Saving the CPF: Restoring public trust in Singapore's retirement savings system

Introduction

Since its inception in 1955, Singapore's Central Provident Fund (CPF) had been widely acknowledged to be a well-designed pension system.[1] Established as a mandatory employee savings scheme, it avoided the fiscal problems that plagued other pension systems faced with ageing populations. In addition, it helped to lift Singapore's home ownership rate to one of the highest in the world.

But against a backdrop of increasing life expectancy, high income inequality and the rising cost of living, many Singaporeans began to express concerns about various facets of the CPF. These ranged from a lack of flexibility over the use and withdrawal of their CPF monies, to fears of insufficient CPF savings for retirement, to the increasing complexity of the CPF system. The groundswell of unhappiness led to a public protest in 2014 involving over 2,000 people, one of the largest shows of public protest in the tightly regulated nation.[2] For the government, this also came as a surprise as it had always been assumed that the CPF was one of the most trusted and highly regarded institutions in Singapore.

In August 2014, during the National Day Rally, Prime Minister Lee Hsien Loong announced that the government was studying enhancements to the CPF system to provide more flexibility, choice and greater peace of mind. A CPF Panel was appointed to study possible enhancements and examine the benefits and trade-offs required.[3]

In view of what appeared to be waning public trust in the CPF, what should the Panel recommend to improve the CPF system and restore confidence without compromising its fundamental objectives?

[1] Melbourne Mercer Global Pensions Index 2013
[2] Chun Han Wong, "Concerns Grow Over Singapore Pension System", The Wall Street Journal, Jun 9 2014, http://online.wsj.com/articles/concerns-grow-over-singapore-pension-system-after-weekend-protests-1402319551 (accessed Sept 15 2014)
[3] Ministry of Manpower, "Appointment of Central Provident Fund Advisory Panel", 10 Sept 2014, http://www.mom.gov.sg/newsroom/Pages/PressReleasesDetail.aspx?listid=585 (cited 17 Sept 2014)

This case was written by Lim Pei Ying and Tan Shin Bin under the guidance of Donald Low, Lee Kuan Yew School of Public Policy (LKY School), National University of Singapore and has been funded by the LKY School. The case does not reflect the views of the sponsoring organisation nor is it intended to suggest correct or incorrect handling of the situation depicted. The case is not intended to serve as a primary source of data and is meant solely for class discussion.

Part I: Singapore's Central Provident Fund (CPF)

The CPF was introduced in 1955 by the British colonial government. To avoid having to shoulder the responsibility of paying pensions for future retirees of the colony[4], the British government designed the CPF as a mandatory savings account for employees. The objective was to put in place a simple savings system that provided post-retirement security. The CPF was thus intended to be self-financing, in which a member's benefits consisted only of his contributions (over his working life) and the interest earnings accrued.

As participation in the CPF system was compulsory only for employees, the CPF did not cover the entire working population, nor did it provide social security for housewives, the unemployed, the disabled or the sick.[5] At the point of inception, employees had to contribute 5% of their wages, while their employers contributed another 5%. Withdrawal of savings was allowed only under three circumstances: reaching the age of 55, permanent disability, or permanent departure from Singapore or West Malaysia. CPF members could also withdraw all of their CPF savings in a lump-sum at age 55.

Even in those early days, there was considerable resistance to the idea of a provident fund. Lower income workers viewed it as a form of taxation, better-off workers felt that they were capable of managing their own savings, while employers saw it as an additional cost.[6]

How was CPF system organised?

The CPF system had undergone multiple changes over the years. However, the basic principle of requiring working Singaporeans and their employers to make monthly contributions to their CPF accounts remained constant. The philosophy that underpinned this system was that of individual responsibility; this was also consistent with the Singapore government's aversion to state welfare.

A CPF member in 2014 would have had three CPF accounts – the Ordinary Account (OA), the Special Account (SA) and the Medisave Account (MA). At age 55, a retirement account (RA) would be created. Contributions to these accounts varied according to the age of the employee, and were distributed across the three accounts. The savings in each account were intended for specific purposes (see Exhibit 1). Interest was paid by the government on the savings in each account. As prescribed in the CPF Act, all savings were guaranteed a floor rate of 2.5% per annum[7], though a 4% rate was paid on savings in the SA, MA and RA (abbreviated as SMRA).

In order to ensure that CPF savings went towards their intended usage and to prevent depletion prior to retirement, the CPF Board subjected pre-retirement withdrawals to stringent conditions. These included one's age, how the monies would be used, the amount of savings available, and various other conditions.

One major condition that restricted CPF withdrawals was the Minimum Sum (MS). The MS was a predetermined amount set by the CPF Board. It was intended to provide a post-

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[4] Linda Low and Aw Tar Choon, *Housing a Health, Educated and Wealthy Nation through the CPF* (Marshall Cavendish: 2004), 1

[5] Ibid., 15

[6] Central Provident Fund Board, *Saving for our Retirement – 50 Years of CPF* (SNP Editions: 20015), 18, 20

[7] CPF Interest Rates 1955-2014, http://mycpf.cpf.gov.sg/NR/rdonlyres/EE9DB343-9968-482F-9CC0-789DB85F3FEC/0/CPFInterestRates.pdf (accessed Sept 15 2014)

retirement monthly income for life.[8] This monthly income was pegged to the likely living expenses of a lower middle-income, retired household.[9] A separate Minimum Sum was set for the MA (known as the Medisave Minimum Sum, or MMS), to ensure sufficient savings for one's medical needs in retirement.

Exhibit 1: CPF Accounts

	Ordinary Account (OA)	**Special Account (SA)**	**Medisave Account (MA)**
Uses	Buying a property, paying for approved insurance and investment products, paying for higher education in local institutions.	Retirement and investment in approved in retirement-related financial products	Hospitalisation, medical insurance, and other approved healthcare uses.
Interest Rates	2.5% per annum	4% per annum	4% per annum
	The first $60,000 in a member's combined CPF balances, with up to $20,000 from his OA, earned an extra 1% per annum.		
Contribution Rates	1%-23%	1%-9.5%	7%-9.5%
Minimum Sum (for those turning 55 in 2014)	$155,000		$43,500

Upon reaching the official withdrawal age of 55, a member could withdraw his CPF savings in cash setting aside the prevailing MS. A member whose OA and SA savings were below $5,000 could withdraw all of these savings. If he failed to reach the MS, he could withdraw $5,000 and had to set aside the rest in his RA. If he had CPF savings over and beyond the MS required, he could withdraw the 'excess' savings above the stipulated MS. Also at age 55, the CPF Board would transfer a member's OA and SA savings into a newly created RA, up to the MS level. If his OA and SA savings were insufficient to make up the MS, CPF savings previously used to buy property would be automatically 'pledged' to form up to 50% of the MS.

Members with at least $40,000 in the RA at 55 years old, or at least $60,000 at 65 years old, would be automatically enrolled into CPF LIFE, a life insurance annuity. A portion of their RA savings would be used to buy this annuity. Enrolled members would not be able to leave the scheme for reasons other than severe medical conditions or permanent departure from Singapore. The premium and benefit levels of CPF LIFE would be determined by an independent actuarial consultant, and reviewed from time to time to take into account factors such as life expectancy and investment returns.

Guiding Principles

The CPF system underwent numerous tweaks and reforms throughout its history of nearly 60 years. In spite of this, the principle of *individual responsibility* endured over time. This philosophy was reflected in the design of the CPF as a *defined contribution* scheme, in which a retiree's benefits were determined by his contributions. Over the years, government leaders had

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[8] Linda Low and Aw Tar Choon, *Housing a Health, Educated and Wealthy Nation through the CPF* (Marshall Cavendish: 2004), 59

[9] Parliament of Singapore, "CPF Minimum Sum Requirement and Singaporean's Retirement Adequacy", Tan Chuan Jin, 8 July 2014, http://sprs.parl.gov.sg/search/topic.jsp?currentTopicID=00006376-WA&currentPubID=00006372-WA&topicKey=00006372-WA.00006376-WA_2%2Bid-c5f70150-4752-491f-bfc3-1cb66d2d6fda%2B (accessed Sept 15 2014)

constantly reminded Singaporeans of the underlying tenet of individual responsibility. For instance, Deputy Prime Minister Tharman Shanmugaratnam said in 2012 that "no matter how well designed the CPF system is, retirement adequacy is still premised on individuals taking responsibility to work and save, and employers taking the responsibility to provide good jobs, share productivity gains fairly and keep older workers employed."[10]

Over time, however, policies started shifting in favour of *some* risk pooling. CPF LIFE, a life insurance annuity scheme, had been introduced in 2009 essentially to pool longevity risks. The government also announced in 2014 that it was considering a 'Silver Support' scheme which could take the form of a basic tax-financed, means-tested pension provided by the state to reduce old-age poverty.[11]

Regardless of these gradual shifts towards greater risk sharing, the importance of self-reliance was still repeatedly emphasised. President Tony Tan Keng Yam, in his 2014 address at the opening of Parliament, noted that Singaporeans believed 'that personal responsibility and effort are essential to their dignity and self-worth'.[12] Similarly, when CPF LIFE was launched, then-Minister for Manpower Gan Kim Yong highlighted that in spite of the risk pooling approach, 'CPF LIFE is designed to preserve the principle of self-reliance and self-provision'. This was because members must fund the insurance premiums with their own savings, and the level of payouts was determined by the amount of one's savings.[13]

The government described the CPF system as being *fair, safe, sustainable* and *flexible*.[14] As a fully-funded defined contributions scheme, the CPF was financially sustainable as it did not depend on future working generations to pay the pensions of today's workers. DPM Tharman described this as one of CPF's key strengths in view of the looming fiscal crises faced by most of the advanced countries saddled with 'pay-as-you-go' pension systems in which the working generation was increasingly unable to afford the pensions of the growing pool of retirees. In Singapore's case there were 'no unfunded or sudden liabilities that would burden [its] children's generation'[15].

