CPF money: Yours, ours or the Government's?

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To whom does our Central Provident Fund (CPF) money belong? This question comes up regularly in Singapore, and two recent cases attracted wide public attention and deep sympathies among Singaporeans.

In one case, a husband wanted to draw out his CPF monies to pay for his wife's treatment at a private hospital. She had reportedly been given a terminal diagnosis. In another, a father wanted to draw out his CPF monies for his daughter's tertiary education.

Indeed, there are provisions for members to withdraw their CPF monies for the healthcare needs of their loved ones and educational costs of their children. However, both men had reached limits set by the CPF Board.

But if the balances in our CPF accounts are our money, shouldn't we be allowed to use it as we see fit? What is more important than saving or extending the life of one's spouse or providing for the education and future of one's child?

Most would be prepared to sacrifice their retirement security, far off in the distant future, for these pressing needs. For the individual, these may be reasonable choices.

And all of these cases seem to pit a deserving David against a faceless and uncaring Goliath, the government-administered CPF. But Goliath is simply the custodian of the CPF system, and the real tension is between the individual preferences and society's broader interests.

This is because the CPF is more than just a system of individual pension accounts, much more so than Individual Retirement Accounts in the United States (otherwise known as 401(k) plans), or the Individual Savings Account in the United Kingdom.

Instead, the CPF is a social savings pool, part of which is used to pay premiums for social risk pools that cover medical and severe disability risks for Singaporeans (MediShield and CareShield Life), and ultimately to purchase an annuity plan that generates post-retirement income (CPF Life).

As CPF is a shared resource, each member contributes his or her savings and investment risk into the pool. Amounts not withdrawn from our individual CPF accounts are collectively invested in Special Singapore Government Securities to earn risk-free returns shared by all.

And if one wants to take additional risk and use some of the shared resource to help pay for various needs, then society should and must have a say on whether the savings pool can be used for such purposes.

Just as we restrict how members may use their CPF monies to purchase property (and require them to return the CPF amounts withdrawn plus interest from the sales proceeds), in a similar way, we need to restrict the use of monies for medical, educational or other purposes.

Of course in this case, the “we” refers to the people, working through the government, which in turn has a duty to protect the interests of Singaporeans.

A primary objective of the CPF is to ensure the retirement security of its members. The retirement security of citizens is a strategic concern for society: The more individuals are encouraged and enabled to save for their retirement, the better it is for society.

If there are fewer individuals that society has to support — those who are unfortunately unable to save enough — the more resources society can devote to their well-being and that of others in need.

Here’s another way of looking at the situation: as its name indicates, the CPF is a provident fund. The word provident has synonyms including prudent, far-sighted, wise, circumspect, thrifty.

Even though there is this conception that CPF savings belong to individuals, placement of those funds in the CPF pool places a responsibility not just on the fund administrators to be provident, but also on its members who are beneficiaries of its collective strength.

There are very significant benefits accruing from this collective action:

1. Low-costs — CPF balances not subject to entry, annual management or exit fees and charges. Try replicating what we get from CPF in the private market and see how much that would cost each of us;

2. Higher investment returns because we collectively invest more and for longer, yet ensuring there is sufficient liquidity for payouts in the near term; and

3. Lower volatility and investment risk. Some co-authors and I wrote a paper that considered these collective benefits.

Because our CPF funds are combined with the government’s surpluses, the enlarged pool of funds may be invested in a broader range of potential investments may be available to an individual, diversifying risks and reducing volatility.

And given the government’s sovereign status, extremely long-term investment horizons may be adopted to generate higher returns over time.

One last reason: The CPF is a mandatory savings scheme. Employees (and their employers) are required to contribute by law to this provident fund.

There is little point mandating that 37 per cent of our wages has to be saved for specific purposes, only to allow individuals to spend some or all of these savings on whatever they choose (however worthy or noble the cause).

Already, there are demands for the CPF to do much more than its original retirement financing objective. If we allow this, we may not in the end save enough altogether.

All CPF members — the poor as well as the rich, the unlucky as well as those more fortunate — benefit from the collective strength of the system.

Social risk-pooling schemes like the CPF and MediShield Life are foundational institutions for Singapore, and act in a unique way to combine our values of self-reliance and shared responsibilities to each other.

By pooling our risks and returns together, the total value of the collective system is far larger than the sum of its constituent components i.e. our individual savings accounts.

Your CPF monies are yours, but in combination within the scheme, also ours, all together.

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