1. The CPF Advisory Panel began its review by looking broadly at the CPF system today. This chapter aims to give an overview of the CPF and commonly expressed views from our public engagement on areas relating to our Terms of Reference. Subsequent chapters delve deeper into the considerations that lead to our recommendations.

What the CPF provides for CPF members

2. The **CPF is part of a larger social security system for the elderly in Singapore and does not function alone**. While it plays a key role in ensuring our elderly have peace of mind in old age, home ownership is also important as the other pillar that supports retirement adequacy. More than 90% of Singaporean households own their homes[1]. The role of housing in supporting retirement adequacy is described in Annex A.

3. The CPF is fundamentally a mandatory savings scheme that caters for living expenses in retirement, as well as housing and healthcare needs.

4. In the savings phase, the CPF system is intended to help members accumulate savings to provide assurance that they will have sufficient income in their retirement years. In this respect, the CPF caters to different groups of Singaporeans in different ways. Retirement adequacy attainable through the CPF can be considered for CPF members in three broad bands i.e. the lower income band, the middle income band, and the higher income band[2].

5. For members in the lower income band, the Panel recognises that the CPF on its own is not able to address their retirement needs fully. The Panel is also aware that its recommendations may not specifically address the needs of Singaporeans who for various reasons, have not worked and saved through the CPF, for example, because of disability or care-giving responsibilities. The retirement needs of these Singaporeans would have to be addressed through measures beyond the CPF system. The Panel notes that the Government provides targeted assistance to the lower income group, e.g. through the Workfare Income Supplement Scheme and the Extra Interest of 1% on the first $60,000 of CPF savings, to help them boost their retirement savings. For those who are less able to provide for themselves and have limited family support, there is additional assistance beyond the CPF, for example

[1] Source: Home Ownership Rate of Resident Households, 2013. Department of Statistics.
[2] As a general conceptual frame, the lower income band refers to members approximately below the 20th income percentile. The middle income band refers broadly to members between the 20th and 80th income percentile. The higher income band refers to members above the 80th income percentile.

through ComCare[3], direct healthcare subsidies and Medifund. If these are taken together, new entrant workers in this group can achieve an Income Replacement Rate[4] (IRR) of above 90% at the point of retirement based on an MOM-commissioned study in 2012[5].

6. For the broad middle income band, the Panel notes that the MOM-commissioned study found that a majority of new entrants into the CPF system (up to the 70th income percentile) would be able to accumulate enough savings through their CPF over their working lives to replace 60-70% of their pre-retirement incomes i.e. to achieve 60-70% IRR. This is comparable to international benchmarks (e.g. the OECD recommends a 70% IRR for the average individual to enjoy a standard of living in retirement similar to the standard prior to retirement. For most developed countries, the IRR is in fact about 40-60%[6]).

7. For the higher income band, the Panel recognises that the CPF system is not meant to address their retirement needs fully. The higher income group can supplement their CPF savings with private savings and investments outside of the CPF system (e.g. through the Supplementary Retirement Scheme) to achieve a net IRR of 60-70% or a higher desired standard of living in retirement.

8. In the payout phase, however, the priority is for the CPF to focus on what is needed for a basic level of expenditure for life, while giving flexibility to any savings above that. The Panel notes from the Focus Group Discussions that what is considered basic by Singaporeans can vary widely depending on one's circumstances.

9. The Panel observed that for the cohorts approaching retirement or in retirement, a larger proportion have lower CPF balances. There are several reasons for this. Wages were generally lower in the past so the amounts set aside via the CPF were correspondingly less. Older members also had a shorter runway to benefit from the 1% Extra Interest on the first $60,000 of balances which was introduced in 2008, and the Workfare Income Supplement scheme which was introduced in 2007 and tops up the CPF accounts of lower income members. Labour force participation rates of women were also lower in the past. The use of CPF savings to pay for housing will

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[3] ComCare provides social assistance for low-income individuals and families.

[4] The Income Replacement Rate is a widely-used international measure for retirement adequacy. It is the ratio of retirement income to pre-retirement earnings.

[5] Chia, N.C and A. Tsui (2012), "Adequacy of Singapore's CPF Payouts: Income Replacement Rates of Entrant Workers". Assumes the member uses his CPF savings prudently for the purposes of making withdrawals for housing pre-retirement.