However, given that the government's guaranteed interest rates on members' CPF accounts, some questioned whether the government could sustain its commitment on the interest payouts to CPF members. DPM Tharman stated that 'so long as the Government continues to run prudent budgets, and invest the reserves wisely', the system would be sustainable.[16]

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[10] Keynote Address by Mr Tharman Shanmugaratnam, Deputy Prime Minister and Minister for Finance at the Singapore Human Capital Summit 2012, 19 Sept 2012, http://www.mom.gov.sg/newsroom/Pages/SpeechesDetail.aspx?listid=403 (accessed Sept 15 2014)

[11] Christopher Gee and Yap Mui Teng, "Adding a first pillar to old-age income support", 19 Aug 2014, http://www.straitstimes.com/news/opinion/more-opinion-stories/story/adding-first-pillar-old-age-income-support-20140819 (accessed Aug 25 2014)

[12] "Singapore President Tony Tan Keng Yam opens new session of Parliament: His address in full", *The Straits Times,* May 16 2014, http://www.straitstimes.com/news/singapore/more-singapore-stories/story/singapore-president-tony-tan-keng-yam-opens-new-session- (accessed Sept 15 2014)

[13] Speech by Mr Gan Kim Yong, Minister for Manpower, at the CPF Board's Celebrating 55! Seminar, 26 June 2010, http://mycpf.cpf.gov.sg/CPF/News/News-Release/N_26Jun2010.htm (accessed Sep 15 2014)

[14] DPM Tharman Shanmugaratnam's Reply to Parliamentary Questions on CPF Interest Rates and Investment of CPF Funds, Jul 8 2014, http://app.mof.gov.sg/newsroom_details.aspx?type=parliamentary&cmpar_year=2014&news_sid=20140708472434506681 (accessed Aug 25 2014)

[15] Annual Budget Speech 2014, http://www.singaporebudget.gov.sg/budget_2014/BudgetSpeech.aspx (Accessed 15 Sept 2014)

[16] Ibid.

In a reply to parliamentary questions on CPF interest rates and investment of CPF funds, DPM Tharman explained that the CPF system was '**fair**' because fair returns were given on the savings based on investments of comparable risk and duration in the market.[17] He took pains to describe in detail how the interest rates in the various accounts were determined, and emphasised the difference between the liquid nature of the OA savings and longer term nature of the SMRA savings. Consequently, OA interest rates were pegged to the 12-month fixed deposit and month-end savings rates of the major local banks, while SMRA savings were pegged to the yield of 10-year SGS (Singapore Government Securities[18]) bonds plus 1%, in order to approximate the rate of 30-year government bonds. In fact, the 2.5% rate for the OA savings and 4% rate for SMRA savings had exceeded their respective pegs since the late 1990s.

DPM Tharman also explained that the CPF Board invested CPF members' monies in Special Singapore Government Securities (SSGS). These were issued specially by the government to the Board. As the SSGS bonds were guaranteed by the government, the CPF Board faced no risk of being unable to meet its obligations to its members. The SSGS bonds were "comingled" with other government assets and managed by the Government Investment Corporation of Singapore (GIC). Although there had been years when GIC's returns had fallen below SSGS interest rates, the government's substantial buffer of net assets had enabled it to absorb the shortfalls and meet its interest obligations.[19] Manpower Minister Tan Chuan-Jin noted in a blogpost titled 'Your CPF funds are absolutely safe'[20] that CPF interest rates were guaranteed by one of the few remaining triple-A rated governments in the world.[21]

Flexibility was another oft-cited strength of the CPF system. For instance, DPM Tharman stated that there was 'very significant flexibility' in the CPF because 'significant amounts of money [could] in fact be taken out to be used, to be saved as [one] wish[ed] or to be used to meet immediate means.'[22] Members were able to withdraw their CPF savings prior to retirement, for example, to fund their home purchases or pay for medical insurance. However, during his 2014 National Day Rally speech, Prime Minister Lee Hsien Loong acknowledged that some CPF members wanted even greater flexibility and said that the government would consider allowing the withdrawal of part of their CPF savings in a lump sum after age 65, subject to limits.[23]

[17] DPM Tharman Shanmugaratnam's Reply to Parliamentary Questions on CPF Interest Rates and Investment of CPF Funds, Jul 8 2014, http://app.mof.gov.sg/newsroom_details.aspx?type=parliamentary&cmpar_year=2014&news_sid=20140708472434506681 (accessed Aug 25 2014)
[18] For more information on SGS: http://www.sgs.gov.sg/
[19] DPM Tharman Shanmugaratnam's Reply to Parliamentary Questions on CPF Interest Rates and Investment of CPF Funds, Jul 8 2014, http://app.mof.gov.sg/newsroom_details.aspx?type=parliamentary&cmpar_year=2014&news_sid=20140708472434506681 (accessed Aug 25 2014)
[20] Tan Chuan-Jin, "The Truth About Our CPF and the Minimum Sum", 25 May 2014, http://momsingapore.blogspot.sg/2014/05/the-truth-about-our-cpf-and-minimum-sum.html, accessed 24 Aug 2014
[21] DPM Tharman Shanmugaratnam's Reply to Parliamentary Questions on CPF Interest Rates and Investment of CPF Funds, Jul 8 2014, http://app.mof.gov.sg/newsroom_details.aspx?type=parliamentary&cmpar_year=2014&news_sid=20140708472434506681 (accessed Aug 25 2014)
[22] Walter Sim, "CPF is a robust and sustainable system: Tharman", *The Straits Times*, 22 Jun 2014, http://www.straitstimes.com/the-big-story/national-day-rally-2014/story/cpf-robust-and-sustainable-system-tharman-20140622
[23] Prime Minister Lee Hsien Loong's National Day Rally 2014 (Speech in English), http://www.pmo.gov.sg/content/pmosite/mediacentre/speechesninterviews/primeminister/2014/August/prime-minister-lee-hsien-loong-s-national-day-rally-2014--speech.html (accessed 15 Sep 2014)

Objectives of the CPF

To enable Singaporeans to have a secure retirement, through lifelong income, healthcare financing and home financing.

- CPF Board's mission statement

Economic security at retirement was the sole objective of the CPF when it was first conceived. However, over the years its domain extended to cater to other social, economic and political imperatives such as home ownership, healthcare, education and investment.[24] The CPF had also been described as a system that helped to promote and maintain values which, according to a publication by the CPF Board, Singaporeans 'treasure[d] as a people', including self-reliance, dependence on the family, lightening society's burden, and national growth and stability.[25] As a testament to the CPF system's all-encompassing nature, a leading newspaper op-ed commented that working on the CPF was 'a policy wonk's dream, being able to adjust the numbers here and there to achieve whatever social, economic or political objective [one] care[d] to set'.[26]

- Retirement

When the CPF was introduced in 1955, a member could withdraw all of his savings in one lump sum when he turned 55. Despite rising life expectancy and a recommendation by a high level government-appointed committee in 1984 to raise the withdrawal age in tandem with the increases in retirement age, the CPF withdrawal age of 55 had remained unchanged.

