Redesigning Retirement Investing: Fixing the Central Provident Fund Investment Scheme in Singapore

Introduction

History of the CPF

The Central Provident Fund (CPF) is the cornerstone of Singapore's social security system. It was created by the British colonial government in 1955 as a simple retirement savings programme and an alternative to costly pension schemes that were available only to employees of large foreign companies and the civil service; and was born after much resistance.

Proponents had suggested a provident fund for Singapore in 1951 while advocates of the pension scheme had set up a separate retirement benefits commission. It took months before the Colony Select Committee opted for the CPF scheme in October 1953. There was strong resistance to the idea of CPF, which was seen as an extra tax since employees' net salaries were eaten into for CPF contributions and withdrawals could only be made at age 55; and not earlier nor as and when emergencies arose.[1]

Higher income workers did not see a need for the government to step in to plan their retirement needs. Employers also baulked at the idea of the CPF as it meant additional costs. With the CPF, employers who had no pension schemes in place would be forced to participate in the CPF.[2]

Contributing to the resistance was the more bread and butter issue of low-income workers who did not earn enough to cover their daily costs of living, much less to save for retirement. Their negative sentiments were easily stoked by the Communists into a bus workers' strike to protest the launch of the CPF scheme. After quelling the discontent, the CPF Ordinance finally took effect two months later on 1 July 1955.[3]

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[1] Cheong, Colin. 2005. Saving For Our Retirement: 50 years of CPF. Central Provident Fund Board.
[2] Ibid.
[3] Ibid.

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Evolution of the CPF system

The CPF is a mandatory savings scheme and participation is compulsory for Singaporeans and permanent residents working in Singapore. Both employers and employees are required to contribute to the scheme. The CPF contributions for an employee aged 55 and below is currently 37 per cent of the monthly wage, with 17 per cent coming from the employer and 20 per cent from the employee, capped at a maximum contribution of S$2,220 per month. As of September 2018, 3.9 million CPF members had positive balances in their accounts totalling to $384 billion.[4] For many, their CPF funds would be sufficient for retirement if invested wisely and prudently.

Through the years since its inception in 1955, more and more schemes were added to the CPF platform. From a mere savings scheme to help retirees with basic living costs, CPF took on the additional role of public housing provision in 1968[5] when the government of the day acknowledged the problem of urban slums in Singapore and the need to provide proper housing for the poor. At the time, the CPF had accumulated a total of $539 million from 500,000 members.[6] The government felt that the time was ripe to unlock the CPF for other uses.

The liberalization occurred in stages, first by allowing the middle income to buy flats built by the Housing and Urban Development Company (HUDC)[7] with their CPF funds in 1975 and subsequently, wealthier members to purchase private properties under the Residential Properties Scheme[8] in 1981. In 1984, the Medisave scheme was implemented, allowing members to use a portion of their CPF funds to pay for medical costs incurred by themselves and family members.[9]

In 1986, members were given the option to invest their CPF Savings[10] to obtain higher rates of return than those guaranteed by the CPF Board. Most CPF members left their accumulated savings in the default CPF fund—the Ordinary Account (OA), which provided returns of 2.5 per cent per annum.[11] CPF members, if they so wished, could now invest their savings through the CPF Investment Scheme (CPFIS). However, take-up of the scheme has not been particularly high.[12]

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[4] CPF Statistics, 2018. https://www.cpf.gov.sg/Members/AboutUs/about-us-info/cpf-statistics Last viewed on January 28, 2019.
[5] Cheong, Colin. 2005. Saving For Our Retirement: 50 years of CPF. Central Provident Fund Board.
[6] Ibid.
[7] Ibid.
[8] Ibid.
[9] Ibid.
[10] Ibid.
[11] Koh, Benedict S.K., Mitchell Olivia S., Fong, Joelle H.Y. 2009. Collective Investments for pension savings: Lessons from Singapore's Central Provident Fund Scheme.
[12] Ibid.

In 2016, it was reported that more than 80 per cent of members who invested their CPF savings via the CPFIS over the past 10 years would have been better off leaving their money in the default OA Account. About 45 per cent sustained losses over the same period.[13]

In a speech delivered in September 2016, DPM Tharman Shanmugaratnam described the CPFIS as "not fit for purpose" and announced that the government would review the scheme. This announcement followed calls from the CPF Advisory Panel (chaired by Professor Tan Chorh Chuan, President of the National University of Singapore) in August 2016 to urgently review the CPFIS as many members were better off leaving their money in the CPF OA due to hefty sales charges, overselling of financial products by advisors, and the speculative tendencies of novice investors.[14]

This case study explores the challenges of ensuring retirement adequacy in the rapidly ageing city-state of Singapore and examines the role of the CPFIS scheme in helping boost pension accumulation. Three broad issues are addressed: (i) What went wrong with the CPFIS, (ii) How investment performance through the scheme was measured and whether this was in accordance with standard international practice, and (iii) What the CPF Board could do to improve the scheme.

