# ‘More than one investment option needed’ to protect against inflation

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The payouts that increase over time under a proposed Central Provident Fund (CPF) Life annuity scheme are aimed at protecting members’ savings against inflation to some degree, but if members want to grow their retirement nest egg for an even stronger buffer against such cost of living hikes, they will need to turn to other options, said experts.

An advisory panel looking into enhancements to the CPF system had recommended a new CPF Life option that would see “escalating” payouts at a fixed rate of 2 per cent every year for the rest of a CPF member’s life.

This is unlike the two existing plans — the CPF Life Standard and the CPF Life Basic — that give flat payouts. But the starting payouts under this new plan would also be about 20 per cent lower than the Standard plan.

Professor Euston Quah, Nanyang Technological University’s economics department head, told TODAY that “nothing really is guaranteed against inflation”.

If the future inflation rate is kept below 2 per cent, those who intend to take up the new plan will gain, he said.

But CPF members should have other types of investment to accommodate some inflation. “One should not just rely on one scheme alone to protect against inflation,” he added.

SIM University senior lecturer Walter Theseira noted that for those who are unable to find a good balance between investment risks and returns, leaving their money in their CPF accounts “may not be a bad alternative”.

The rates on the Special and Retirement Accounts are “considerably better” than those of fixed deposits and the Singapore Government Bonds, he added. Doing so would be a good option for those who are not so confident about investing on their own, especially if they come from the lower and middle-lower income groups, Dr Theseira said.

Specific to the CPF monies, senior research fellow at the Institute of Policy Studies Christopher Gee said members could also consider taking more risk for higher returns through the CPF Investment Scheme or the new Lifetime Retirement Investment Scheme.

Apart from CPF monies, he said those with other savings could also invest in risker asset classes such as real estate, some commodities and equities that are positively correlated with inflation. But he added that these will be a very “hard trick to pull off”.

Dr Theseira noted that some kinds of financial investments tend to have inflation protection, such as investments in stocks where corporate earnings tend to also rise with inflation since they can be priced higher.

While there is also a special class of inflation-protected investments that provides higher returns pegged to inflation, such as the United States Government Treasury Inflation

Protected Securities, he added that they are probably not worth the transaction and learning costs of figuring out how to invest in these instruments.

With the new CPF Life option that offers escalating payouts, Dr Theseira said the real challenge is for CPF members to forecast how they plan to spend their money during retirement.

Some might prefer to spend more in the initial years after retirement, when they are healthier. Others may want the assurance of a comfortable income when they become extremely old.

“Each plan fits a certain kind of person. But if you don’t know what kind of person you are, then you can’t choose effectively,” he said.

While the experts could not give an estimate of the take-up rate for the escalating payout plan, Mr Liang Eng Hwa, chairman of the Government Parliamentary Committee (Finance and Trade and Industry), said the initial take-up rate might be low.

Members who are approaching retirement may not have as much savings outside their CPF accounts and would not want a lower initial payout, he said.

However, the take-up rates might increase with the generation after the baby-boomers, given their higher incomes and better financial planning, added Mr Liang.