To address the concern that CPF members would not set aside sufficient savings even as they lived longer, the Minimum Sum Scheme was introduced in 1987. Under the Scheme, members' CPF savings would be disbursed in the form of monthly payouts estimated to last 20 years. The MS was originally set at $30,000. Upon reaching the withdrawal age of 55, members would be allowed to withdraw from their CPF savings a lump sum up to 50% of their cash savings or at least $10,000, whichever was higher (the '50% withdrawal rule'). This was intended to tide the member over until the 'Drawdown Age' (DDA) of 60 at the time, whereupon monthly payouts from the Minimum Sum would commence.[27] But concerns about the premature depletion of members' RAs resulted in the '50% withdrawal rule' being removed in 2003. This change was phased in over 10 years.

In order to deal with the ageing population, the government progressively increased the DDA and MS level over the years. The MS was projected to reach $120,000 (in 2003 dollars) on 1 July 2015. This worked out to $161,000 for inflation, while the DDA would reach 65 in 2018. (Exhibit 2[28] below summarises changes in CPF Minimum Sum over the years.)

Although the DDA and the level of MS were updated from time to time, the government chose not to meddle with the withdrawal age of 55. This reluctance was attributed to policymakers' fear of a public uproar similar to that generated by a 1984 proposal by then-Minister for Health Howe Yoon Chong to increase the withdrawal age from 55 to 60.[29] While this recommendation

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24 Tan Soo San, "The Central Provident Fund: More Than Retirement", *Ethos* (2004), accessed 22 Aug 2014

25 Central Provident Fund Board, *The CPF Story – 40 Years Serving Singapore* (1995), 10

26 Han Fook Kwang , *Wanted: A New CPF Vision*, The Straits Times, August 3, 2014

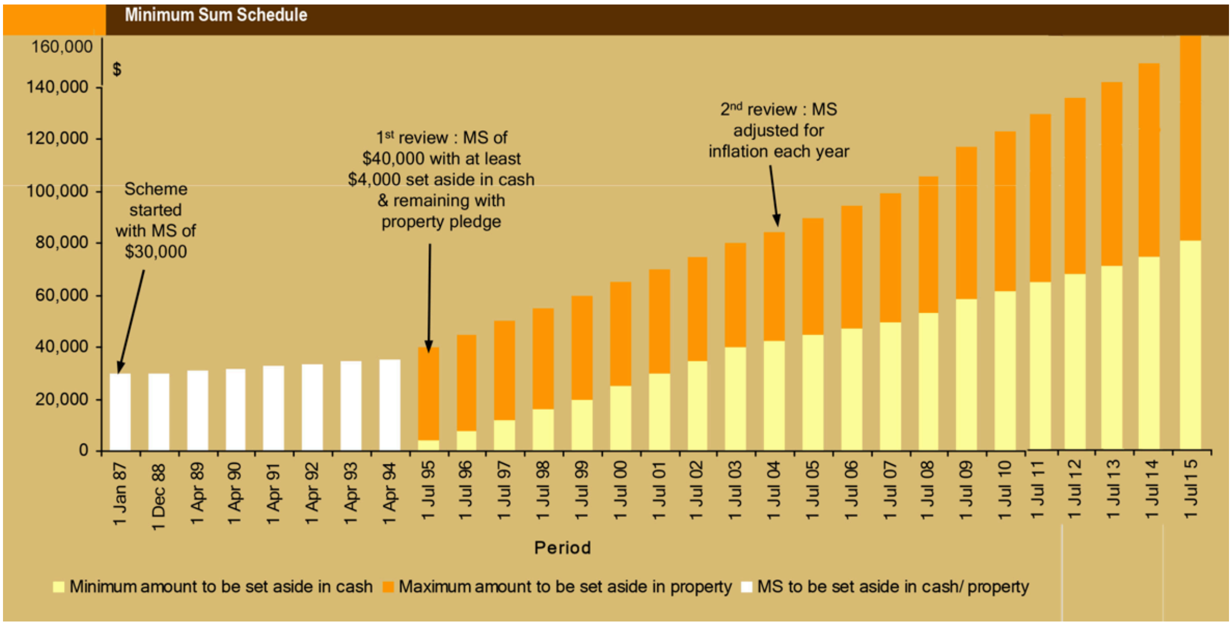
27 Tan Soo San, "The Central Provident Fund: More Than Retirement", *Ethos* (2004), accessed 22 Aug 2014

28 Adapted and updated CPF Board ,"CPF Trends: Minimum Sum Scheme", http://mycpf.cpf.gov.sg/NR/rdonlyres/957F7D54-B236-45EA-89FE-29890B6E0AB9/0/CPFTrendsMinimumSum_Feb2011.pdf (accessed 30 Aug 2014)

29 Tan Soo San, "The Central Provident Fund: More Than Retirement", *Ethos* (2004), accessed 22 Aug 2014

was economically sensible (as the retirement age had then been raised to 60), older CPF members perceived it as a betrayal of the promise that they could enjoy their CPF savings from age 55.[30] In fact, various commentators suggested that it was policymakers' deep-rooted reluctance to adjust the withdrawal age that led them to formulate the Minimum Sum Scheme to restrict the early withdrawal of CPF savings, and ensure that payouts could keep pace with increasing longevity.

Exhibit 2: Changes in CPF Minimum Sum



In 2009, CPF LIFE was introduced to manage the longevity risk caused by longer lifespans. It was then estimated that about half of Singapore residents above 65 would outlive their CPF savings under the Minimum Sum Scheme. CPF LIFE was designed on the principle of risk-sharing, where the interest earned on the annuity premiums would be pooled and shared among participants. This risk-sharing approach represented a marked departure from the Minimum Sum Scheme, which had been firmly founded on the principle of self-reliance (as members could withdraw only what they had contributed, with interest).

- <u>Home Ownership</u>

Since the 1960s, the government had espoused home ownership as a nation-building goal. Lee Kuan Yew, then Prime Minister, stated that "[his] primary preoccupation was to give every citizen a stake in the country and its future". He believed that 'this sense of ownership was vital for our new society which had no deep roots in a common historical experience'.[31]

The Home Ownership Scheme, which started in 1968, served a number of purposes. Firstly, it provided homes for the majority of the population who were then living in slums. Secondly, it contributed to the political, economic and social stability of Singapore by promoting rootedness, social integration and a sense of belonging.[32] In addition, the home ownership

[30] Linda Low and Aw Tar Choon, Social Insecurity in the New Millennium: The Central Provident Fund in Singapore, Marshall Cavendish, 2004, pg 139
[31] Lee Kuan Yew, *From Third World to First: The Singapore Story 1965-2000* (Singapore Press Holdings, 2000), 117
[32] Yap Chin Beng, "Homes for a Nation – Public Housing in Singapore", *Ethos* (1997), accessed 1 Aug 2014

objective helped to establish political legitimacy for the People's Action Party (PAP) government.[33] The Scheme was widely lauded as being very successful.

Under the Home Ownership Scheme, CPF savings could be used to purchase a Housing and Development Board (HDB) flat. When the scheme was first introduced, CPF savings could be used to pay for only a portion of the flat's purchase price, to ensure that savings for retirement would not be depleted. However, this was gradually liberalised so that the entire cost of the flat could be paid for with CPF funds. In 1981, the scheme was extended to cover private residential properties.

Given that the pool of CPF savings for purchasing a home and retirement was largely the same, home ownership inevitably became closely intertwined with goals of retirement adequacy. Prime Minister Lee Hsien Loong described the CPF and home ownership as "the twin pillars of our retirement adequacy", and likened one's home to a "valuable little pot of gold to draw on".[34] DPM Tharman noted,

> *[The] CPF has helped Singaporeans own their homes, and contributed to making home ownership a key pillar of our social security system. That's a unique feature of our social security system in Singapore – it is not just about worker's financial savings in the CPF but the fact that the CPF system plus housing grants give the average and lower income worker an asset. Even amongst the bottom 20% of households by income in Singapore, over four-fifths own their homes. That's unique. This also means that the vast majority of our working population has shared in the rewards of economic development through the increased value of their homes over the course of their working lives.*[35]

The government had also put in place schemes to encourage the monetisation of housing assets so as to unlock the wealth accumulated in them over the years for retirement. For example, the Lease Buyback Scheme (LBS) allowed elderly flat owners to top up their RAs with proceeds from selling part of their HDB leases back to HDB, while the Silver Housing Bonus was awarded for selling one's home and buying a smaller flat. The initial response of senior citizens to such monetisation options was poor, due to reasons ranging from an unwillingness to uproot, to the fear of outliving one's lease. In 2014, the government announced enhancements to the Lease Buyback Scheme to make it more attractive and available to more households.[36]

- <u>Healthcare</u>

In the early 1980s, as part of a drive to put healthcare financing on a sounder fiscal footing, policymakers decided to fold healthcare into the CPF system. The Medisave Account introduced in 1984 mirrored the OA account in that it was a mandatory national savings scheme. Once again, this reflected the government's philosophy of self-reliance, as it shifted