CPF Investment Scheme (CPFIS)

Given the perception of the CPF as a tax on employees' income, and that CPF funds could not be easily unlocked for use, even during emergencies and trying times such as the mid-1970s oil crisis and the mid-1980s recession in Singapore, the government felt the need to "free up those precious savings, but still somehow ensure that CPF members set aside enough for retirement".[15]

The CPF Board launched the Approved Investment Scheme (AIS) on 1 May 1986, allowing CPF members to invest up to 20 per cent of their gross Ordinary Account (OA) savings in stocks, unit trusts, or gold. This came one year after Singapore suffered its first economic recession post-Independence, and two years after the 1984 Howe Yoon Chong report, which proposed that the CPF withdrawal age be raised by 5 years from 55 to 60, which triggered fear and widespread anger[16] that members' CPF savings was being made increasingly inaccessible. The same year that the AIS was launched in 1986, members were also allowed to invest their CPF savings in commercial properties[17]. Prior to the AIS, CPF members could already use CPF for investment in the Singapore Bus Service (SBS) Shares Scheme in 1978.[18]

[13] Tan, Nicole. 2016. "Government to review CPF Investment Scheme", Straits Times, September 13, 2016.
[14] Tan, Nicole. 2016. "Financial Advisors weigh in on CPF proposals", Straits Times, August 4, 2016.
[15] Cheong, Colin. 2005. Saving For Our Retirement: 50 years of CPF. Central Provident Fund Board.
[16] Hui, Weng Tat, 2014. "CPF Issues can be resolved". Straits Times, June 6, 2014.
[17] Cheong, Colin. 2005. Saving For Our Retirement: 50 years of CPF. Central Provident Fund Board.
[18] Ibid.

The SBS Shares Scheme served as a dipstick to gauge members' interest in alternative investments and was a prelude to the AIS. The SBS Shares Scheme was a relatively safe investment product since SBS was an essential services provider. Even allowing members to invest in commercial properties was thought to be relatively safe due to scarcity of land in Singapore. Investment in stocks and shares would be riskier and more complex.

There were concerns in 1986 when the AIS was launched, that CPF members might be inexperienced and too caught up into investing. Then-Acting Minister for Labour Lee Yock Suan warned that "CPF members who decide to take advantage of the scheme should do so carefully as investment in stocks, shares and gold carry both the opportunity for capital gains and the risk of capital loss".[19] It was a timely reminder that not many members heeded. Even the CPF Board itself might have deviated from its objective of ensuring retirement adequacy for members by leaving members to manage investment risks. Instead of a bigger retirement nest egg, members' CPF savings risked being eroded by market downturns.

In 1993, two new schemes, the Basic Investment Scheme (BIS) and the Enhanced Investment Scheme (EIS) were introduced to replace the AIS. The BIS was less risky than the EIS as the selection of investment products was narrower. The EIS allowed members to invest more of their gross OA savings, and to invest in more products such as shares listed on SESDAQ, government bonds, and endowment policies (via their Special Account).
It was clear that the CPF Board was allowing members to venture into riskier territory with the BIS and EIS and that the responsibility would to be shouldered by members themselves. Then-Labour Minister, Dr Lee Boon Yang, indicated as much, saying that "wider options will encourage more Singaporeans to make business assessments and investment choices for themselves", and that they were expected to "learn to trade off risks and returns and live with the consequences of their decisions".[20]

At the same time, Dr Lee acknowledged that there could be novices amongst members who were keen on investing but had little or no investment knowledge. He sounded a warning that "they should do so very cautiously, getting very good, reliable advice from those who know their business before proceeding on their own".[21] This was especially so when the incentive for investing one's own CPF savings was greater than ever before, since any gain from investing could be withdrawn or cashed out once a year.

The increased freedom given to members to use their CPF savings for investment was a deliberate move by the Government to share the country's wealth arising from economic growth. Each CPF member was given a chance to own Singapore Telecom (Singtel) shares as long as they had an active CPF account (defined as $500 of CPF contributions in the past 6 months) via the Share Ownership Top-Up Scheme.[22] For many, it was their first foray into

[19] Ibid.
[20] Ibid.
[21] Ibid.
[22] Ibid.

equities. Buoyed by their first taste of success at investment, many were encouraged to venture further.

