CPF returns like mutual fund's, minus risk?

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The Central Provident Fund (CPF) provides an attractive return while protecting its members from risk, a new study has found.

Based on certain assumptions, returns from CPF could do as well as a mutual fund that has equities and bonds in its portfolio, without its attendant risk.

The study released yesterday by the Institute of Policy Studies and consulting firm Towers Watson showed that over the next 20 years, returns from CPF could rise to 5.7 per cent a year.

In other words, $100 in the CPF today could triple to $303 in 2034.

The study came to this conclusion after making several assumptions about the financial markets.

One assumption made is that interest rates will rise to 4 per cent in 10 years, up from nearly zero today.

The second is that the 10-year Singapore Government bonds will pay 5.3 per cent a year, up from about 2.2 per cent now.

Compared to returns in cash deposits and Singapore Government bonds, the CPF adds an additional 1.4 per cent a year.

"Overall, the CPF provides an attractive rate of return, with reasonable expected returns without downside risk," said the report.

An advisory panel has been set up to review the CPF by Prime Minister Lee Hsien Loong.

It will look at several aspects of the CPF, including allowing members to seek higher returns while balancing higher investment risks.