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33 Linda Low and Aw Tar Choon, *Housing a Health, Educated and Wealthy Nation through the CPF* (Marshall Cavendish: 2004), 92

34 Prime Minister Lee Hsien Loong's National Day Rally 2014 (Speech in English), http://www.pmo.gov.sg/content/pmosite/mediacentre/speechesninterviews/primeminister/2014/August/prime-minister-lee-hsien-loong-s-national-day-rally-2014--speech.html (accessed 15 Sep 2014)

35 Keynote Address by Mr Tharman Shanmugaratnam, Deputy Prime Minister and Minister for Finance at the Singapore Human Capital Summit 2012, 19 Sept 2012, http://www.mom.gov.sg/newsroom/Pages/SpeechesDetail.aspx?listid=403

36 Janice Heng, "Changes to HDB Lease Buyback Scheme: Higher income ceiling, more cash upfront for owners', *The Straits Times,* Sep 3 2014, _http://www.straitstimes.com/news/singapore/housing/story/changes-hdb-lease-buyback-scheme-higher-income-ceiling-more-cash-upfron (cited Sept 17 2014)

more of the burden of healthcare costs from the state to individuals, at a time when the population was becoming more affluent.[37]

To avoid over-consumption, CPF savings in a member's Medisave Account could be used only to pay for hospitalisation, limited outpatient treatments and certain medical insurance. In order to allow pooling of risks among family members, Medisave was designed so that family members could share the burden of healthcare costs.[38]

A CPF member's Medisave savings were intended to last until his retirement years. Mr Goh Chok Tong, then Second Minister for Health, said during a Parliament debate: "With Medisave, most Singaporeans will[…] be able to pay for their basic health care with dignity long after they have retired."[39] Thus, the Minimum Sum concept was extended to Medisave, and a Medisave MS was set to ring-fence a portion of members' CPF savings for medical use.

To cover medical costs for which Medisave alone would likely be insufficient, MediShield, a low cost catastrophic insurance scheme, was introduced in 1990. In 2013, the government announced that it would be replaced by MediShield Life in end 2015, which would give Singaporeans better protection against large hospital bills and expensive chronic treatments throughout their lives. This also represented a shift towards more risk pooling, in order to address what the MediShield Life Review Committee identified as 'the desire of Singaporeans for greater collective responsibility and a more inclusive society'.[40] DPM Tharman acknowledged that 'taking more collective responsibility and preserving an egalitarian ethos in Singapore are fundamental to our future'[41]. Even so, this had to be balanced with the principle of self-reliance. Minister for Health Gan Kim Yong highlighted that even as collective responsibility and social safety nets were strengthened through MediShield Life, 'we remain mindful to reinforce the ethos of individual effort and responsibility for the family – values that keep our society together and our economy strong'.[42]

- CPF as a macroeconomic stabilisation lever

The CPF also played a major role as a macroeconomic lever used on and off by the government over the past decades. This was evident in the fluctuation of CPF contribution rates during various periods of economic shocks.[43] For example, in the 1985 recession and during the 1997/98 Asian financial crisis, CPF contribution rates were cut as high total wage costs were seen to be hurting Singapore's competitiveness. After the first rate cut in 1985, the government set a long term target rate at 40% and a floor rate at 35% which would allow CPF to continue to be used as a macroeconomic policy tool while maintaining its objectives of retirement, housing and healthcare.[44] However, in 2003, due to an uncertain outlook caused by

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[37] Linda Low and Aw Tar Choon, *Housing a Health, Educated and Wealthy Nation through the CPF* (Marshall Cavendish: 2004), 55
[38] William Haseltine, "Affordable Healthcare: the Singapore Healthcare Story", Singapore: Ridge Books, 2013, 47
[39] Central Provident Fund Board, *The CPF Story – 40 Years Serving Singapore* (1995), 22
[40] Medishield Life Review Committee Report, pg 23-24
[41] 'Make effort to be inclusive' http://news.asiaone.com/news/singapore/make-effort-be-inclusive-tharman
[42] Opening Speech by Mr Gan Kim Yong, Minister for Health, for Parliamentary Debate on MediShield Life Review Committee, 8 July 2014, http://www.moh.gov.sg/content/moh_web/home/pressRoom/speeches_d/2014/opening-speech-by-mr-gan-kim-yong--minister-for-health--for-parl.html
[43] Tan Soo San, "Design and renewal of the Central Provident Fund", in Case Studies in Public Governance: Building Institutions in Singapore, ed. June Gwee, (Routledge: 2012), 127
[44] Ibid., 130

terrorism threats and global competition, the government changed the target range to 30-36%.[45] Then-Prime Minister Goh Chok Tong explained,

> *It is not practical to try to identify a single number as a long-term rate. No one can be sure how the competitive situation will evolve. We must also expect our economy to run into rough weather from time to time. We should thus make our system flexible, so that we can put more into the CPF in good years and cut the rate in bad years. This will give us room to respond quickly to the changing economic environment.*

- Helping Low-Wage Workers

Since the early 2000s, as a result of technological advances and globalisation, less skilled workers in Singapore faced greater risks of wage stagnation, structural unemployment and a growing inequality. The Workfare Income Supplement (WIS) was introduced in 2007 to supplement the wages and CPF savings of older low-wage workers. It was part of a broader initiative called Workfare that sought to address the needs of the working poor and facilitate social mobility by supporting work by low-wage workers.[46] WIS was aimed at the bottom 20% of Singaporean workers; it was also designed to maintain the country's strong work ethic and to avoid unconditional welfare.

- Education

When the CPF Education Scheme was introduced in 1989, then-Minister for Labour Lee Yock Suan stated that 'in drawing up the Scheme, [his] Ministry was guided by one basic principle, namely, that the fundamental objective of the CPF should be safeguarded. CPF savings [were] to provide for the old-age needs of the CPF members themselves. Any investment of CPF in education must not violate this primary objective'.[47]

The scheme was therefore conceived as a loan scheme, where any CPF withdrawn for education must be fully repaid with interest to the original CPF account. Under the Scheme, CPF members could use their OA savings to pay for their children's, spouse's or their own tuition fees. Despite calls over the years to liberalise this scheme, the government had declined to do so, reiterating that CPF was ultimately intended to meet retirement needs.[48]

- Investment

Since 1986, members could use their CPF savings for investments in approved instruments such as shares, loan stocks and gold. The key objective behind allowing CPF savings to be used for investment was to allow members who were more willing to take on more risk to enhance their retirement nest egg. At the time, only 20% of the gross OA savings of a CPF member could be invested, in excess of the MS. Over the years, the conditions for investing one's CPF savings were liberalised, for example by raising the limit of savings that could be

[45] Goh Chok Tong, "Retuning CPF", 2003, http://sprs.parl.gov.sg/search/topic.jsp?currentTopicID=00063310-ZZ&currentPubID=00069948-ZZ&topicKey=00069948-ZZ.00063310-ZZ_1%2Bid016_20030828_S0003_T00041-ministerial-statement%2B (cited Aug 2 2014)
[46] Jacqueline Poh, "Workfare: The Fourth Pillar of Social Security", *Ethos* (October 2007), accessed 5 Aug 2014
[47] http://sprs.parl.gov.sg/search/topic.jsp?currentTopicID=00061559-ZZ&currentPubID=00069595-ZZ&topicKey=00069595-ZZ.00061559-ZZ_1%2Bid005_19890327_S0004_T00061-oral-answer%2B
[48] See for example, http://sprs.parl.gov.sg/search/topic.jsp?currentTopicID=00078249-WA&currentPubID=00078241-WA&topicKey=00078241-WA.00078249-WA_1%2Bid-c7a9f6d8-30e2-4eb5-bb2b-488102084007%2B and http://sprs.parl.gov.sg/search/topic.jsp?currentTopicID=00000007-WA&currentPubID=00000021-WA&topicKey=00000021-WA.00000007-WA_1%2Bid-eb3c7a9b-f289-47f6-a66a-5fabcc672009%2B

invested, removing the requirement of maintaining the MS, and widening the investment options.

Box 1: Choice vs Paternalism

Every country is concerned about how their people manage when they retire. While some argue that as individuals we should be left to sort our own lives out, in reality it often doesn't work out that way. Almost all developed countries have some form of pension or retirement system because most people generally don't save regularly nor do they effectively plan for their own retirement.

- Tan Chuan-Jin, Minister for Manpower[49]

At the bottom of resistance to institutional assistance in decision-making is the conviction that individuals should be permitted to simply choose a course of action, no matter how inferior that course of action is for that agent.

