Of home prices and nest eggs

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While the property market goes through cycles, the Government will strive to ensure that housing prices do not spiral upwards and become “out of sync” with incomes in the long term, said Deputy Prime Minister Tharman Shanmugaratnam yesterday.

This is so that Singaporeans do not take too much money out of their Central Provident Fund (CPF) to buy their homes.

Otherwise, they may not have enough left for their retirement needs.

Mr Tharman was speaking at a forum on CPF and retirement adequacy organised by the Institute of Policy Studies.

The issue regarding the dominant use of CPF funds in housing was raised by several participants.

Mr Tharman, who is also Finance Minister, said in its initial phase, the CPF worked in substance as a saving scheme for home ownership rather than a scheme for retirement. This allowed over 90 per cent of elderly Singaporeans to own their homes, he said.

Unlike other countries, ordinary workers including lower-income Singaporeans can benefit from owning a housing asset, without having to use retirement savings to pay rentals.

However, Mr Tharman noted that many Singaporeans in the older generation are “asset rich and cash poor”, and that the Government is studying ways to help them get cash out of their homes.

Starting around the mid-1990s, improvements were made to the CPF system to boost cash savings for retirement, through the inclusion of the Special, Medisave and Retirement Accounts (SMRA), he said.

Still, the CPF “retains a significant and unique feature”, to enable home ownership for most Singaporeans, he said. With increasing housing grants, the lower and middle-income groups are able to own homes.

Together with schemes such as Workfare, Medisave top-ups for the Pioneer Generation and subsidies for MediShield premiums for lower and middle-income groups, the CPF provides a “solid foundation”, he said.

While the CPF does not provide the highest returns in the world, it provides fair returns and is one of the safest schemes for members, he added.

Still, the provision of better options for members who are able to take on higher risks should be studied, Mr Tharman said.

The option of using CPF to invest in private pension plans was last reviewed in 2007, he shared. The Government discarded the idea as most CPF members had low balances and could not absorb investment risks.

Private pension plans will not be a “walk in the park”. In principle, one should expect to earn a higher return over the long term by investing more in riskier plans, but in practice there may be long periods – five years, or even 10 or 15 years – without higher returns. “The investment markets move in cycles, and the cycles are often long,” he said.

Since its inception at the end of 2000, Hong Kong’s Mandatory Provident Fund, in total, has had a rate of return of four per cent, in nominal Hong Kong dollars.

“That is in fact about the same as what CPF monies in aggregate have earned in Singapore over that period, and lower than what was earned on our SMRA monies,” he added.

This, despite the Singapore dollar having strengthened significantly over that period, meant the same foreign currency returns translate into less Singapore dollars, he said.

Manpower Minister Tan Chuan-Jin said yesterday that the Government is looking into removing imputed rentals to compute inflation, which may in turn affect the amount the CPF Minimum Sum increases every year.