How to improve CPF: Experts' take

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Singapore's social security savings plan, the Central Provident Fund, is in the spotlight as people worry it will not meet their retirement needs. Ways to reform it were discussed at a forum organised by the Institute of Policy Studies on Tuesday. Insight looks at some of the proposals.

"Improve the returns on people's CPF savings" is a common refrain these days, one that was picked up by experts speaking at a forum on CPF and Retirement Adequacy on Tuesday, but they varied over how to achieve this.

Some proposed making the system more flexible, so CPF members could try and earn higher returns themselves. The lively discussion also threw up views by others who felt that the CPF Board could tweak how much it gives back to members.

Indeed, Deputy Prime Minister Tharman Shanmugaratnam surprised participants by raising an idea last considered by the Government in 2007 - he said that allowing people to invest their CPF savings in private pension plans remains an option for the future.

His comment comes amid concerns that CPF retirement savings are not growing fast enough. Fifteen years ago this month, CPF interest rates hit the Government's guaranteed minimum, and have stayed there ever since - at least 2.5 per cent for the Ordinary Account (OA) and at least 4 per cent for the Special Account (SA).

Private pension plans got the thumbs up from National University of Singapore Business School professor Joseph Cherian but even then, a portion of the CPF savings - the part that will go into annuity payments - should be "left untouched".

For funds above and beyond, he said, the CPF Board should offer a risk-adjusted programme of three choices for those with conservative, moderate and aggressive risk appetites to choose from. The plethora of investment options in the current CPF Investment Scheme makes things too complicated for the average CPF member, he tells Insight.

Under this scheme, CPF members can invest in approved products. But only funds in excess of $20,000 in the OA, and $40,000 in the SA, can be used.

As a result, there is not much diversification, Ms Wong Su-Yen, chairman of financial services firm Marsh & McLennan Companies, told the forum. Already, the CPF Board invests a large portion in government bonds, while individual CPF members often opt for deposits.

"The strength is that there is very little investment risk. But it doesn't allow members to increase capital as much as you would expect," she said.

She suggested allowing CPF members to start investing earlier, before they have saved up the minimum required, and lowering administrative costs. Financial modelling by Mercer, a subsidiary of her firm and which is a former investment consultant to the CPF Investment Scheme, shows this could increase retirement income by 16 per cent.

Offering more investment choices makes sense, says Lee Kuan Yew School of Public Policy associate dean Donald Low, because CPF members, who range from young adults to those nearing retirement, have different risk profiles. He tells Insight: "(Not giving them a choice) effectively treats the 25-year-old CPF member no differently from the 65-year-old. How can that be right? People's risk appetites change across their lifespan."

Some warn, however, that high returns involve high risk.

Statistics show only 18 per cent who have risked their OA savings between 2004 and last year have outdone the minimum interest guaranteed by the Government. Almost half incurred losses.

But financial advisory firm SingCapital's chief executive Alfred Chia cautions against being overly pessimistic, telling Insight: "Investing is an important way to grow CPF savings, because there is a limit to how much you can contribute into your CPF account with the monthly income ceiling for contribution set at $5,000."

Some, comparing CPF returns with the higher returns of other state-run pension funds, wonder if the CPF Board could do better.

Malaysia's Employees Provident Fund, which is comparable in size to the CPF, but invests in more diverse products, delivered a dividend of 6.35 per cent last year, for example.

In Singapore, the CPF OA interest is pegged to the 12-month fixed deposit and month-end savings rates of the major local banks, with a minimum rate of 2.5 per cent, while the SA interest is pegged to the 12-month average yield of 10-year Singapore Government Securities plus 1 percentage point, with a minimum of 4 per cent. Although this means that interest rates can go above the guaranteed minimums in better market conditions, this has not happened since 1999.

Associate Professor Hui Weng Tat from the Lee Kuan Yew School of Public Policy, meanwhile, suggests lowering the guaranteed interest rates by 1 percentage point, but giving higher returns to CPF members when the Government's rate of return on the pool of CPF investments exceeds interest rate pegs.

But he notes to Insight: "It will not cause financial or sustainability issues, it's more a political decision."