-J.D. Trout, cognitive scientist and philosopher at Loyola University Chicago[50]

Much of the dissatisfaction with the CPF centred on the degree of coercion coded into CPF policies. However, if Singaporeans were indeed left to plan for their own retirement, would they be able to do so sensibly and rationally?

Various studies have highlighted the cognitive limitations and biases that hinder adequate retirement planning. These studies revealed that people tended to be quite passive when faced with the complex choices and complicated information typical of savings schemes, investment products and pension plans. Faced with the bewildering array of choices, many who would have benefitted from participating from increasing their retirement savings ended up not participating at all. People also tended to procrastinate or delay saving for their retirement even when they agree with the importance of doing so.[51]

Most people are likely to have a high discount rate between immediate and future consumption. This leads to them choosing short-term gratification over their long-term interests. This excessive discounting of the future translated into low saving rates and earlier retirements than would be financially wise or prudent.

Behavioural studies also suggested that most people were prone to cognitive complications that diminished their ability to make wise investment decisions. For instance, people tended to be poor at calculating probabilities. Moreover, they attributed too much importance to recent and vivid observations (this is known as the saliency bias), and typically used simple rules of thumb that may work well in daily decision-making but were found to be wanting for unfamiliar and seldom-encountered problems (like how much to save for retirement)[52]. Compounding these cognitive shortcomings was a tendency to be over-confident about the reliability of one's reasoning faculties.[53]

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[49] MOM, "Oral Answer by Mr Tan Chuan-Jin, Minister for Manpower, to Parliamentary Questions on CPF Issues", http://www.mom.gov.sg/newsroom/Pages/PQRepliesDetails.aspx?listid=194 (cited Sept 15 2014)

[50] J.D. Trout, "Paternalism and Cognitive Bias", *Law and Philosophy, 2005 24,* 393-434

[51] Nicholas Barr and Peter Diamond, *Pension Reform- A Short Guide,* Oxford University Press, 2010, 39-41

[52] Gordon L. Clark and Janelle Knox-Hayes, "The 'new' paternalism, consultation and consent: Expectations of UK participants in defined contribution and self-directed retirement savings schemes", *Pensions Vol. 14, 58-74, 2009*

[53] J.D. Trout

While formal training and financial education could help compensate somewhat for these shortcomings, the least well-off were often the worst informed about financial matters. They were thus likely to be harder hit by poor decision-making in investments.

Given these reasons, behavioural economists such as Richard Thaler and Cass Sunstein argue for soft paternalism in a variety of policies – including retirement planning – so as to "nudge" people in directions that increased their welfare. Specifically, Thaler and Sunstein argued for the use of default rules that would enrol people automatically in savings plan (thus saving them the cognitive effort and willpower that would be required otherwise if they had to make a deliberate, conscious decision to enrol), while allowing people to opt out should they decide against joining. Thaler and Sunstein described such default rules as "libertarian paternalism".

Part II: Criticisms of the CPF

The CPF system ranked 7th of 20 pension systems in the 2013 Melbourne Mercer Global Pension Index, and was described as "a sound structure, with many good features, but [which] has some areas for improvement".[54] However, criticisms that proliferated on online forums, blogs, articles and public protests presented a different, much less complimentary picture of Singapore's retirement savings system.

Increases in Minimum Sum and Drawdown Age

As described in Part 1, the Minimum Sum (MS) and Drawdown Age (DDA) had increased over time so as to ensure sufficient retirement savings as Singaporeans' life expectancy lengthened. As the MS and DDA were increased, this meant that people could withdraw less at 55 and/or had to defer withdrawal to a later age.

From a systems perspective, these changes were necessary. But the increases in MS and DDA, as well as stricter withdrawal limits, rubbed up against long-held expectations that one should be allowed to withdraw his CPF savings at age 55 (the withdrawal age) – expectations created by earlier iterations of the CPF system which allowed precisely that. The benchmark age of 55 also seemed stubbornly entrenched in people's minds as a reasonable age for one to finally cash out and enjoy one's CPF savings. This was despite the fact 55 was hardly a realistic guide for retirement in view of life expectancy rising to 80 and above.

For instance, during a dialogue session held by Member of Parliament Hri Kumar, several participants felt that the government had broken its promise to return its citizens their CPF money at age 55. Participants also felt that payouts should start at age 55, not 65, or that some option to withdraw CPF savings at 55 should be allowed.[55] Similarly, in response to the 2013 announcement that the MS would be increased to $155,000, an online commentator lamented "Now, it is so much money retained and not a dollar to spend in one's twilight years between 55 and 64?"[56]

[54] Amelia Tan, "CPF scheme among top 10 pension systems in the world" *The Straits Times,* Oct 7 2013, http://www.straitstimes.com/breaking-news/singapore/story/cpf-scheme-among-top-10-pension-systems-the-world-20131007#sthash.wXLZLnVY.dpuf
[55] Hri Kumar, "CPF Forum Discussion Points", June 14 2014, https://www.facebook.com/notes/hri-kumar/cpf-forum-discussion-points/715165708530029
[56] Comments on ST article "CPF Minimum Sum to be raised to %155,000 from July 1", http://www.straitstimes.com/news/business/economy/story/cpf-minimum-sum-be-raised-155000-july-1-20140508

Critics argued that policymakers needed to bite the bullet and raise the withdrawal age gradually, instead of keeping it at a static 55.[57] Economist Donald Low suggested that adjustments to the pension system could be made automatic and tied explicitly to life expectancy.[58] Similarly, economist Professor Hui Weng Tat[59] suggested that trust in policies and institutions could be better maintained if the inconsistency between the official and effective withdrawal age was removed. This could be achieved via a gradual increase in official withdrawal age for successive cohorts of workers.

However, even if raising the withdrawal age would address the erosion of public trust created by the gap between the DDA and withdrawal age, doing so would still be politically unpopular.

The increases in MS and DDA also had a significant impact on the pre-retirement plans of lower-income, older members who struggled to meet the stipulated MS. These older workers, especially those with housing loans to service, found themselves squeezed by reduced CPF contribution rates. Many were thus dismayed by ever stricter CPF withdrawal limits that further reduced the amount of cash they had to service current needs. Member of Parliament from the opposition Workers' Party Png Eng Huat highlighted the quandary of this group in Parliament,

> *"I met a Singaporean who works two jobs to support his family. He said he is working hard as he wishes to perform his Umrah next year when he turns 55. He has calculated that he can withdraw some of his CPF savings to help fund the pilgrimage to Mecca. The announcement on 8 May 2014 changed everything for him. The CPF Minimum Sum was raised from $148,000 to $155,000, thereby reducing his projected withdrawal by $7,000. A big sum of money especially for someone who has to take on two jobs to make ends meet. [...] For workers who do not have any other form of life savings, these CPF savings are the only safety nets. Delaying the CPF payout for these older workers may cause them undue anxiety and stress. Older workers on part-time employment may need such drawdowns to supplement their income. And not all older workers can work after age 55 or 62[..] [F]or workers who do not have any other forms of savings other than their CPF accounts, it spells trouble when the "spirit is willing but the flesh is weak"*[60].

Another source of public unhappiness over increased MS and DDA stemmed from a lack of understanding of, and agreement with, the given reasons for these changes. For instance, several comments online compared annual inflation rates to the higher percentage increase of

[57] Charissa Young, "Raise Withdrawal Age for the young, gradually", *The Straits Times,* Jul 30 2014, http://news.asiaone.com/news/singapore/raise-withdrawal-age-young-gradually

[58] "IPS Forum on CPF and Retirement Adequacy", *IPS,* http://lkyspp.nus.edu.sg/ips/wp-content/uploads/sites/2/2014/07/IPS-Forum-on-CPF-and-Retirement-Adequacy_Summary-Report_230714.pdf

[59] Martino Tan, "8 CPF ideas or comments the government can consider from the recent Institute of Policy Studies Forum" *The Mothership,* July 23 2014, http://mothership.sg/2014/07/8-cpf-ideas-or-comments-the-government-can-consider-from-the-recent-institute-of-policy-studies-forum/

[60] Parliament of Singapore, "Debate On President's Address", May 29 2014, http://sprs.parl.gov.sg/search/topic.jsp?currentTopicID=00006200-WA&currentPubID=00006198-WA&topicKey=00006198-WA.00006200-WA_2%2Bpresident-address%2B

MS over the past few years, and thus concluded that increases in MS were unwarranted.[61] Others argued that the MS was set too high and that retirees did not need quite so much.[62]

