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The returns offered by the Central Provident Fund (CPF) are more than fair, experts said, especially when compared to benchmark 10-year government bonds. They added that the system works well for Singapore's economy.

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BY NICOLE TAN

SINGAPORE: CPF returns are guaranteed and risk-free, and are backed by one of the few remaining triple-A rated governments in the world. And industry experts said the returns are well above market rates.

The Ordinary Account pays a guaranteed minimum of 2.5 per cent, or up to 3.5 per cent for accounts with smaller balances.

According to Deputy Prime Minister Tharman Shanmugaratnam, more than half of all members enjoy the full 3.5 per cent on their Ordinary Account.

The Special, Medisave, and Retirement Account (SMRA) guarantees a minimum of 4 per cent, and 5 per cent for accounts with smaller balances.

Some two-thirds of CPF members earn the full 5 per cent on their SMRA.

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Annie Koh, Associate Professor of Finance at Singapore Management University, said: "I would say those rates are more than fair. If you look at pure Singapore dollar government bonds, even at 10-year tenure, it's actually only giving you a 2.5 per cent return.

"The government is already paying 3.5 per cent, a whole percentage point above a 10-year government (bond). And on top of that, for the SMRA account, you're actually getting 4 per cent for the majority, and 5 per cent for the smaller amounts."

However, observers noted that relying on CPF savings alone may not be sufficient, particularly for those who have higher expectations for their retirement life.

According to a survey conducted in Singapore by HSBC, more than half of the respondents feel they do not have adequate financial preparations for a comfortable retirement.

Experts said that such individuals may have to take a more proactive stance when it comes to their savings.

Dickson Tan, Financial Services Manager at IPP Financial Advisers, said: "The minimum sum scheme is currently set at S$155,000... I think a person can comfortably draw out about S$1,200 a month.

"If you look at today's cost of living or standard of living, S$1,200 is to take care of the bare minimum. If you desire more, if you have higher aspirations for the post retirement lifestyle, you need to supplement it with other forms of savings in terms of cash."

Nonetheless, academics said Singapore's retirement scheme is one of the best in the world, and they believe the risk-free model of the scheme works well, given the country's constraints.

Joseph Cherian, director of the Centre for Asset management Research & Investments at NUS Business School, said: "Singapore, being a resource-constrained country, where it all depends on human capital and trade and port services and financial services, it's probably better to be more prudent.

"My view is the risk-free approach is more suitable for Singapore, and maybe a country which is more resource-rich like Malaysia, can take on more risk."

While other schemes like Hong Kong's Mandatory Provident Fund and Malaysia's Employee Provident Fund could potentially yield higher returns, experts caution that they are also relatively riskier.

- CNA/ac