[6] OECD Pensions at a Glance 2013

also result in lower CPF balances, although the home is an asset that can be tapped on to supplement retirement savings if necessary.

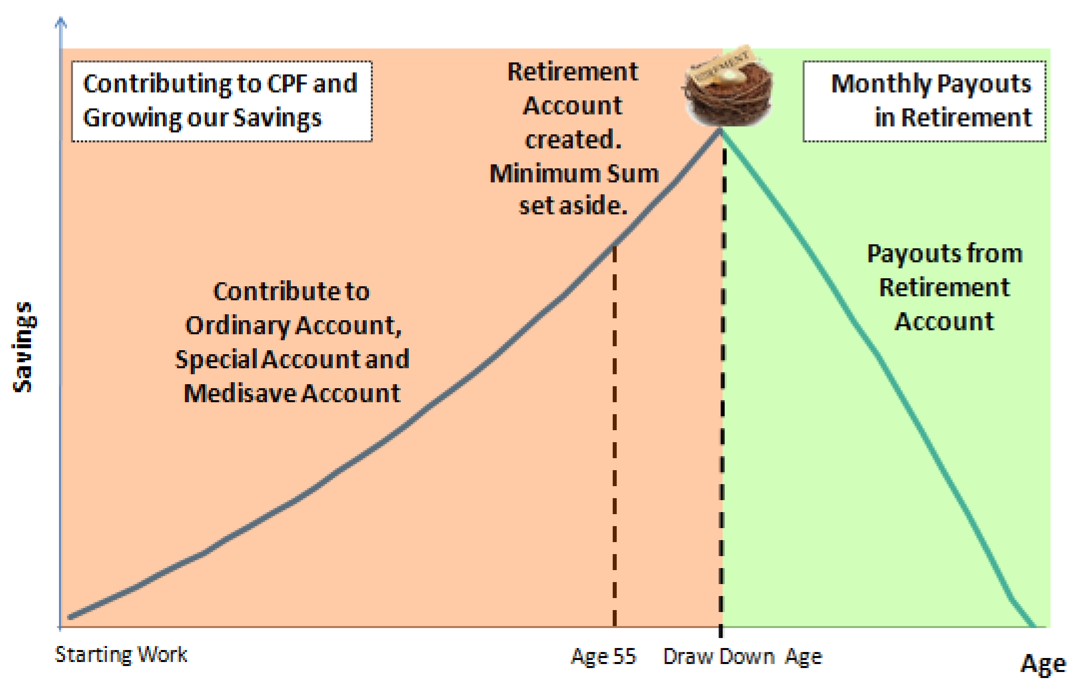
10. The Panel also notes that the balances of each successive cohort of CPF members are increasing. For example, the median balances in the Ordinary and Special Accounts of the cohort of active members just before they turned 55 in 2009 was $65,000, and had risen by 30% for the cohort in 2013, where the figure was $85,000.

11. Nevertheless, the Panel strongly supports the Government's commitment to raise the CPF contribution rates for workers aged above 50 to 55 to the same rates as the younger age groups, as this would help boost their CPF savings and post-retirement payouts. The proposed Silver Support Scheme should also play a key role in extending support for lower income households in their retirement.

12. In view of rising life expectancy, the Draw Down Age (DDA), which the Panel proposes to rename to the "Payout Eligibility Age", has been progressively raised in recent years and will reach 65 in 2018. As the life expectancy of Singaporeans continues to improve, the Payout Eligibility Age may have to be raised further in the future just as the pension eligibility ages in other countries have also been rising.

The CPF System in the Savings and Payout Phase

13. The CPF system can be considered in two phases: the savings phase and the payout phase.



14. In the savings phase, the amount of CPF savings that CPF members accumulate depends on: the frequency and duration of work, the level of wages, contribution rates, rate of returns[7] on the savings, and withdrawals made before retirement (such as for housing, education, etc.). The Terms of Reference for the Panel under this phase are to study how members can be provided with more flexibility to seek higher returns while balancing the higher investment risks involved, through private investment plans.