The unhappiness over increases in MS and DDA, coupled with a lack of understanding and acceptance of the rationale for them, led some to make claims that all the changes were part of a ploy by the government to deny or delay payments for a variety of illegitimate reasons. For instance, some speculated that the increases were meant to cover sovereign fund losses in poor investments[63], while others spuriously insinuated corruption by Singapore's leaders. In 2014, Prime Minister Lee Hsien Loong sued blogger Roy Ngerng for alleging that he had criminally misappropriated CPF savings—a move that catalysed heated public debate about CPF policies as well protests against the CPF system.[64] To pay for his lawyer's fees, research costs and court charges, Ngerng crowd-sourced over $80,000 in donations from over a thousand supporters –a remarkable feat that revealed not insignificant levels of public support for those opposed to the CPF system.[65]

Limits on use of one's CPF savings

Unhappiness was also expressed in response to strict rules that limited what CPF members could or could not do with their savings. Some perceived this as a sign that the government was uncompassionate and unreasonable in its unwillingness to help its people by granting them access to their own CPF monies, even in times of personal hardship. Member of Parliament Zaqy Mohamad shared in Parliament that, "Much of the frustration I encounter with the Minimum Sum or the Retirement Account after a certain age is due to the inflexibility when one falls into difficulty in the use of funds…"[66] Member of Parliament Tin Pei Ling urged the government "to make the rules governing the use of CPF money more flexible, so as to allow mature Singaporeans genuinely in dire straits to take care of their immediate needs, such as HDB mortgages and their children's education. Such a move is in line with a more compassionate society."[67]

Others viewed these tight controls as the mark of an overly paternalistic government that deliberately curtailed its people's autonomy over their earnings because it distrusted their ability to make wise financial decisions. Viewed through such a lens, comments that contained

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[61] Comments on ST article "CPF Minimum Sum to be raised to $155,000 from July 1", http://www.straitstimes.com/news/business/economy/story/cpf-minimum-sum-be-raised-155000-july-1-20140508

[62] Hri Kumar, "CPF Forum Discussion Points", June 14 2014, https://www.facebook.com/notes/hri-kumar/cpf-forum-discussion-points/715165708530029

[63] A example of can be found in the following blogpost by Phillip Ang, "20140625 Government must disclose billions in CPF/GIC foreign exchange losses and market value of investments", http://likedatosocanmeh.wordpress.com/2014/06/25/20140625-government-must-disclose-billions-in-cpfgic-foreign-exchange-losses-and-market-values-of-investments/

[64] Ng Yi Shu, "Blogger Roy Ngerng's 'Return Our CPF' rally draws large crowds, *Mothership.sg,* http://mothership.sg/2014/06/blogger-roy-ngerngs-return-our-cpf-rally-draws-large-crowds/ (cited Aug 19 2014)

[65] Nur Asyiqin Mohamad Salleh "Blogger Roy Ngerng sued by PM raises $81,000", *The Straits Times,* Jun 4 2014, http://www.straitstimes.com/news/singapore/more-singapore-stories/story/blogger-roy-ngerng-sued-pm-raises-81000-20140604 (cited Aug 19 2014)

[66] Parliament of Singapore, "Debate on President's Address" May 26 2014 http://sprs.parl.gov.sg/search/topic.jsp?currentTopicID=00006153-WA&currentPubID=00006154-WA&topicKey=00006154-WA.00006153-WA_3%2Bpresident-address%2B

[67] Parliament of Singapore, "Debate on President's Address", May 27 2014, http://sprs.parl.gov.sg/search/topic.jsp?currentTopicID=00006171-WA&currentPubID=00006169-WA&topicKey=00006169-WA.00006171-WA_2%2Bpresident-address%2B

a variation of, "This is our money, the government has no right to tell us what to do with it"[68] seemed inevitable.

Furthermore, a 2011 survey indicated that many tended to underestimate their life expectancy and thus believed that a compulsory, life-long annuity scheme such as CPF LIFE was unnecessary. The same survey also revealed that 45% of respondents would opt out of the compulsory scheme, if given a choice.[69]

The CPF system was also criticised for being too inflexible to cater to diverse needs. Workers' Party Member of Parliament, Png Eng Huat, argued that "When we are young, we need a disciplined instrument like CPF to help us save for the future. But when we are old, we need a more flexible instrument to help us plan for the uncertainties of ageing. […]The current CPF LIFE plans do not offer older workers the flexibility to plan for an early or semi-retirement." [70] Finally, some members of public speculated that restrictions were in place so the government can avoid returning people their money, for reasons similar to those generated in response to MS and DDA increases.

To address this lack of control and autonomy over one's CPF savings, critics called for more flexibility and choice for withdrawals and participation in CPF schemes. Tan Kin Lian, a former presidential candidate, argued that people should be given a choice to opt out of the Minimum Sum requirement and CPF LIFE, proposing that citizens be allowed to withdraw up to a third of their savings at age 55, and the remaining two-thirds when they reached 65.[71]

Similarly, Non-Constituency Member of Parliament Lina Chiam commented, "Many Singaporeans are […] deeply unhappy about the compulsory annuity CPF Scheme. We need alternative retirement schemes to build an inclusive society. Singapore needs a complex mix of policies, such as alternative investment options to ensure a sufficient pool of funds in CPF. A non-mandatory CPF annuity scheme and private annuity schemes should also be considered." [72]

Retirement adequacy

Another concern about CPF was whether it provided adequate support for Singaporeans' retirement needs. Many expressed concerns that Singaporeans by extension were under-prepared for retirement, given how significant numbers did not meet the stipulated Minimum Sum[73] that was needed to provide a basic standard of living. Only about half of the CPF members turning 55 in 2014 were able to meet the Minimum Sum, and an even lower percentage were able to meet it entirely in cash. Meanwhile, for more affluent CPF members

[68] Quote from protest sign from the 2013/2014 'Return My CPF' rallies, "You have no rights to impose it on us. It is our money, our choice". Source: http://sgyounginvestment.blogspot.sg/2014/07/treat-cpf-money-as-real-money.html

[69]Sandra Eu, Lim Xin Mei and Mohammed Rafdi Rafique, "Behind the curve on CPF changes: Surveys show that the public has a disturbingly low level of awareness of changes in the various CPF schemes" *The Business Times,* June 9 2011.

[70] Parliament of Singapore, "Debate On President's Address", May 29 2014

[71]Nurul Azliah Aripin "Organisers claim #ReturnOurCPF protest drew 6K despite initial drizzle, blazing sun", *Yahoo Newsroom,* June 7 2014, https://sg.news.yahoo.com/over-1-000-people-at--returnourcpf-protest-at-hong-lim-park-093133980.html

[72] Parliament of Singapore, "Debate on President's Address" May 26 2014

[73] As of 2013, 50% of active CPF members met the Minimum Sum in 2013, including 15% who used their properties to support up to half of the CPF Minimum Sum. Source:

who managed to meet the Minimum Sum, the modest payouts was inadequate for their needs, as observed by Nominated MP Laurence Lien during parliamentary discussions.[74]

The CPF system was specifically designed to meet multiple objectives, such as to finance housing, healthcare and education. Critics of this multi-prong approach however contended that allowing multiple withdrawals to serve varied purposes ultimately resulted in the depletion of retirement savings, and detracted from retirement adequacy.[75] For instance Ms Chong Wai Fung, a member of the Singapore Democratic Party (SDP), opined that "there is already little left in one's CPF after the money is used for paying HDB loans. Taking even more money out to service Medishield Life premiums will mean greater hardship from Singaporeans when they retire."[76]

As housing typically constituted a major use of CPF savings, the twinning of retirement adequacy with home ownership goals was criticised as particularly problematic. Here, critics argued that while many Singaporeans used significant amounts of their CPF savings on housing purchases and upgrades, they were unwilling to monetise these housing assets, and were therefore likely to end up short of retirement funds. Former civil servant Devadas Krishnadas hypothesised, "To many Singaporeans, homes are more than assets. They are strong emotional attachments. Thus, the technically sound suggestion that retirement needs can be financed from the sale or lease-back of homes may be hard to accept."[77]

Thus, in direct opposition to those calling for more flexible use of CPF monies, some critics instead advocated stricter controls over the use of CPF money, and also for a return to a far more streamlined CPF system for retirement use only. Allowing further withdrawals would thus be a step in the wrong direction. For instance, Professor Hui Weng Tat, in response to Prime Minister Lee's proposal to allow members to make a lump sum withdrawal of up to 20% of CPF savings at age 65 during the 2014 National Day Rally, cautioned that this would be "merely a cosmetic change that seems to pander to popular demands. Allowing this may not be in the best interest of most CPF contributors as any lump sum withdrawn means correspondingly lower amounts of retirement income for the individual."[78]