In 1997, the CPF Board merged the BIS and EIS into the CPF Investment Scheme (CPFIS) and in 2001, members were allowed to use all their savings in the Special Account for investment in approved products. The CPFIS was then known as CPFIS-Ordinary Account (CPFIS-OA) and CPFIS-Special Account (SA).[23] See **Exhibit 1** for **Table 1**: Timeline of Investment Schemes rolled out under CPF Auspices.

At the time of the CPF 50th anniversary publication, many positive sentiments were cited. This had clearly changed by September 2016 when DPM Tharman Shanmanguratnam spoke about the CPFIS gravely and with much disappointment. What exactly went wrong with the CPFIS?

CPFIS – What Went Wrong?

DPM Tharman said that "over the last 10 years, more than 80 per cent of those who invested through the scheme would have been better off leaving their money in the CPF Ordinary Account". Among CPFIS investors, 45 per cent made losses. Mr Tharman attributed these to behavioural biases in investment as well as costly fees and commissions.[24]

The CPF Advisory Panel had recommended a Lifetime Retirement Investment Scheme (LRIS), a simpler, low cost aggregated investment option, a month earlier in August 2016. The Panel also recommended that the CPFIS be reviewed.[25]

Behavioural Biases among CPFIS Participants

The SBS Shares Scheme was used as a gauge for the roll-out of the AIS in 1986. However, it was a safe, unitary product compared to stocks, shares, and gold. The CPF Board left it to members' discretion when it came to investing in higher-risk products. Although members were cautioned, not many took the advice to heart and may have been lulled into a false sense of security that any scheme sanctioned by the CPF Board would be safe.

The timing of the launch of the AIS may have been too soon after the 1985 economic recession. After every recession, the economy would start to revive and grow because of the low cost of doing business. Hence, there was a false sense of buoyancy amongst the public. Negative public sentiments prevailed after the 1984 Howe Yoon Chong report and this was exacerbated during the 1985 recession when members, especially the more educated amongst them, lamented the lack of freedom to tap on CPF funds for personal

[23] Ibid.
[24] Tan, Nicole. 2016. "Government to review CPF Investment Scheme", Straits Times, September 13, 2016.
[25] Ibid.

emergencies, such as payment of school or tuition fees for their children after retrenchment.

When the CPF Board replaced the AIS with the BIS and EIS in 1993, the problem was further compounded with the freedom to invest in a wider range of riskier products and by allowing CPF members to withdraw capital gains annually. CPF members who previously had no investment control over their funds were suddenly given carte blanche. Even though members were more educated in 1993 compared to 1955 when the CPF was first created and had been clamouring for more avenues to utilize their CPF savings, this did not mean they were adequately equipped to handle the new-found freedom.

The Government launched the SingTel shares in the same year in 1993. Most members bought their allotment of Singtel shares and some even bid for extra shares. The majority who bought the SingTel shares sold them eventually at profit. This first sweet taste of success might have led to an interest in investment amongst novices, and could have instilled over-confidence that they could easily profit from market gains.

High Fees and Charges

Along with the liberalisation of the CPFIS, members were expected to manage profits and losses of their investments, including the sales and other fees charged by financial advisors, and to assess and reject the products that such advisors tried to push or oversell. The CPF Advisory Panel highlighted in 2016 that the “sales charge is undesirable for CPF members because it incentivises financial advisors to sell [more] products to earn more commissions”.[26]

However, for members who bought through the banks or fund managers, either because they were aware of their limited investment knowledge or because it was more convenient to do so, especially in the early days of the CPFIS when online investment platforms were not widely promoted nor used, most ended up paying sales charges of 3 per cent and the Asset under Management (AUM) charge of 1 per cent to the banks or fund managers.[27]

The sales charge would be removed in 2 steps, being cut to 1.5 per cent from 1 October 2018, and to 0 per cent from 1 October 2019. Similarly, the cap on annual wrap fees would be lowered to 0.4 per cent of AUM per annum as “the targeted CPFIS investors generally would not need to rely heavily on financial advisors.[28]

Exposure to Financial Markets

According to CPF website, CPF now revolves around providing for members’ retirement, housing and healthcare needs while investment is “an alternative means of growing the

[26] MOM Factsheet, 2018. “Enhancements to CPF Investment Scheme”.
[27] Heng, Janice. 2015. “Many CPF investors get their fingers burnt”. Straits Times, June 15, 2015.
[28] MOM Factsheet, 2018. “Enhancements to CPF Investment Scheme”.

retirement nest egg”.[29] However, as an alternative means, is the CPFIS growing the retirement nest egg or destroying it?

