Publication: TODAY p 28
Date: 5 February 2015
Headline: Broader measures needed to maintain this garden city

PROPOSED CHANGES WILL ALLOW FOR A RANGE OF OPTIONS

Desire to give flexibility behind idea for tiered savings scheme

Members can refer to three tiers of CPF savings amounts according to their means

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SINGAPORE – Instead of fixing a standard Minimum Sum across a cohort, have three tiers of Central Provident Fund (CPF) retirement savings amounts people can refer to based on their means, a panel tasked to review Singapore's national savings scheme has proposed.

Catering to calls for greater flexibility in assessing CPF monies, the new Retirement Sum scheme the 13-member panel has mooted is driven by the quantum of monthly payouts a member wants in his golden years.

For the lowest tier, which pays between S$650 and S$700 a month, members need to have S$80,500 as the newly-created Basic Retirement Sum to pay for CPF LIFE premiums.

But this option is open only to those who own property. Members can withdraw their excess savings, provided they pledge their property. If the home is sold, the proceeds are returned to their CPF accounts.

The next tier, called the Full Retirement Sum, pays out S$1,200 to S$1,300 monthly and is targeted at those who do not own property. The savings required in the CPF account for this will be twice that of the Basic Retirement Sum, or S$161,000, because these members will need to pay rent and will not be earning any income from renting out their property.

The top tier, which pays out between S$1,750 and S$1,900 per month, is for those who wish to invest any extra cash they have beyond the Minimum Sum through the CPF.

Members who choose this Enhanced Retirement Sum option can keep up to three times the Basic Retirement Sum in their accounts, or S$241,500. The cap is to prevent wealthier CPF members from investing too much into the system, thereby increasing the costs on the Government from paying out the 4 per cent interest.

Speaking at a press conference yesterday, National University of Singapore president Tan Chorh Chuan, who chairs the advisory panel, said the proposed changes will allow for a range of options from which members can make informed choices, rather than a one-size-fits-all approach.

When deriving this scheme to replace the Minimum Sum, they thought about how people normally plan their savings, said panel member Benedict Koh. "Most people plan by saying, 'How much do I need per month for expenditure?'," said Professor Koh, who is also associate dean at the Singapore Management University. "And given ... the expected expenditure per month, then we work backwards and say, 'What should be the required amount that you need to save?'."

The payouts under the Basic Retirement Sum are in line with the lower-middle retiree household spending per person, with inflation factored in.

Noting the public confusion over the CPF system and existing Minimum Sum scheme, Prof Tan said the panel tried to help members understand the workings more intuitively by placing payouts as the starting point for retirement planning.

Other than the suggestion of the three options, the panel also proposed giving members the choice of when they want to start collecting payouts. Those who want their payouts to start later than the current Draw Down Age of 65 should be given room to do so, until they turn 70.

"About 40 per cent of Singapore residents between the ages of 65 and 70 continue to receive an income from work. Some may not need payouts to start at their Payout Eligibility Age," said the panel, using the new term it created to replace the Draw Down Age. The panel also proposed increasing monthly payouts by 6 to 7 per cent for each year that members push back the collection of their payouts.

With increasing life expectancy, the Payout Eligibility Age may also have to be raised in future, it said, noting that the start ages for pensions in other countries have been rising.

Minimum Sum Not well understood

The panel is enhancing the existing system, we're not overhauling it ... But we've found in the course of our work that the Minimum Sum scheme is not well understood at all. In fact, it's rather badly understood. So, we think it's very important for us to try to reframe it, so that (Central Provident Fund) members, Singaporeans can understand it much more intuitively. And that's the reason we think that focusing on payouts is a good starting point.

Prof Tan Chorh Chuan
CHAIRMAN OF CPF ADVISORY REVIEW PANEL