Improve financial literacy of those looking to invest CPF savings: Experts

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The proposed Central Provident Fund (CPF) investment scheme promising fuss-free products and lower fees will need only one to two options to choose from since it is meant to cater to less-savvy investors, said experts.

What is important is to improve financial literacy among Singaporeans to help them understand that the best way to grow their CPF savings through investments is to take a long-term outlook and avoid jumping in and out of products, they added, in agreement with the CPF advisory panel's recommendation. It must also be made clear to investors that there would still be risks involved, said the experts.

As part of their second and final set of recommendations, the panel had proposed a new Lifetime Retirement Investment Scheme (LRIS) as an alternative to the CPF Investment Scheme (CPFIS) since there were a "significant number" of CPF members who wanted to get higher returns by taking some investment risks but some find it daunting to navigate through the 200-odd financial products under the CPFIS.

Offering his take on the LRIS, Institute of Policy Studies senior research fellow Christopher Gee suggested having "just one or two" funds, as long as these are underpinned by the right investment products at each stage of an investor's life.

"Let's say you have a life-cycle fund — which was one of the things that the panel emphasised — then you only have to have essentially one provider that gives you the lowest cost with the appropriate maturities for people to opt for," he said. "Investment plans that allow the saver to 'fire and forget'."

These products would ideally be sourced from the open market, instead of being drawn from scratch, said UniSIM senior lecturer Walter Theseira, who noted that new products lacked any track record and were also likely to be pricey.

"If you go out to the marketplace, the best-in-class funds are already there. What you're looking for is a company that offers passive investments, built up through large economies of scale. They already know how to do this, and they have a reasonable client base," he added.

The advisory panel had noted that high investment fees, which eroded returns, were partially to blame for the overwhelming majority of current CPF investors failing to earn more than the CPF interest rates.

Professor Euston Quah, Nanyang Technological University's economics department head, described the LRIS as a "match-making agency" seeking less risky options promising stable returns for investors.

However uncomplicated the funds offered under the LRIS may be, it must be made clear to investors that as with any investment, there will be risks involved, said the experts, agreeing with the panel that there was a need for another investment scheme for less-savvy investors.

“Singaporeans would need to understand that the LRIS is not a government-guaranteed scheme, and that ultimately, performance depends on the underlying investments which are in regular stock and bond markets,” said Dr Theseira.

Mr Gee pushed for the authorities to make financial literacy compulsory for investors, so as to help them make informed decisions.

Under the existing CPFIS, members can invest their CPF savings, as long as they maintain at least S$20,000 and S$40,000 in their Ordinary and Special Accounts, respectively. The same limitations should apply to the LRIS, the panel recommended.

The products under CPFIS promise potentially higher returns, but at higher risks, and are sold through financial institutions and middlemen. When investors make frequent changes to their portfolio, they may find their profits chipped away by sales charges and annual fees.

In their recommendations, the advisory panel also called for a review of the scheme to make it more applicable to shrewd investors. Issues to be addressed included the “overwhelming” number of choices and the mismatch between buyers’ and sellers’ interests, said Mr Gee.

Other experts zeroed in on the “churning” of investments. “The problem is not with the products, but the turnover,” said Mr Sani Hamid, a director at advisory firm Financial Alliance.

“Most people buy and sell, taking a speculative short-term view. But when you use your CPF money, you should be thinking long-term,” he said, adding that the review could look into ways to prevent investors from hopping from one plan to another.