15. In the payout phase, the level of payouts from CPF savings will depend on: the amount of savings set aside to provide for payouts, how long payouts are to last, the payout start age, rate of returns on the savings, and any withdrawals made in a lump sum. The bulk of the Panel's Terms of Reference fall under this phase: on adjustments to the Minimum Sum, providing more choices to members on lump sum withdrawals and an additional new CPF LIFE plan with escalating payouts.

Commonly Expressed Views in relation to the Panel's Terms of Reference

16. From the Focus Group Discussions and deliberations of the Panel, a number of commonly expressed views (further details are in Annex B) relating to the Panel's Terms of Reference were noted. These include the following:

   a. A lack of public understanding on how the CPF benefits members:

   The Panel observed from the Focus Group Discussions that although the CPF is a key pillar that helps Singaporeans support themselves financially in retirement, how the CPF does this is not well understood by many.

   A telephone poll commissioned by REACH[8] in June 2014 found that a significant proportion of Singaporeans were unaware of key features and details of the Minimum Sum and CPF LIFE. For example, only 56% of the respondents knew that they did not have to top up the shortfall in cash if they did not meet the Minimum Sum; only 43% knew that they would still receive monthly payouts even if they did not meet the Minimum Sum; and only 38% were aware that they could pledge their property to help meet the Minimum Sum.

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[7] The Ordinary Account (OA) currently pays interest of 2.5% per year, while the Special Account (SA), Medisave Account (MA) and Retirement Account (RA) pay interest of 4% per year. Members earn an extra 1% interest on the first $60,000 of their combined balances, with up to $20,000 from their OA. This means that members enjoy an interest rate **of up to 3.5% on the first $20,000 of the Ordinary Account balances, and up to 5% on the first $40,000 of combined SA, MA and RA balances**.

[8] Media release can be found at: https://www.reach.gov.sg/portals/0/CPF%20Poll%20Findings%20Media%20Release%20-%207%20Jul%20website.pdf

The CPF has to be part of a wider and more proactive financial planning approach by Singaporeans. As such, what the CPF will provide in terms of monthly income support in retirement, and the implications of exercising the various withdrawal options offered must be clearly set out for CPF members. It is especially important that relevant information is communicated to those reaching critical ages where key decisions on CPF savings have to be made, such as age 55 and the Payout Eligibility Age.

b. <u>Desire for flexibility in making a lump-sum withdrawal at retirement</u>:

Many members would like the flexibility of making some lump sum withdrawal at retirement for a variety of reasons. At the Focus Group Discussions however, when participants realised the impact of such withdrawals on subsequent CPF LIFE payouts, many became concerned about the adequacy of the payouts. Members would need to understand and weigh the trade-offs between making a lump sum withdrawal at retirement and receiving higher payouts.

c. <u>Desire for greater flexibility in tailoring CPF LIFE payouts to the circumstances and needs of the CPF member</u>:

Many members appreciate that CPF LIFE only provides for a level of post-retirement income to meet basic living needs. Through the Focus Group Discussions, the Panel also noted that what members consider as basic retirement needs vary widely, but there was general agreement that CPF payouts cannot be tailored to suit the needs of each individual as this would make the system too complicated. Some members would like to have the option to save more through the CPF system to provide for a higher post-retirement income.

d. <u>Concerns over not being able to attain the Minimum Sum:</u>

This is particularly so among the older cohorts of CPF members who are nearing 55. Some members do not realise that members need not top up their CPF accounts using cash or sell their property if they do not attain their Minimum Sum, and that they will still receive monthly payouts from the Payout Eligibility Age based on the amount of CPF savings that they have.

e. <u>Perception that the goal posts keep shifting</u>:

Many members do not understand the reasons why the Minimum Sum has to increase for successive cohorts of members turning 55, and are worried about the uncertainty over future adjustments to the MS which may impact their retirement planning. Several factors that could have contributed to this are discussed in greater detail in Chapter 2 on "The Retirement Payouts and Sums".

17. In keeping with our Terms of Reference, the Panel focused on approaches and ways in which greater assurance and more flexibility could be introduced to address these issues and concerns.

18. **A key principle, however, is that these should not substantially detract from the special focus of CPF, which is to provide for a basic post-retirement income for life**. This is especially important because of Singaporeans' high and rising longevity. CPF LIFE provides lifelong monthly payouts to support expenditures in retirement. Home ownership takes away the need to spend on rental of accommodation and provides additional ways of increasing retirement income.