Minimum Sum is intended to be enough for the basic retirement needs of those in the lower-middle income group.

A 2007 study that he led found that almost 44 per cent of cumulative CPF savings have been in invested in properties, based on CPF data from 2005. And longer home loan tenures have meant that more Singaporeans are likely to be still servicing their mortgages when they turn 55.

Prof Koh is among those who favour capping the amount of CPF one can spend on property.

However, UOB senior economist Alvin Liew cautions: "If the amount is significant, it will have a direct impact on the public and private housing market." A sharp drop in home values could impact retirement drastically, especially for those who have already bought property, he warns.

Mr Christopher Tan, chief executive of financial advisory firm Providend, favours using other levers such as raising CPF contributions and salary ceilings.

However, moderating property prices is the key, says Associate Professor Hui Weng Tat from the Lee Kuan Yew School of Public Policy, who notes that the Government is moving in this direction by delinking the prices of new Housing Board flats from market prices. "As long as HDB prices remain affordable, people's CPF withdrawal will also likewise be reduced," he says.

But while the CPF and housing systems find a new equilibrium, there is a generation who may find themselves asset-rich and cash-poor and feel "worse off", he says. The Government has indicated it is looking at more ways to help them monetise their homes.

Schemes already exist to do this, such as the Silver Housing Bonus and enhanced lease buyback. But MPs and social workers cite obstacles such as seniors' emotional attachment to their homes, the disruption of relocating and the Asian culture of parents wanting to leave something for their children.

BEEFING UP RETIREMENT ADEQUACY

TWO particular sources of angst involve CPF's key aspects of providing a sustained source of retirement cash: the Minimum Sum and the CPF Life annuity.

Many like Madam Celestine Chong from MacPherson worry that yearly increases in the Minimum Sum are a harbinger of future trends, though CPF has stressed that there are no plans to revise it further in real terms in the near future.

Another elderly CPF member who declined to be named tells Insight: "Every time they raise the Minimum Sum, I suspect that it's because Temasek or GIC lost money overseas."

Given such comments, it is no wonder that in a blog post last Sunday, Manpower Minister Tan Chuan-Jin was at pains to say that increases in the Minimum Sum are necessary because of longer life expectancy, higher cost of living and quality of life.

He also explained that the recent announcement that it will rise to $155,000 in July is part of a series of adjustments already announced in 2003 (see other story).

At the same time, the increases in drawdown age - it will rise to 64 next year and 65 in 2018 - have upset some. The Workers' Party, for one, has criticised the move regularly over the years.

There may be some lessons for policymakers, in better managing communication with the public.

Or the unhappiness over CPF may, as Professor Euston Quah from Nanyang Technological University puts it, arise "simply from the lack of complete control over one's mandatorily state-imposed savings to do whatever the saver wants". Madam Susan Tan shares a commonly voiced sentiment that she should be able to get payouts earlier if she wants to, as "CPF is our money".

MPs and economists have floated several ideas to reduce the sting from the Minimum Sum and drawdown age requirements. Dr Intan Azura Mokhtar suggests a tiered Minimum Sum for the lower-income, while Prof Quah suggests greater flexibility in withdrawal for those who want to retire earlier, to take into account "some people's expectation of what constitutes retirement age and at the same time protect the greater needs of society".

Another issue is whether Singaporeans can meet the Minimum Sum requirement when they turn 55. Last year, 49 per cent of active CPF members who turned 55 reached the Minimum Sum then of $148,000. While the proportion has gone up by 12 percentage points since 2009, it also means that just over half are still unable to hit the target.

Prof Hui Weng Tat cautions that the 49 per cent includes those who pledged their property to make up half of the Minimum Sum - which translates to lower payouts in the future. Only 20 to 30 per cent can meet the Minimum Sum fully without pledging property, "which means retirement adequacy is much worse than what we anticipate".

A 2012 study commissioned by the Manpower Ministry and done by National University of Singapore dons Chia Ngee Choon and Albert Tsui estimates that 70 to 80 per cent of new entrants to the workforce will be able to meet the Minimum Sum for their cohort.

But Prof Hui says the study underestimates inflation, housing aspirations and wage patterns.

Another piece of the puzzle in boosting retirement adequacy is CPF Life. One improvement unanimously raised by the observers Insight spoke to is for payouts to be adjusted for inflation. PM Lee indicated on Wednesday that the Government is looking into this.

Some also question if the CPF Life payouts are enough to support retirees in the future.

Those turning 55 from next month with the full Minimum Sum of $155,000 can expect a monthly payout of $1,200 for life, the CPF board tells Insight.

