Many CPF investors get their fingers burnt

Only 15% made profits larger than 2.5% and 40% made losses: Report

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MOST investors who use Central Provident Fund (CPF) savings to invest would have been better off leaving their money in their Ordinary Accounts, according to the CPF Investment Scheme's (CPFIS) annual profit and loss report.

This is despite the good performance of investment funds included in the scheme.

In the financial year ended Sept 30 last year, 902,300 investors sold their CPFIS investments.

Only 15 per cent of them made a profit larger than the guaranteed annual 2.5 per cent interest rate for Ordinary Account savings. Another 45 per cent made profits of up to 2.5 per cent. The remaining 40 per cent made a loss.

Under the scheme, members can invest in CPFIS-included funds such as approved unit trusts and equity funds, as well as other investment products such as stocks and shares.

The CPFIS-included funds themselves have performed well.

They posted an average return of 5.17 per cent in the first three months of this year, according to a report by research firm Lipper last month.

The funds have grown by about 29 per cent over the past three years. But individual investors may perform poorly as a result of investing in riskier instruments instead of CPFIS-included funds, said experts.

The gap could reflect a difference in financial knowledge, investment skills and discipline, said Mr Lance Tay, chief executive officer of Tokio Marine Life Insurance Singapore.

"This can be improved with increased financial literacy and discipline, or with guidance from financial advisers," he added.

Barclays senior economist Leong Wai Ho noted that stocks and shares were subject to many more market fluctuations.

"It's better that people stick to professionally guided products like approved funds," he said. "That's more appropriate for something that's supposed to be a person's store of value, their life savings."

Earlier this year, Institute of Policy Studies research fellow Christopher Gee argued that the default risk-return balance on CPF savings is good enough for most members.

"A lack of adequate financial literacy among CPF members and potential retirees may result in sub-optimal decision-making," he noted.

On the one hand, fewer CPFIS investors are making losses now compared with the past decade. From 2004 to 2013, 47 per cent of them incurred realised losses, more than the 40 per cent who made a loss last year.

On the other hand, more investors used to earn profits above the 2.5 per cent Ordinary Account interest rate.

From 2004 to 2013, 18 per cent of investors did better, compared with 15 per cent in the last financial year. More than 25 per cent did from 1993 to 2004.