

Strength of govt's investment system is "we have assets that exceed our liabilities": Tharman

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Deputy Prime Minister and Finance Minister Tharman Shanmugaratnam fielded questions about the Central Provident Fund (CPF) and retirement adequacy at a forum organised by the Institute of Policy Studies on Tuesday (July 22).

Questions touched on areas ranging from increasing the withdrawal amount beyond S\$5,000 for CPF members who are not able to set aside the Minimum Sum after they turn 55 years old, to coping with inflation.

In response, Mr Tharman said: "You do want to provide some flexibility for withdrawal, some people incurred debts, some people have sudden needs and allowing them to withdraw some monies meets a real need, but it comes at a cost, because if you withdraw monies early, it means that the stream of income you have for the rest of your life diminishes. And it diminishes by more than most people expect because you are losing out not just on that lump sum but the interest that you are going to accumulate in retirement. And bear in mind that the interest rate that our annuity scheme provides through CPF Life is vastly superior to most others."

There were also questions about helping lower-income Singaporeans meet their retirement needs. Mr Tharman said that the CPF today, along with Government subsidies targeted at lower- and middle-income CPF members, provides a solid foundation for the future.

"If you take what we are doing in the Government budget, through all the enhancements we have made, it is really a different set of social policy and social support for lower-income Singaporeans, through life and in retirement compared to what we used to have," he said. "If you take Workfare, if you take the housing grants, if you take the support for medical needs, if you take the range of support that we are providing, if you just look at what goes through the CPF system and leave out support outside the CPF system, what it will mean is by the time today's lower-income young family retires, the Government would have given them about \$160,000 by the time they are 65."

Blogger Roy Ngerng, who attended the forum, asked DPM Tharman several questions, including whether Temasek Holdings had managed CPF monies prior to the establishment of GIC and why GIC did not know if it was investing CPF funds. A full of transcript of their exchange follows:

Mr Ngerng: Now that we know that the CPF is invested in the GIC, is it also possible to know what is the interest earned in SG terms since inception? Secondly, Temasek Holdings has said that they do not invest our CPF, is it possible to know if in the past Temasek Holdings had invested our CPF? Because the GIC was only set up in 1981, so prior to 1981, how was the CPF used and otherwise was it invested in Temasek Holdings? Thirdly, how much has the Government earned in absolute monetary terms from the excess returns of the CPF and will the Government consider returning some of them to Singaporeans? Finally, the GIC has said before June this year that they do not know if they invest our CPF because it is not made explicit to them – they said this on the GIC FAQ. But the Government made an about-

turn in June this year and admitted that they do. So in the interest of public interest, is it possibly to know why the Government made an about-turn? It might also be intriguing because the Government is also on the board of the GIC, so it would be insightful to know why. Thank you.

DPM Tharman: I'll start with Roy Ngerng's points. First, a few factual matters; you asked some factual questions. Did Temasek manage the CPF funds in the past? No. It has never managed CPF funds. Temasek started off with a set of assets which were transferred by the Government at time of inception. I don't have the exact figure in my head – but about \$400 million dollars worth of assets in the form of a set of companies. It has never received CPF monies to invest.

What was the case in the early days, before we amended the constitution in 1992, is that CPF monies, which were invested in Special Singapore Government Securities (SSGS), could be used by the Government to finance infrastructure - such as road infrastructure, Singapore's economic infrastructure and social infrastructure. Just like (other) Singapore Government Securities (SGS), the Government was allowed to use borrowings in addition to the revenues it got in its budget, to finance infrastructural investments. That was the old system.

That changed in 1992. Together with Constitutional amendments, we introduced the new Government Securities Act, which disallowed the Government from using borrowings for spending. From then onwards, all borrowings - the SGS, SSGS - have had to be invested.

How are they invested? Prior to the formation of the GIC, it was the MAS (Monetary Authority of Singapore). It was an old-fashioned, central bank investment system. Dr Goh (Keng Swee) changed that, explained why, explained that these are basically longer-term assets, and we should invest them for the longer term. And a significant chunk of reserves that were managed by the MAS were passed back to the Government, which then had the GIC manage them.

So that was the system in the old days; the MAS manages the CPF assets, but after the GIC was set up in the early 1980s, it was essentially the GIC that manages CPF assets - but not as CPF assets. It is managing Government assets: managing all Government assets put together.

Which brings me to the next question about whether GIC knows it is managing CPF assets. GIC knows it is managing Government assets. That is the Government's mandate for the GIC. The mandate is irrespective of the sources of funds it manages, which comprise the SSGS, the SGS, Government surpluses, the proceeds from land sales - all Government funds.

And the GIC (hence) pays no regard to what the source of funds is. It just has to meet its mandate: to invest for the long term, take risks, in the hope of achieving good long-term returns, significantly about global inflation.

And that is a real strength of our system. The real strength of our system is that besides the CPF, we have unencumbered Government assets – Government assets that don't have liabilities like the CPF. And the GIC is therefore able to invest, blind to where the funds come from. It's able to invest the whole pool of funds for the long term. If the GIC was just

managing CPF funds as a CPF fund manager, it would be managed quite differently. To provide a guaranteed interest rate of four to five per cent of the Special Account, or 2.5 to 3.5 per cent of the Ordinary Account, capital guaranteed and interest rate guaranteed, it would be a very different fund that it would be managing.

It would be invested largely in bond securities, and earning returns that are very different from what it is able to earn by investing for the long term in higher-risk assets. Plus, it would mean the interest rates that the Government has committed to would be unsustainable, because it is no longer possible to earn these interest rates on a guaranteed basis, using a bond portfolio. It's very difficult.

So the GIC manages a pool of Government assets, irrespective of sources of the funds. It is the Government that then takes the risk. The Government takes the risk that the performance of the GIC from year to year, sometimes even over five-year periods, may not be adequate for it to meet commitments to the CPF. But the Government balance sheet takes the risk to ensure that we can meet those commitments.

And that's the strength of the system. The strength of the system is we have assets that exceed our liabilities, that enable us to meet our commitments. And that's why we're not just triple-A-rated, but we're able to provide CPF members with a very fair return on a guaranteed basis.

That's the system. For the GIC as the manager, it is blind to the sources of funds, because of our strength of having assets significantly in excess of liabilities. GIC managers do not need to know exactly where the funds come from because that's not part of their mandate. There's no mystery to that.

Next question had to do with excess returns. The GIC publishes five-year, 10-year, 20-year returns. You can look at the returns, and they are easily computed into Singapore dollars. Over the last five years it earned 0.5 per cent in Singapore dollar terms, over the last 10 years it earned five per cent in Singapore dollar terms, over the last 20 years it earned five per cent in Singapore dollar terms. So those are the facts, but that's not returns gained from investing CPF monies. That's returns gained from investing all Government assets including the unencumbered assets; it's returns gained from investing in higher-risk portfolios for the long term. If it was just CPF monies, it will be a different portfolio and a different set of returns. Every serious financial professional knows that.