

# Forum on CPF and Retirement Adequacy

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Shangri-La Hotel

# Behavioural Perspectives on the CPF System

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**Behavioural Perspectives on the**





# Outline

- CPF: Strengths and Weaknesses
- The CPF through a behavioural lens
- Balancing paternalism with transparency and choice

# CPF: Strengths and Weaknesses

## Received Wisdoms about the CPF

1. With CPF, Singapore does not have to worry about unfunded pension liabilities from population ageing. CPF is **fiscally sustainable**.
  - We therefore avoid the need for painful pension reforms.
2. CPF savings are “**our own monies**”; this encourages work and individual responsibility.
3. Allowing CPF monies for housing helps Singaporeans to **own homes**, which are a hedge against inflation and provide Singaporeans with retirement security.
4. CPF + Public Housing = **A unique Singaporean ‘welfare system’** that fosters self-reliance, avoids the problems of dependency and sloth, and minimises the fiscal burden of ageing.

*Suggesting that...*



***An Immaculate Conception***



# CPF: Strengths and Weaknesses

## But these advantages obscure some key weaknesses:

- Assumes that the large majority of citizens can, on their own, save enough for retirement.
- Current debate suggests that **hard choices** are still necessary.
  - E.g. Keeping the CPF withdrawal age at 55 has meant that government needs to keep raising Minimum Sum to keep pace with increasing life expectancy and inflation.
- Emphasis on CPF being our own monies also has its downsides.
  - May constrain government's ability to undertake unpopular **reforms**;
  - Limits the CPF's ability to be an institution that promotes **equity**;
  - Reduces citizens' willingness to share risks and fosters an “**each-man-for-himself**” **mentality** – potentially more corrosive of social capital?





# CPF: Strengths and Weaknesses

## Some key weaknesses of the CPF (con't):

- Home ownership may not necessarily be an advantage for a **rapidly ageing population**
  - A large group which needs to monetise their assets
  - And has bulk of their savings tied up in an illiquid and (potentially) volatile asset
- Adjustments made for life expectancy currently rely far too much on discretionary and poorly understood government decisions.
  - Critical that CPF changes are made in a more **predictable, transparent and automatic** manner.
- The failure to do so, combined with the lack of public education on how CPF monies are invested, risks undermining public trust and support for the institution.
  - This might result in policy paralysis or populism if politics becomes more contested.



# CPF: Strengths and Weaknesses

- **Sustainable:** ageing does not create unfunded liabilities
- **Flexible:** CPF monies can be withdrawn for housing, education, healthcare and investments.
- **Fair:** The interest on CPF savings is higher than what members can obtain on their own, especially if one consider the fact that CPF savings are risk-free.
- *But is it adequate for my retirement?*
- *But why should government compel me to save so much (up to 36%) in the first instance, and leave me with little choice but to put my savings into housing as a hedge against inflation and earn superior returns?*
- *But why should I be forced to accept a low-risk, low-return plan, especially when I'm young? Why can't I opt into a plan with higher risks and potentially higher returns?*

# The CPF through a behavioural lens

- ***Present-biased preferences:*** People tend to focus much more on current consumption and to discount their future interests heavily.



“I never get enough sleep. I stay up late at night, ~~and use my money. Night Guy wants to stay up late.~~ **withdrawal age of 55 may have created.** ‘What about getting up after five hours sleep?’, oh **frustration when Singaporeans realise they are unable** that’s Morning Guy’s problem. That’s not my **at age 55 because they don’t meet the MS.** problem, I’m Night Guy. I stay up as late as I want. So **Decide that Night Guy expects Night Guy always** you get up in the morning, you’re exhausted, groggy... **55 screws Morning Guy.** There’s nothing Morning Guy can do. The only Morning Guy can do is try and oversleep often enough so that Day Guy loses his job and Night Guy has no money to go out anymore.”

