Private pension plans 'no walk in the park': DPM

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The Singapore government has not closed the door on allowing Central Provident Fund (CPF) members to use their CPF monies for private pension plans.

Deputy Prime Minister Tharman Shanmugaratnam said yesterday that such plans remain an option for the future, even as the government continues to look into ways to enhance the CPF scheme.

He cautioned, however, that private pension plans "will not be a walk in the park", as riskier plans have not always resulted in higher returns.

Speaking at an Institute of Policy Studies (IPS) forum on "CPF and Retirement Adequacy", he said: "I agree we should study how to provide better options for members who are able to take higher risks, so that they can try and earn higher returns - better options than currently provided for under the CPF Investment Scheme (CPFIS).

"However, we have to study any new options carefully, take in views and ensure people understand the risks."

He added that the main challenge will be for private pension plans to offer a realistic chance of achieving better returns than those offered by the CPF Special Account (SA). Private pension plans would have to compete with the guaranteed 4-5 per cent returns the SA gives, and members are allowed to shift monies from their Ordinary Account to their SA to earn these returns.

When the issue of private pension plans was raised in 2007, the government declined to give them the green light, because most CPF members had low balances then and could not absorb investment risks.

To underscore his point about the challenge in securing better returns than those offered by the CPF SA, Mr Tharman cited the example of Hong Kong's Mandatory Provident Fund (MPF). It allows members to pick a pension plan and has offered a rate of return of 4 per cent in nominal Hong Kong dollars since its inception at the end of 2000.

Referring to the 4 per cent return, he said: "That is in fact about the same as what CPF monies in aggregate have earned, and lower than what has been earned on the Special, Medisave and Retirement Account (SMRA) in Singapore dollars."

He further pointed out that this was despite the Singapore dollar having strengthened significantly over the period - which means the same foreign currency returns have translated into fewer Sing dollars. Even the most aggressive fund type of the Hong Kong MPF - the HK MPF Equity Fund - has given returns of 4.5 per cent since inception, he said.

This does not mean that the funds are ill conceived, Mr Tharman added.

"In principle, you should expect to earn a higher return in the long term, by investing more in riskier plans. But in practice, you can go through long periods - five years or even 10 or 15 years - without seeing higher returns. The investment markets move in cycles, and the cycles are often long."

The current low bond yields and weaker growth prospects in major economies have also made it challenging for funds with traditional balanced portfolios to earn good returns.