Similarly, Christopher Tan, CEO of a financial advisory firm, expressed discomfort at the government allowing lump-sum withdrawals, explaining that if "I let you take out, for example, S$10,000, S$20,000, and you are left with only a bit, (then) the CPF LIFE annuity (scheme) doesn't make sense any more". He also suggested that guidelines should be set to regulate such withdrawals, taking into account the minimum amount needed to provide for basic needs and the circumstances for withdrawal.[79]

As the CPF was a work-based system that catered only for the retirement needs of those who earn an income, those who did not work formally, such as housewives and the disabled, fell

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[74] Parliament of Singapore, "Investment of CPF Monies", July 8 2014, http://sprs.parl.gov.sg/search/topic.jsp?currentTopicID=00006379-WA&currentPubID=00006372-WA&topicKey=00006372-WA.00006379-WA_2%2Bid-c483ced9-6c7f-48b1-8acd-0ede675c6328%2B (cited Sep 12 2014).
[75] Howard Lee
[76] "Chong Wai Fung: Govt must stop profiting from healthcare" *SDP website,* July 12 2014, http://yoursdp.org/news/text_of_cpf_chong_wai_fung/2014-07-12-5849 (cited Aug 1 2014)
[77] Devadas Krishnadas "Why it's so hard for S'poreans to understand CPF" , *Today,* May 28 2014, http://www.todayonline.com/singapore/why-its-so-hard-sporeans-understand-cpf?page=1
[78] Hui Weng Tat, "CPF Changes do not go far enough", *The Straits Times,* Aug 19 2014,
[79] Xue Jian Yue, "Experts worry about retirees squandering their CPF monies", *TODAY,* Aug 20 2014.

outside of the CPF. Thus, some critics argued that the CPF was insufficient, and that the government should finance a social pension to provide for this vulnerable group.[80]

Low interest rates

Another common gripe was the interest returns on CPF savings were too low. A 2014 survey of a thousand Singaporeans indicated that over 50% felt that the CPF system did not give a fair return.[81]

Those dissatisfied with CPF interest rates argued that, given the comparatively higher returns from investment bodies like the GIC and Temasek Holdings who invested government funds, the government should rightfully offer a higher rate of return to CPF holders.[82] The failure to do so was thus perceived as proof that the current government was miserly and profit-seeking at the expense of CPF holders' welfare. Some also highlighted that annual dividends provided under Malaysia's Employment Provident Fund (EPF)[83] were higher than the 2.5-3.5% annual interest provided on the OA and the 4-5% on the Special, Medisave, Retirement Accounts (SMRA), as proof that CPF rates could be higher.

These complaints persisted, even after the government's repeated attempts to explain why Temasek's and GIC's rates of return should not be compared against interest rates in CPF accounts: because CPF interest rates were guaranteed and risk-free, they were lower than rates offered by riskier investments.[84]

Some argued that they could do a better job investing their own money and would get higher returns if allowed to do so. While this could be true of savvier investors, many Singaporeans were in fact unfamiliar with investing. In 2005, the Monetary Authority of Singapore surveyed a representative sample of more than 2000 persons in Singapore, and concluded that "A majority of Singaporeans are also not well-versed on the key features and mechanics of common financial products such as life insurance policies and unit trusts" and many seemed unaware of the need for some financial planning or asset allocation choices needed to beat the rate of inflation.[85]

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[80] Kanwaljit Soin "Gender Bias in CPF", *The Straits Times,* Jul 18 2014, http://www.straitstimes.com/news/opinion/more-opinion-stories/story/gender-bias-cpf-20140718

[81] Elizabeth Soh, "More than Half of Singaporeans think CPF Returns are unfair: Survey"*Yahoo Newsroom,* July 11 2014, https://sg.news.yahoo.com/more-than-half-of-s-poreans-think-cpf-returns-are-unfair--survey-101523527.html

[82] Example of this complaint, "Public surpluses and CPF capital saved by the citizens of Singapore is used to fund Temasek and GIC. Yet, the government of Singapore only pays savers 2.5-4% despite claims of earning 7 and 17% respectively between GIC and Temasek. That claimed 7% earned by GIC in USD belongs to CPF savers and the people of Singapore. The claimed 17% earned by Temasek in SGD belongs to the people of Singapore who provided the public surpluses and capital investment to build companies. […] The CPF saver receives a guaranteed 2.5-4% while the borrowing party, GIC or Temasek receive all returns in excess of 2.5-4%. The government via GIC and Temasek is confiscating returns that belong to CPF savers and taxpayers." Source: "The Real CPF Scam", http://www.baldingsworld.com/category/temasek/page/2/

[83] EPF dividend rates ranged from a low of 4.25% in 2002 to 6.35% in 2013. Source:"Dividend Rates", EPF website, http://www.kwsp.gov.my/portal/en/about-epf/investment-highlights/dividend-rates

[84] "CPF Savings: How can I use my CPF money? What are the myths and facts surrounding our CPF savings?" *www.gov.sg,* edited June 11 2014, http://www.gov.sg/government/web/content/govsg/classic/factually/factually_20140415_cpfmoniesfacts (cited Aug 28 2014)

[85] Media Research Consultants Pte Ltd, "Quantitative Research on Financial Literacy Levels in Singapore, " July 2005, http://www.mas.gov.sg/~/media/resource/news_room/press_releases/2005/Financial%20Literacy%20Levels%20in%20Singapore%20Full%20Report.ashx (cited Aug 28 2014)

Other critics argued for an increase in interest rates to help Singaporeans save enough for retirement. This was mooted as a preferable option to the constant and unpopular increases in MS. According to the Workers' Party MP Png Eng Huat, "while it is prudent to adjust the Minimum Sum every year to beat inflation, the way to achieving it should not rest solely with the members because the CPF scheme is a highly regulated instrument. At this moment, the only way for most Singaporean workers to meet any revised Minimum Sum is basically to work longer and harder and nothing else. […] [W]hile we want Singaporeans to work longer and harder for their retirement, it is also prudent to make our CPF savings work harder for us at the same time. […] We need better SMRA returns so that our workers do not need to worry about not meeting the cohort Minimum Sum every year." [86]

Higher rates would also help CPF savings keep pace with inflation. Professor Hui Weng Tat computed the annualised rate of return on CPF savings over five year periods from 1960 onwards, and compared this against the corresponding rate of inflation over the same five-year period. He concluded that the average rate of increase in the real value of CPF savings had been falling and urged policymakers to raise the CPF nominal rate of return to make sure it stays above inflation as much as possible.[87]

When making his suggestion that the government should implement a 1 percentage point across-the-board increase in the interest rate on CPF savings, Professor Hui also estimated that such a move would entail the provision of additional $2.6 billion per year for 3.53 million CPF members, which was "less than a third of the Net Investment Returns Contribution (NIRC[88]) from the Government's investment". He also suggested that, as a more modest alternative, the government could instead increase the extra interest on the first $60,000 to 2 per cent, which would involve an expenditure of just over $1 billion. [89]

As an alternative to having the government guarantee higher risk-free interest rates, which could be difficult to achieve, some suggested that CPF members should be given more choice in how they wished to invest their money to help build up additional pension funds. Investment schemes that have varying levels of risk and returns could be made available as alternatives to earning a risk-free rate provided to one's OA and SMRA.[90] For instance, in 2014, Nominated MP Tan Su Shan proposed that "more and cheaper access to a diversified pool of higher interest bearing instruments should be made available to the public. This can be made available in the form of regular savings plans with listed bond ETFs or fixed income unit trusts that pay a regular dividend." She added that "some of these instruments are already available but due to the lack of knowledge, many Singaporeans have not availed themselves to these savings instruments[…]I think we need to do more from the ground up to engage and educate more Singaporeans to take ownership and to start early." [91]

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[86] Parliament of Singapore, "Debate On President's Address", May 29 2014,
[87] Hui Weng Tat"How to raise CPF Returns", *The Straits Times,* Jun 5 2014, http://www.straitstimes.com/news/opinion/more-opinion-stories/story/how-raise-cpf-returns-20140606
[88] The Net Investment Returns Contribution (NIRC) comprises up to 50% of the Net Investment Returns on the net assets managed by GIC and MAS, and up to 50% of the investment income from the remaining assets (which includes Temasek).Source: http://app.mof.gov.sg/reserves_sectionone.aspx#Footnote1
[89] Hui Weng Tat
[90] Howard Lee,"TOC Policy Exchange on CPF – rethinking the system", *The Online Citizen,* July 22 2014, http://www.theonlinecitizen.com/2014/07/toc-policy-exchange-on-cpf-rethinking-the-system/
[91]Parliament of Singapore, "Debate on President's Address" May 26 2014, http://sprs.parl.gov.sg/search/topic.jsp?currentTopicID=00006153-WA&currentPubID=00006154-WA&topicKey=00006154-WA.00006153-WA_3%2Bpresident-address%2B (cited Aug 2 2014)

Complexity of the CPF system

During the 2014 National Day Rally, Prime Minister Lee Hsien Loong quizzed his audience about the Property Pledge Scheme, a CPF-related policy, asking "how many of you knew all this before I explained this to you? […] I think honestly, not all of us know and I would say even not all the MPs are completely familiar." [92] The Prime Minister's comments then alluded to another criticism of the CPF: it was too difficult to fully comprehend.