# The CPF through a behavioural lens

Close

THE STRAITS TIMES

Text

## S'poreans 'prefer to retire at 55'

But two in three know they need to work till at least 60, survey finds

By TOH YONG CHUAN  
MANPOWER CORRESPONDENT

FOUR out of 10 Singaporeans would choose to retire at the age of 55, a survey released yesterday revealed.

However, two in three are realistic, and know that they will have to work until at least 60, international recruitment firm Randstad found.

The desire to retire early could worsen the labour crunch, Randstad's country director for Singapore Michael Smith warned.

"Singapore is already facing a talent crisis, with many organisations finding it difficult to meet the demand for skills," he said.

"If a situation arises where a large group of the talent pool are unwilling to work to the retirement age, this will make the talent shortage challenge even more acute for organisations here."

Randstad said that firms can take steps to coax their staff to work longer.

Incentives could include offer-

ing older workers a more relaxed schedule, cutting the number of work hours and creating a friendlier work place.

The official retirement age in Singapore is 62, although bosses must offer healthy workers, who have performed satisfactorily, re-employment from ages 62 to 65 - or give them a one-off payment.

The Government is also looking at extending the re-employment age to 67, and more details are expected later this year.

More than 6,500 workers in Singapore aged 18 to 65 took part in the Randstad online poll between November and December last year.

The survey did not go into the workers' financial details, such as how they expect to support themselves in their retirement years.

But it found that three in five workers rank salary and benefits as most important when choosing a job.

The same proportion of workers also said they expect their bosses to be reliable, honest and



The desire to retire early could worsen the labour crunch, says recruitment firm Randstad's country director for Singapore Michael Smith. So, firms can take steps to coax their staff to work longer by, say, easing their schedules and creating a friendlier work environment. ST PHOTOS: NG SOR LUAN, AZIZ HUSSIN

sincere when handling staff.

Mr Erman Tan, president of the Singapore Human Resources Institute, said: "It is part of the progress of the society, where workers want to slow down as they grow older. But these workers can still be productive, so the onus is on bosses to try to retain them."

Former zookeeper Francis Lim, 59, retired four years ago, but said that the move was not without its trade-offs.

"I rely mostly on my savings and live frugally," he said, adding: "(But I get to) enjoy a slow pace of life and can find time for spiritual development."

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### TRADE-OFF

"I rely mostly on my savings and live frugally. (But I get to) enjoy a slow pace of life and can find time for spiritual development."

— Former zookeeper Francis Lim (left) retired four years ago, but he said that the move was not without its trade-offs

# The CPF through a behavioural lens

- ***The “two-selves” problem:*** People often find it hard to imagine their future selves as themselves. Policies that involve delayed gratification, no matter how reasonable and rationally presented, tend not to be well-received.

## Virtual Ageing Simulation



A: Actual photo  
of First Author



B: Non-aged  
Digital Avatar



C: Aged Digital  
Avatar

# Balancing paternalism with transparency and choice

## ■ Limits of paternalism:

- Erodes individual ownership
- Infantilises the public, especially with respect to the relationship between risk and returns, choice and certainty.
- In the absence of accurate and timely information, hearsay and misguided information may dominate.

## ■ The correctives:

- A more 'differentiated' CPF system that allows for CPF members **some choice over levels of risk they wish to take**, especially for younger members.
- Government to provide **information** on how CPF monies are managed/invested in a more timely and accessible manner.
- Consider establishing **an independent unit** that makes projections of the adequacy of the CPF system for different income groups.
- Use a wider range of **non-government messengers** to explain CPF and CPF policy changes.

***Thinking in  
political terms***

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graph TD; A[Thinking in political terms] --> B[Thinking in technocratic terms]; B --> C[Thinking in institutional terms]; C --> A;
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***Thinking in  
technocratic terms***

***Thinking in  
institutional terms***

- Public education and engagement
- Transparency
- Monitory entities
- External checks and balances