After dispensing cautionary advice, the CPF Board liberalised their investment schemes several times, believing that members would appreciate the freedom to invest their CPF funds with a higher investment cap, in a slew of investment products, while managing the risks themselves. Investors were given an array of as many as 200 products to choose from.[30] This exposed them to greater risks in the financial markets. In contrast, other more established pension funds in the UK and US limit the funds eligible for investment to around 5 to 15 funds so that novice investors could make better choices.[31]

As early as 2009, it was found that “for those who took the challenge to invest themselves, the majority found it difficult to beat the CPF default interest rate, and some have even lost money”.[32] This is especially true of novice investors who chose to proceed on their own, some ended up making losses due to speculation, buying at or near the peak and selling off when prices fall, instead of investing and holding for the long-term. Indeed, Mr Tharman cautioned that the government “mustn't allow the individual to feel that they're an expert in market timing”.[33]

Lack of Financial Literacy

A review by the CPF Advisory Panel wrote: “Today, not all CPF members who participate in CPFIS know how to invest. In a poll conducted on behalf of the Panel, more than half of the respondents who were investing their CPF savings indicated that they had limited investment knowledge”.[34]

The CPF did not know the percentage and absolute number of members who had no or little investment knowledge when it launched the AIS. The Board also did not track these statistics after each revision of the scheme. It instead saw its duty as purely to warn members of the risks of investment.

As recently as the financial year ended of 30 September 2014, of the 902,300 investors who sold their CPF investments, only 15 per cent made a profit above the CPF OA interest rate of 2.5 per cent, 45 per cent made profits of up to 2.5 per cent while 40 per cent incurred

[29] CPF website, 2019. www.cpf.gov.sg. Last viewed on January 14, 2019.
[30] Ho, Olivia 2016. “CPF review: 6 things to know about the new CPF Lifetime Retirement Investment Scheme”. Straits Times, August 3, 2016.
[31] CPF Advisory Panel Full Report. 2015. https://services.mom.gov.sg/cpfpanel/resources.html
[32] Koh, Benedict S.K., Mitchell Olivia S., Fong, Joelle H.Y. 2009. Collective Investments for pension savings: Lessons from Singapore’s Central Provident Fund Scheme.
[33] Tan, Nicole. 2016, “Government to review CPF Investment Scheme: Tharman”. Channel NewsAsia. September 13, 2016.
[34] MOM Factsheet, 2018. “Enhancements to CPF Investment Scheme”. October 1, 2018. https://www.mom.gov.sg/~/media/mom/documents/budget2018/factsheet-cpfis-enhancements.pdf?la=en

losses.[35] Even for the 45 per cent who made profits of up to 2.5 per cent, they might have been better off leaving their funds in the OA rather than investing through the CPFIS.

Investment performance measurement and reporting
When DPM Tharman denounced the CPFIS publicly in 2016, the CPFIS figures appeared very dismal. However, this was in a large part due to the CPF Board not following international reporting standards. Only realised profits and losses were calculated. No figures were provided on members' cumulative holdings and unrealised profits and losses.[36] This made the results seem worse than they were. At a time when private investment firms such as Fund Supermart, and banks in Singapore provided information on cumulative holdings and unrealised profits and losses, the CPF Board should have followed international reporting standards.

Included in the CPF Board's statistics were members who opened an account but did not invest. By including these inactive members, an inaccurate picture was presented of a bigger base of investors for the reporting period. After implementing the new methodology of including only active investors and both realised and unrealised profits/losses for the reporting period, the CPF reported that for the one-year term ended 30 September 2016, 78 per cent of CPFIS members who invested their excess OA savings made profits of more than 2.5 per cent per annum for financial year 2016.[37] See **Exhibit 2**, **Figure 1**: Comparing FY2015 and FY2016 CPFIS-OA Returns.

For the year ended 30 September 2015, 27 per cent of active CPFIS investors made profits in excess of 2.5 per cent per annum based on this new methodology.[38] In contrast, previously reported results for the same period ended 30 September 2015 based on the old methodology indicated that only 15 per cent of CPFIS members made profits in excess of 2.5 per cent per annum, 45 per cent made profits not exceeding 2.5 per cent, and 40 per cent made losses.[39] Based on the new methodology, 49 per cent made profits in excess of 2.5 per cent for the two-year period from October 2015 to September 2016.[40] See **Exhibit #3**, **Figure 2**: CPFIS report card.

