CPF able to withstand risks and provide decent returns

Rachael Boon
The Straits Times**,** 8 December 2014

The Central Provident Fund provides an attractive return while protecting its members from risk, a new study has found. -- PHOTO: ST FILE

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

This is because the CPF could generate 5.7 per cent a year over the next 20 years, based on certain assumptions such as rising interest rates, said the study by the Institute of Policy Studies and consulting firm Towers Watson.

This means that $100 in the CPF today could triple to $303 in 2034, a performance close to that of a typical unit trust that has equities and bonds in its portfolio, except that CPF members do not face any risk.

In a study that looked at investment risks in Singapore's retirement financing system, the IPS-Towers Watson study tried to look at how the CPF system would perform under conditions very different from today's.

For one thing, it assumes 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.

The study also continues to assume that the CPF will continue to pay an additional percentage point for the first $60,000 of the CPF Ordinary and Special accounts, as it does now.

If all these assumptions hold, the CPF will generate 5.7 per cent in returns over 20 years, which is much higher than the 2.5 per cent earned on the Ordinary Account and 4 per cent for the Special, Medisave and Retirement Accounts.

Mr Peter Ryan-Kane, head of portfolio advisory for Asia-Pacific at Towers Watson, noted that existing arrangements seem to be a reasonable option.

"The CPF account holder is getting a pretty good deal... (The CPF) provides an attractive rate of return, with reasonable expected returns without downside risk," he said.

The study comes after the Government appointed a 13-member advisory panel in September to relook aspects of the CPF, including the flexibility to choose private investment plans.

Currently, CPF members can use their savings in investments such as unit trusts and local stocks through the CPF Investment Scheme (CPFIS), but doing this exposes them to market risks.

IPS research fellow Christopher Gee added: "The typical CPF member does face quite a lot of options in terms of what he can do with his CPFIS withdrawals. In a situation with a lack of information or knowledge, it may be confusing and lead to him making bad choices."

Findings also showed that the Government ultimately bears the brunt of market risks when investing CPF funds, but it is able to handle more risk than the average CPF member.

Dr Joelle Fong, senior lecturer in finance at SIM University, noted that convincing CPF members that such returns are fair is a key challenge.

"If the system is to cater to members who desire higher returns beyond the current arrangement, some form of risk sharing between the CPF Board and its participants will be unavoidable," said Dr Fong.