Permanent Top-ups, Greater Flexibility for Investment Suggested for CPF System

Ahead of the upcoming Prime Minister's National Day Rally, we pick the brains of an MP, a sociologist and an economist on how the Central Provident Fund system could possibly be tweaked to enhance Singaporeans' retirement adequacy.

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Channel NewsAsia, 13 August 2014

Making top-ups to the Central Provident Fund (CPF) a permanent feature for baby boomers and allowing younger Singaporeans greater flexibility to invest their CPF monies for higher returns - these are some of the suggestions from an MP, a sociologist and an economist ahead of the Prime Minister's National Day Rally on Sunday (Aug 17). Prime Minister Lee Hsien Loong is expected to touch on ways to enhance retirement adequacy when he charts the Government's priorities for the year.

PERMANENT TOP-UPS?

More than half of workers reaching 55 years of age are not able to achieve the Minimum Sum - the amount needed to give them a regular income upon retirement at 65 - even after they pledge their property value. Less than 30 per cent are able to meet the Minimum Sum entirely in cash.

Some say it is the baby boomers - those born between 1947 and 1964 - who are in need of help, as this is the group with limited means of increasing their retirement fund. Economist Donald Low, a Senior Fellow with the Lee Kuan Yew School of Public Policy at the National University of Singapore, suggests permanent CPF top-ups for them, at least for the next 10 to 20 years.

"It is a generational problem, I think, (for) the baby boomers now, who are going to reach retirement age in the next 10 to 20 years. So for the next 10 to 20 years, we would have to fund, or the Government will at least need to partially fund their retirement over and above whatever they have in CPF," Mr Low said.

"The Government will have to look at the numbers for this, but I think we will have to confront the reality that - that funding gap, that retirement savings gap, would have to be made up for by somebody, somehow. If it's not their families, it will probably have to fall on tax payers."

GREATER FLEXIBILITY

Observers feel most people in their 30s and 40s today would be able to meet the Minimum Sum when they turn 55. Mr Zaqy Mohamad, MP for Chua Chu Kang GRC, hopes to see greater flexibility for this younger group to invest their CPF savings, perhaps through an investment scheme managed by the Government, instead of the current system where private banks manage CPF investments through the CPF Investment Scheme.

Mr Zaqy explained: "Because it is done on an ad-hoc, individual basis, everyone has their own investment. It almost becomes like, the uninformed investor may not get the kind of returns that he expects and he might even find that his investments are less than what he would have gotten from CPF.

"So in a certain sense I think it could be a managed method or a managed approach. But having said that, it can only come together with proper public awareness, because the last thing you want is to see your CPF erode and you get a public outcry - why did we take this risky approach for example - and then government gets blamed for it."

Currently, CPF monies earn an interest rate of between 2.5 and 5 per cent. The Ordinary Account, which can be used to pay for homes or education has a guaranteed floor rate of 2.5 or 3.5 per cent for balances of up to S$20,000. More than half of all CPF members enjoy the full 3.5 percent interest rate on their Ordinary Account. And two-thirds of members earn the full five percent on their Special, Retirement and Medisave Accounts. Some argue returns should be higher, but financial experts warn that with higher returns, come higher risks.

UNLOCKING THE VALUE OF HOMES

Separately, the prime minister has also said the Government plans to make it easier for retirees to get cash out of their flats in a prudent and sustainable way. One option is the Lease Buy Back Scheme, which helps low-income elderly households unlock part of their housing equity to receive a lifelong income stream.

There is also the Silver Housing Bonus. This scheme allows lower-income elderly households to supplement their retirement income when they right-size their flat.

Response for both schemes, though, have been lukewarm. About 90 elderly households have received the Silver Housing Bonus of up to S$20,000 in cash, since the scheme was introduced in February last year. Meantime, just over 300 households have signed up for the Lease Buy Back Scheme since it was enhanced in February 2013.

"People are reluctant to let go of their home. They've lived there for a long time, maybe they are emotionally attached, said Assoc Prof Tan Ern Ser, Head of the Social Lab at the Institute of Policy Studies. "Or, maybe it could be the fact that you have an asset that belongs to you that you can call your own and to pass to future generations. It gives you a sense of security."

Commenting on the scheme as well, Mr Zaqy said he believes it may be more useful for those who own larger flats. He said: "If you look at your 4-room and 5-room (flat owners), these are the groups that typically dip more into the CPF and put more of their CPF into their homes.

"Logically if you look at the 3-room (owners), they would have a certain amount of CPF put in, but they are also the ones who receive the most amount of subsidies. So, technically there is no pressure for them to quickly see money coming back out compared to those in 4-room or 5-room or executive flats who have already dipped into their CPF significantly, because these are larger flats and most times you would have bought it in the open market," he continued.

"And to a certain extent, because they come from the middle-class, there may be a greater expectation or want from them to be able to monetise their CPF as well."

Whatever changes may come, observers say they need to be carefully calibrated because any decision made now may have an adverse effect on Singapore's future social security system. So, any policy change will need to have sufficient room for adjustment, to make way for any demographic changes.