According to Mr Joseph Kwok, President of the Financial Planning Association of Singapore, the new method "takes into account the movement of money in and out of each member's CPFIS account, and the timing of such movements. Adopting such an international standard is a good step to providing a better picture of how well CPF members invest under the

[35] Heng, Janice. 2015. "Many CPF investors get their fingers burnt". Straits Times, June 15, 2015.
[36] CPF Advisory Panel Full Report. 2015. https://services.mom.gov.sg/cpfpanel/resources.html
[37] Teng, Angela. 2017, "New profit/loss measurement for CPF investment scheme report". Today Online, September 28, 2017.
[38] Lim, Janice. 2017, "78% of CPF Investors made returns higher than OA interest in FY2016". Channel NewsAsia, September 27, 2017.
[39] Heng, Janice. 2015, "Many CPF investors get their fingers burnt". Straits Times, June 15, 2017.
[40] Tan, Lorna. 2017, "Most members in CPF Investment Scheme made a profit in 2016". Straits Times, September 28, 2017.

CPFIS". Mr Kwok added that the new method was a global investment performance standard adopted by many fund managers and provides consistency to the way portfolio returns are calculated internationally.[41]

Providend's Chief Executive Christopher Tan agreed that the new methodology was a better way to measure performance. "In the past, when we included members with no investments, the base was much bigger and thus it inaccurately skewed the data, falsely showing more CPF members not making a profit."[42]

Government responses

Tighten fund admission criteria under CPFIS

Since the implementation of the CPFIS, the CPF Board has made several changes to improve the scheme. To manage CPFIS members' exposure to financial risks, changes were made in 2006 to tighten the admission criteria for new funds. Only funds with proven track records, in the top 25 percentile of the group that they were benchmarked against, and with lower risk than the median of existing funds, were included. This was further tightened in 2008 and 2011.[43]

Reduce fees and charges

Noting that CPFIS members were subjected to high sales charges and wrap fees set by fund administrators and sellers, the CPF Board stepped in on 1 July 2007 to cap the sales charge to 3 per cent and on 1 July 2012 to cap the wrap fee to 1 per cent.[44]

In 2014, as a part of the CPF Board's continuous efforts to lower the cost of investing under the CPF Investment Scheme (CPFIS), the Board announced that it would be "reducing the limits on the Total Expense Ratio (TER) for unit trusts and investment-linked insurance products under the CPFIS. TER refers to the ongoing costs of operating a fund, expressed as a percentage of the fund's average net asset value. The costs may include investment management fees, trustee fees, and audit fees".[45] See **Exhibit 4**, **Figure 3**: Past measures to improve quality of CPFIS funds and lower costs.

However, these efforts were apparently not enough, perhaps because they were incremental and not broad changes, and did not address the root cause of the issues ailing the CPFIS.

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[41] Teng, Angela. 2017, "New profit/loss measurement for CPF investment scheme report". Straits Times, September 28, 2017.
[42] Ibid.
[43] CPF News Release, 2014. "CPF Board to reduce Total Expense Ratio for CPFIS Funds to benefit members" September 25, 2014.
[44] Ibid.
[45] Ibid.

Recommendations by CPF Advisory Panel

DPM Tharman announced in September 2016 that a review of the CPFIS was in order and that a simpler investment scheme was in the pipeline. Even before his announcement, the CPF Advisory Panel had recommended on 3 August 2016, a simplified retirement investment scheme for members who wished to grow their nest egg by taking on bigger risks but who lacked time and know-how. The Panel recognized that the income level of CPF members had risen and with it, their desire to obtain better returns on CPF savings while managing the trade-offs of insufficient time for investment and honing of investment knowledge.[46]

The Panel thus recommended a low-cost investment option offering a small number of selected but diversified funds requiring passive management by a single administrator for this group of members who were eager to invest but who did not have the time nor know-how as the existing CPFIS should more properly be viewed as a high-risk option meant for savvy investors.[47]

The CPFIS had not met its objective of helping members to grow their retirement nest egg. Many made realised losses and even for those who made profits, they did not make enough to match the CPF interest rate of 2.5 per cent per annum because many were inexperienced investors who speculated instead of holding on to their investments for the long haul. The Panel suggested that the CPFIS be reviewed and be better targeted at experienced investors.[48]

Review of CPFIS

The review found that not all CPF members knew how to invest. In a survey conducted by the Panel, more than half responded that they had limited investment knowledge.[49] To help eligible CPF members who had excess savings decide whether to participate in the CPFIS, a Self-Assessment Questionnaire (SAQ) was designed to help them assess their financial knowledge and remind them of options such as leaving their money in the CPF OA and SA to earn interest or to invest via the upcoming LRIS. From 1 October 2018, members who did not have a CPFIS account were required to undertake the SAQ while those who already had an account were encouraged to do so.[50]

