

Private pension plans an option: Tharman

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As the Government explores ways to improve the Central Provident Fund (CPF) scheme, private pension plans for those who can shoulder higher risks and want higher returns remain an option for the future, Deputy Prime Minister Tharman Shanmugaratnam said yesterday.

"I agree that we should study how to provide better options for members who are able to take higher risks, so that they can try and earn higher returns - better options than currently provided for under the CPF Investment Scheme," he said at an Institute of Policy Studies forum on CPF and retirement adequacy.

His remarks come ahead of the National Day Rally next month, in which Prime Minister Lee Hsien Loong is expected to announce plans to enhance the CPF scheme.

Yesterday, Mr Tharman said the Government has plans to provide greater security in retirement, especially for lower-income Singaporeans, help retirees meet their basic needs even as costs go up over time, and help the current generation of older folk to unlock the value in their homes. And the broad outlines of the improvements it thinks possible will be made known soon, he added.

On CPF returns, he said the CPF scheme has to be kept sustainable for the long term, and that it should give a fair return to members without exposing them to financial risks that they cannot afford.

These were points that he also made last month in Parliament, in response to questions from Members of Parliament.

The risk that ordinary working people face is a key consideration for any social security system, he said yesterday, in an hour-long dialogue with 260 forum participants, including academics, unionists and financial consultants.

He explained that the Government had looked into allowing CPF members to invest in private pension funds in 2007, but had decided not to go ahead with the plan as most CPF members then had low balances and would not be able to absorb the investment risks.

He also noted that few state pension systems offer the kind of guaranteed floors on interest rates that the CPF does. The CPF in effect pays 3.5 per cent interest on savings in the Ordinary Account and 5 per cent on funds in the Special, Medisave and Retirement accounts for the majority, and up to 1 per cent less for those with large balances, he noted.

Mr Tharman also warned that "private pension plans will not be a walk in the park", and that it is important for people to understand the risks involved in such investments.

While people could, in principle, expect to earn higher returns on riskier plans over the long term, in practice, they could go through long periods of up to 15 years without seeing these higher returns, he said.

Citing the experience of Hong Kong's Mandatory Provident Fund (MPF), which allows members to choose a pension plan according to their risk appetite, he said that it had achieved a rate of return of 4 per cent in nominal Hong Kong dollars - lower than what CPF monies in the Special, Medisave and Retirement accounts have earned in Singapore dollars, he said.

And even the most aggressive fund in the Hong Kong MPF system had achieved returns of 4.5 per cent since inception, he said.

With low bond yields and weaker growth prospects in the major economies, the main challenge will be for private pension plans to offer a "realistic chance" of achieving a better rate of return than the CPF Special Account guaranteed rate of 4 per cent to 5 per cent.

When asked about the CPF scheme over the next 50 years, Mr Tharman said: "We are in the rare position of being able to strengthen our system as we go forward, while most other systems are having to cut back on benefits or raise more taxes to sustain their social security systems. We are in a very rare situation of starting from a very strong foundation and being able to improve our system, and improve we will."