But for Mr Palaniappan Muthukumar, 54, who works in the training industry, $1,200 is a "pittance". He hopes for higher payouts but acknowledges this will mean raising the Minimum Sum.

Providend's Mr Tan is in favour of higher CPF Life payouts that are inflation-indexed, but notes that raising the Minimum Sum "may be political suicide for the ruling party".

One urgent priority, however, is to provide for the vulnerable in society who cannot pay for CPF Life, through a basic pension. Prof Chia highlights groups such as the lower-income and homemakers.

The gender imbalance is seen in CPF's latest annual report. There were 11,753 more women than men aged above 60 as at end-2012, but their total CPF balances were about 32 per cent less - $5.7 billion - than the men's.

Prof Chia suggests setting up a Basic Pension Endowment Fund - similar to the fund for the Pioneer Generation - to ensure that such a scheme, which can be means-tested and will not require contributions, is sustainable without leading to future tax increases.

Making other such provisions may become even more pressing as it is likely that Singapore will see higher and longer periods of unemployment in the future, says economics professor Hoon Hian Teck from SMU.

MAKING MONEY WORK HARDER

CRITICS say the Government is being too conservative and can get higher rates of return on CPF funds, given the performance of GIC and Temasek Holdings.

The CPF Ordinary Account (OA) yields a market-related rate pegged to the 12-month fixed deposit and month-end savings rates of the major local banks, with a minimum rate of 2.5 per cent. This means the OA rate can be higher if these rates rise beyond 2.5 per cent.

Savings in the Special and Medisave Accounts earn either 4 per cent or the 12-month average yield of 10-year Singapore Government Securities plus 1 percentage point, whichever is higher.

Providend's Mr Tan notes, though: "It is not fair for CPF members to ask for the rates of returns similar to that of GIC and Temasek. If you want to have that kind of return, you must be prepared to take the risk. Currently, our CPF monies are not invested in GIC or Temasek."

Some experts suggest the investment mandate of CPF be widened so that the Government can afford to pay higher returns. Now, funds are invested solely in risk-free Special Singapore Government Securities.

Singapore could take a leaf out of the book of Norwegian and Canadian pension funds, which invest in a wider range of assets including stocks, bonds and real estate, says CIMB's Mr Song.

Economist Chua Hak Bin from Bank of America Merrill Lynch notes that CPF returns are "barely keeping pace with inflation". In comparison, Malaysia's Employees Provident Fund, which is comparable in size to the CPF but uses a more active approach, delivered a dividend rate of 6.35 per cent last year and 6.15 per cent the year before, he says.

He suggests offering CPF members - with savings above a certain threshold and with a greater risk appetite - the option of investing directly in a GIC or Tema-sek-managed fund. "Returns may be more volatile than the guaranteed rates, but will likely outperform over the longer term."

In Parliament this week, Chua Chu Kang GRC MP Zaqy Mohamad mooted a government-backed investment plan offering higher interest rates and taking into account inflation. Nominated MP Tan Su Shan, a senior bank executive, suggested having regular savings plans tied to bonds or fixed-income unit trusts.

REBUILDING PUBLIC TRUST

THE CPF debate poses questions about the trust and changing expectations Singaporeans have of the Government and how it should manage their retirement money.

In a Facebook post this week, presidential candidate Tan Cheng Bock said the changes to the CPF and "the constant reminder that they may not have enough disposable income when they grow old" have created a sense of insecurity.

Some Singaporeans may also want clearer answers on how CPF monies are invested, he said.

SMU's Prof Hoon Hian Teck sees two big issues going forward. One, how the Government should redistribute its revenues and carry out its social spending. It can channel the returns from investing Singapore's reserves either to the Budget or to paying higher returns on CPF savings. There is a trade-off.

Paying a higher rate of return on CPF is a "general distribution to every working person" - including the higher income - but there is a greater element of risk.

In contrast, the Government's current approach is to tap the investment returns of the reserves for Budget programmes that give more targeted help to the needy.

Two, whether Singaporeans are comfortable with the CPF as a social security system applying to all, or whether they take the view that "I am my own master, I can manage my own funds and beyond the minimum, I can provide for myself".

Sociologist Tan Ern Ser of the National University of Singapore says if Singaporeans are allowed to opt out of the system, the next question is: "Who should shoulder the risks of losing CPF savings drawn out in full - the Government or the individual?"

The challenge is finding the right balance between giving greater autonomy to CPF members who are savvy enough to plan their own retirement finances, and ensuring CPF provides a sustainable stream of retirement income for everyone else.

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