The sales charge of 3 per cent by financial advisors for investment-linked policies (ILPs) and unit trusts under CPFIS would be removed.[51] This was an acknowledgement of the tendency

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[46] Ho, Olivia. 2016, "CPF Review: Panel recommends new, lower cost investment option for members". Straits Times, August 3, 2016.
[47] Ibid.
[48] Ibid.
[49] MOM Factsheet. 2018. Enhancements to CPF Investment Scheme.
[50] Ho, Olivia. 2016, "CPF Review: Panel recommends new, lower cost investment option for members". Straits Times, August 3, 2016.
[51] Ibid.

of financial advisors to oversell to earn more commission. To ease the transition, the sales charge was to be reduced in stages from 3 per cent to 1.5 per cent on 1 October 2018 and would be removed entirely from 1 October 2019.[52]

Recognising that CPFIS investors would not need to rely heavily on financial advisors for the restructured funds, the cap on the annual wrap fee would be lowered from 1 per cent to 0.7 per cent on 1 October 2018 and to 0.4 per cent on 1 October 2019.[53]

These measures were meant to address criticisms of the CPFIS that CPF members were making losses, or not making more than the default 2.5 per cent per annum interest accrued on CPF OA funds.

What could the CPF Board do? What are the upcoming changes to CPFIS?

Having reviewed the CPFIS, what should the CPF Board do next? The survey conducted on behalf of the CPF Advisory Panel threw up some interesting findings that more than half of CPFIS members did not know enough about investment but invested nonetheless. The CPF could consider conducting surveys periodically to get in touch with the ground rather than assuming that members would heed its advisory.

The CPF Board could also plan regular reviews of the CPFIS, including the review of investment products, their risk level, whether to promote or relegate certain products from its approved list or to reduce the plethora of more than 200 investment products to a smaller selection of 100 or fewer products, to set caps or review the investment limits on riskier products or funds.

The upcoming Lifetime Retirement Investment Scheme (LRIS)

The CPF Board should relook at its objective of retirement adequacy and what it means to members, whether it should aim to provide a subsistence-level of living, match the pre-retirement standard of living, or simply replace a percentage of pre-retirement income.[54] It should help its members grow their savings by taking into account their risk appetite and having different options to suit each risk profile.

It was projected at the end of 2015 that a total of $105 billion in the CPF members' OA and SA could be invested, but only $25 billion was utilised through the CPFIS. It was noted in the 2016 CPF Advisory Panel report that there were members who were not "sufficiently confident of making active investment decisions or navigating the wide range of investment offerings under CPFIS" but who would nonetheless have preferred to invest their CPF

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[52] Ibid.
[53] Ibid.
[54] Fong, Joelle, Koh, Benedict 2018, "Boosting retirement adequacy via a lifetime investment scheme". Business Times, April 11, 2018.

savings to earn higher returns.[55] It proposed the LRIS as an alternative for these CPF members.

The LRIS would simplify decision-making for these members by limiting their choice to a few passively managed funds carefully selected by the CPF Board, thus removing the difficulty of choosing from a confusing array. Costs are kept low because of economies of scale and management of pooled investment funds in a few products. Members would not need to spend too much time mulling over their investment decisions, and thus, the LRIS could be an appealing option to members who were novices at investing, and a complement to more sophisticated products bought through CPFIS for seasoned investors.[56]

The LRIS would allow for asset allocation according to life cycle changes and preferences. The allocation mix could be tweaked from growth to conservative asset classes as CPF members approach retirement. Thus, the LRIS could be implemented via life-cycle or target date funds which are well-diversified, with shrinking allocation towards risky assets as investors age.[57]

However, the form and mix of assets to be offered by the LRIS at its launch in the future would depend on the CPF Board and the Ministry of Manpower (which the Board reports to). Among the considerations would be the trade-offs between growing a retirement nest egg at a slow but steady rate versus that of growth at a more aggressive pace but with the possibility of returns being eroded due to riskier investment portfolios.[58]

Another consideration would be whether to outsource the LRIS to the private sector with professional expertise at potentially much higher costs and fees or to manage the fund in-house. A further concern would be the rules on the buying and selling of funds, lock-up periods, and restrictions on switching between funds.[59] As DPM Tharman said: "You've got to lock your money in for some defined period, and there has to be incentive to not switch from one investment to another. There has to be that incentive to keep your money locked up in one account for the long term, because that is how superior long-term returns are earned."[60]