Some argued that this state of public confusion resulted from flawed policy design. The CPF system consisted of many different schemes, each covering some aspect of housing, healthcare, education and other objectives. Each scheme had its own set of rules which were often difficult to understand in-and-of themselves.

Policymakers had made efforts to streamline aspects of the CPF system. When CPF LIFE was first introduced in 2009, members had four plans to choose from, each with varying levels of monthly payouts and bequests. In 2012, the government reduced the number of CPF LIFE plans to two, after receiving feedback from members that they preferred a simpler choice because it took significant effort to understand and choose among the four plans.[93]

However, a 2014 poll of a representative sample of 1000 citizens revealed that many respondents still only had a perfunctory understanding of CPF, and many also had misconceptions about the scheme. Only 56 per cent of the respondents aged under 55 knew that if they did not meet the Minimum Sum, they did not have to top up the shortfall in cash, while an even lower 43 per cent of this same group knew that they would still get a monthly payout even if they did not meet the Minimum Sum. A paltry 13 percent could identify the correct monthly payout that was pegged to the full Minimum Sum[94].

The public's poor understanding of CPF policies was attributed to poor communication by the government. Former journalist and social commentator Bertha Henson described her attempt to understand the CPF system:

> *Trying to understand a complicated G policy is like trying to put together a 1,000-piece jigsaw puzzle ... You try to find pieces that fit together and sometimes you get so frustrated you actually "force'' pieces together. Then sometimes you go blind looking for a specific piece because there are so many pieces of roughly the same shade. You get angry. You throw the whole puzzle out of the window […] The G is answering [people's] questions in financial gobbledygook. Lots of jargon and acronyms like SGS and SSGS and some very fine numbers with decimal points. You need a degree in finance and a great deal of patience to cut through the tangle.*[95]

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[92] Prime Minister's Office, "Prime Minister Lee Hsien Loong's National Day Rally 2014 (Speech In English)", 17 Aug 2014, http://www.pmo.gov.sg/content/pmosite/mediacentre/speechesninterviews/primeminister/2014/August/prime-minister-lee-hsien-loong-s-national-day-rally-2014--speech.html#.U_MJwlZH94U (cited Aug 19 2014)

[93] Ministry of Manpower and CPF Board, "A Simpler CPF", Mar 5 2012, http://mycpf.cpf.gov.sg/CPF/Templates/SubPage_PrinterFriendly_Template.aspx?NRMODE=Published&NRORIGINALURL=%2FCPF%2FNews%2FNews-Release%2FCOS_Speech-A-Simpler-CPFLIFE.ht&NRNODEGUID={07D5676C-5ED3-4336-9E4F-AC1AB64FBFA6}&NRCACHEHINT=Guest (cited Sept 14 2014)

[94] Andrea Ong, "Many unsure about CPF, CPF Life details", *The Straits Times,* July 8 2014.

[95] Bertha Henson, "The CPF Jigsaw Puzzle", June 13 2014, http://berthahenson.wordpress.com/2014/06/13/the-cpf-jigsaw-puzzle/

Minister of Manpower Tan Chuan-Jin offered his take on why CPF policies seemed confusing, and shared some of the challenges the CPF Board faced in spreading awareness of their policies:

> *I am aware that some members may find the CPF system difficult to understand because policy changes over the years mean that different rules may apply for different cohorts. This practice of grandfathering old rules for older members is precisely to minimise adjustments to those members who already passed age 55. This was necessary so as not to disrupt the plans of older members mid-way through their retirement.*
>
> *I would add this -- it would not be responsible of this Government to leave unchanged the CPF rules for those who are younger when the situation around us has changed and quite dramatically so. […] What I can assure everyone is that whenever there is a policy change, the CPF Board makes an effort to try to reach out to every affected member. At the same time, we encourage members who are unsure of the rules to also step forward to request for assistance to navigate these rules. One request I would make following many dialogues with members of the public is, to read the materials that are put forward. I realised in many dialogues and conversations, many people get agitated and very emotional, and argue on points which are actually already clarified in the materials that are put out. But many have not read them.*[96]

Others attributed public confusion over CPF to Singaporeans' lack of proper awareness and understanding of basic retirement planning. According to MAS' 2005 financial literacy report, less than 1 in 3 Singaporeans were aware of how much CPF they had, and many did not have a clear idea how much they needed for retirement[97]. Many commentators thus stressed the need for better financial education and counselling, to improve Singaporeans' savviness in handling their own finances, whether through the CPF or other saving and investment mechanisms.[98]

Lack of information and transparency

Many critics struck out at a perceived lack of transparency in the government's management and investment of CPF funds, and called for more accountability and disclosure.[99] This was also a key theme of the public rallies against the CPF.[100]

Others argued that more data and information about how CPF policies have been set would provide the public with greater clarity about CPF policies, and avoid misinterpretations based on unverified sources of information.[101] For example, Donald Low suggested that the

[96] Parliament of Singapore, "CPF Minimum Sum Requirement And Singaporean's Retirement Adequacy" July 8 2014, http://sprs.parl.gov.sg/search/topic.jsp?currentTopicID=00006376-WA&currentPubID=00006372-WA&topicKey=00006372-WA.00006376-WA_2%2Bid-c5f70150-4752-491f-bfc3-1cb66d2d6fda%2B (cited Aug 27 2014)

[97] Media Research Consultants Pte Ltd, "Quantitative Research on Financial Literacy Levels in Singapore"

[98] In a 2014 Business Times article which polled various CEOs and Board Directors on their views about Singapore's CPF system, many commented on the need for better financial advice and education. Source "CPF and your retirement needs" *The Business Times,* Aug 25 2014.

[99] Phillip Ang, "No reason for MPs and GIC to be afraid of CPF transparency issue" *TR Emeritus,* July 26 2014, http://www.tremeritus.com/2014/07/26/no-reason-to-be-afraid-of-cpf-transparency-issue/

[100] "Speakers at CPF protest call for flexibility, better returns, greater transparency for CPF scheme: *The Straits Times,* June 7 2014, http://www.straitstimes.com/news/singapore/more-singapore-stories/story/speakers-cpf-protest-call-flexibility-better-returns-gre (cited Aug 20 2014)

[101] Trinity Chua, "Five donors step up to say why they donated to Roy Ngerng", *The Independent,* June 4 2014, http://theindependent.sg/blog/2014/06/04/five-donors-step-up-to-say-why-they-donated-to-roy-ngerng/(cited Aug 20 2014)

government should provide more timely information on how the CPF monies are managed and invested, and also make projections of the adequacy of the CPF system for different income groups and household types.[102]

The release of more information could help improve the robustness of CPF schemes, according to some. In a 2012 Straits Times Forum letter, Leong Sze Hian questioned policymakers' choice in structuring two CPF LIFE plans that gave lower payouts than that under the original Minimum Sum Scheme. He urged for the actuarial report on the CPF Life scheme to be made public, so that "all stakeholders can help to analyse and offer feedback or suggestions on the scheme, including the design, life expectancy and return, as well as the assumptions and computations"[103].

Case Questions

Imagine that you are a member of the CPF Panel, tasked with examining the concerns voiced by the public about the CPF system, and assessing the feasibility of the various policy changes that have been suggested.

- Which aspects of the current CPF system do you think are most in need of change, and why? What specific changes would you recommend to help assuage public anxiety?

- What are the broad societal and demographic changes that Singapore's social security system would have to respond to? Do you think that the objectives of the CPF could be achieved in other ways?

When assessing your proposed changes to Singapore's CPF scheme, you should consider:

a) What are the policy objectives that underpin Singapore's CPF system? How would your proposed changes to the CPF system affect or impinge on these objectives?

b) How would your proposed changes affect the financial sustainability, fairness and flexibility of the CPF system, bearing in mind demographic realities?

c) What are the likely social, economic, and political impacts of your proposed policy changes?

[102] "IPS Forum on CPF and Retirement Adequacy", *IPS,* http://lkyspp.nus.edu.sg/ips/wp-content/uploads/sites/2/2014/07/IPS-Forum-on-CPF-and-Retirement-Adequacy_Summary-Report_230714.pdf
[103] Leong Sze Hian, "Explain the lower payouts of new CPF Life Plans", *ST Forum,* March 8 2014.