Ultimately, before the LRIS is rolled out, the CPF Board has to ensure that CPF members are ready to actively make choices on how to grow their retirement nest egg. Whether they do it by leaving their savings in the CPF, investing in passively managed funds requiring minimal time and investment effort on their part, or by actively managing of their CPFIS

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[55] Ho, Olivia. 2016, "CPF Review: Panel recommends new, lower cost investment option for members". Straits Times, August 3, 2016.
[56] Fong, Joelle, Koh, Benedict 2018, "Boosting retirement adequacy via a lifetime investment scheme". Business Times, April 11, 2018.
[57] Ibid.
[58] Ibid.
[59] Ibid.
[60] Tan, Nicole. 2016, "Government to review CPF Investment Scheme: Tharman". Channel NewsAsia, September 13, 2016.

investments, it should be an informed choice, and a decision that they would be comfortable with.

Exhibit #1

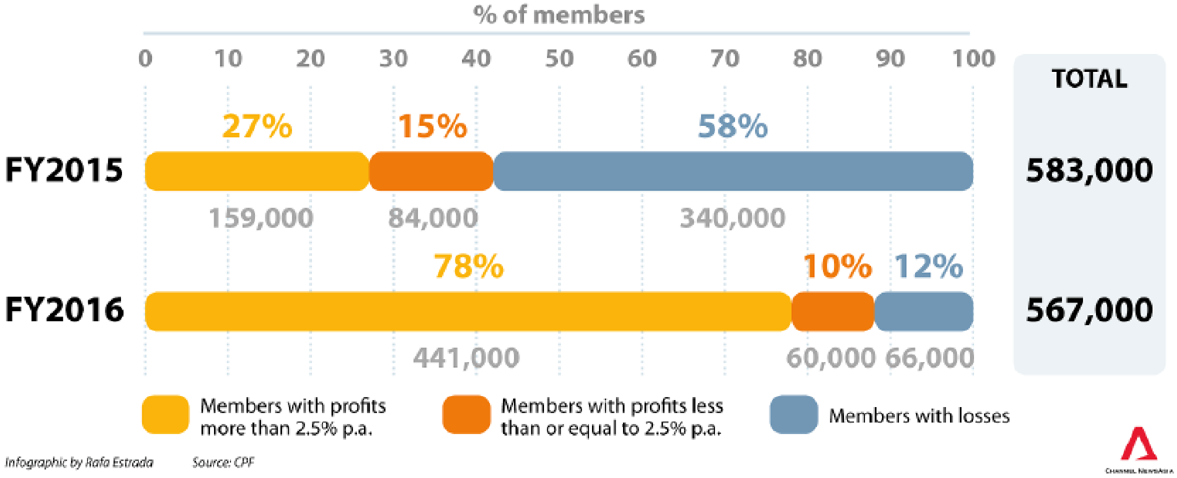
Table 1: Timeline of Investment Schemes rolled out under CPF Auspices[61]

Investment Scheme	Year Implemented	Description
Singapore Bus Service (SBS) Shares Scheme	1978	This was the first investment scheme with only one product that CPF members could participate in.
Approved Investment Scheme (AIS)	1986	This was the first "comprehensive" investment scheme involving several types of products, including stocks, shares and gold.
Basic Investment Scheme (BIS) and Enhanced Investment Scheme (EIS)	1993	These schemes replaced the AIS. The BIS was less risky and had a narrower range of products than the EIS while members could invest more of their OA savings under the EIS.
Approved Non-Residential Properties Scheme	1986	Members were allowed for the first time to invest in private non-residential properties.
Share-Ownership Top Up Scheme (SOTUS)	1993	The aim of this scheme was to distribute SingTel shares to members so that Singaporeans could share in the country's growth.
CPF Investment Scheme (CPFIS)	1997	This scheme was formed from the merger of the BIS and EIS.

[61] Cheong, Colin. 2005. Saving For Our Retirement: 50 years of CPF. Central Provident Fund Board.

Exhibit #2

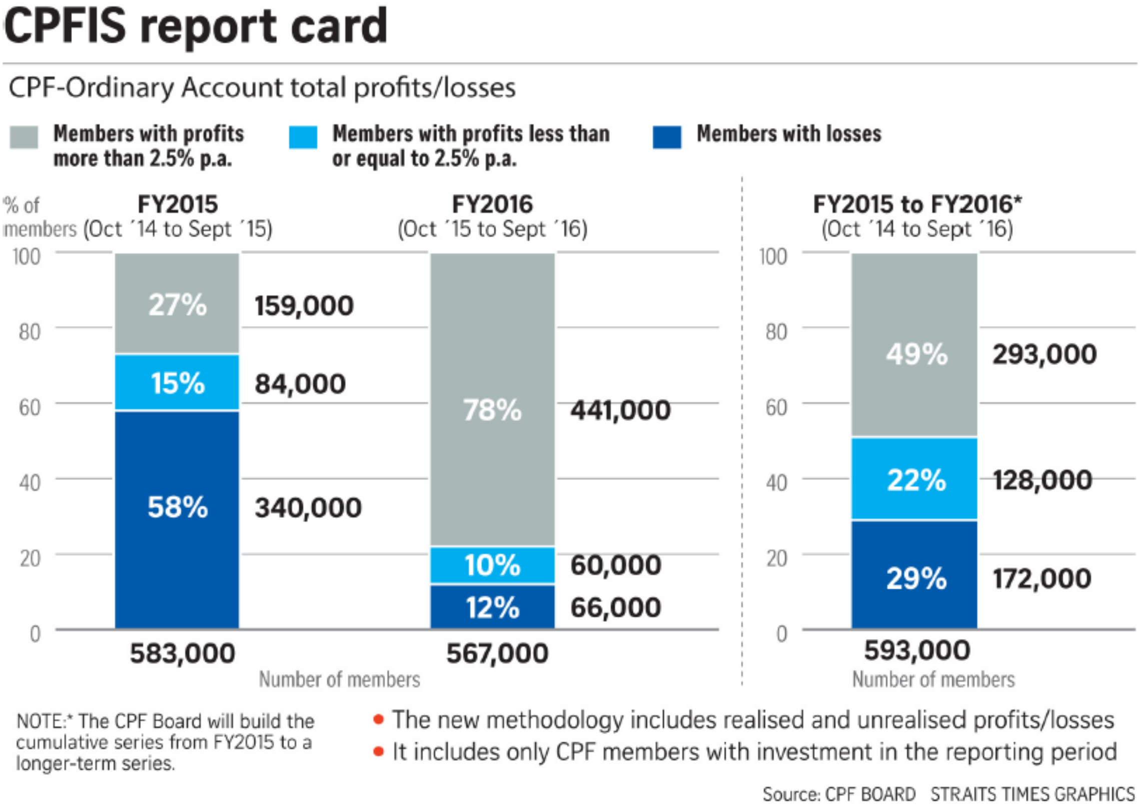
Figure 1: Comparing FY2015 and FY2016 CPFIS-OA Returns.[62]



[62] Lim, Janice. 2017, "78% of CPF Investors made returns higher than OA interest in FY2016". Channel NewsAsia, September 27, 2017.

Exhibit #3

Figure 2: CPFIS report card.[63]



[63] Tan, Lorna. 2017, "Most members in CPF Investment Scheme made a profit in 2016". Straits Times, September 28, 2017.

Exhibit #4

Figure 3: Past measures to improve quality of CPFIS funds and lower costs.[64]

Background: Past measures to improve quality of CPFIS funds and lower costs

To help CPFIS investors achieve better returns, various measures have been taken since 2006 to improve the quality of funds under CPFIS, and lower the cost of investing.

<table>
<tr><th>From</th><th>Criterion/Description</th></tr>
<tr><td>1 Feb 2006</td><td>Tightening of admission criteria. New funds must:
(i) meet the revised benchmark set at the top 25 percentile of funds in the global peer group;
(ii) have expense ratio that is lower than the median of existing CPFIS funds in its risk category; and
(iii) preferably have track record of good performance for at least 3 years.</td></tr>
<tr><td>1 Jul 2007</td><td>Sales charge for CPFIS-included funds must not exceed 3%.</td></tr>
<tr><td>1 Jan 2008</td><td>Expense ratios for CPFIS-included funds must not exceed the median of existing CPF funds in its risk category:
<table>
<tr><th>Risk Categories</th><th>Expense Ratios Criterion (%)</th></tr>
<tr><td>Higher risk</td><td>1.95</td></tr>
<tr><td>Medium to High Risk</td><td>1.75</td></tr>
<tr><td>Low to Medium Risk</td><td>1.15</td></tr>
<tr><td>Lower Risk</td><td>0.65</td></tr>
</table></td></tr>
<tr><td>1 Jan 2011</td><td>All existing funds must meet the stricter admission criteria before accepting new CPF monies.</td></tr>
<tr><td>1 Jul 2012</td><td>Wrap fees for CPFIS investments are capped at 1% per annum</td></tr>
</table>

[64] CPF News release, 2014. "CPF Board to reduce Total Expense Ratio for CPFIS funds to benefit members". September 25, 2014.