Background: How the CPF system works today

1. Under today's rules, CPF members are required at age 55 to set aside part of their CPF savings to provide for monthly payouts in retirement from the Payout Eligibility Age. Some savings can still be withdrawn in the form of a lump sum. CPF members who turned 55 before 2013 could make relatively large unconditional lump sum withdrawals of a proportion of their CPF savings at age 55[1]. This meant that many members did not have adequate savings for retirement. Furthermore, as the life expectancy of Singaporeans continued to rise, our CPF system needed to evolve to provide the assurance of a basic level of retirement income even as members spent more years in retirement. Hence, it was announced in 2003 that withdrawal rules at age 55 would be progressively tightened from 2009 so that by 2013, cohorts turning age 55 who could not meet their cohort Minimum Sum and prevailing Medisave Minimum Sum, would only be allowed to withdraw $5,000 of their CPF savings unconditionally. The chart at Annex 3-A illustrates the changes in withdrawal rules for CPF members.

Considerations

2. ***Meeting short-term cashflow needs.*** The Panel recognises that many CPF members wish to have the flexibility to access part of their CPF savings in a lump sum, to cover expenditures that they may encounter upon entering retirement. The current $5,000 that can be withdrawn at age 55 or later may be insufficient for these purposes.

3. However, the flexibility to make further withdrawals, if exercised, would result in lower monthly payouts in retirement. Members with low balances, in particular, could end up with payouts that are well below what they would need. The Panel carefully considered the merits of allowing for a lump sum withdrawal at the Payout Eligibility Age[2], the quantum of the withdrawal and the conditions under which this could be provided for.

---

[1] CPF members who turned 55 before 2009 could withdraw up to 50% of their CPF savings upon turning 55. This was progressively phased out from 2009 to 2013.

[2] Also known as the Draw Down Age (DDA), which will be 65 from 2018 onwards.

Recommendations

<u>Recommendation 8:</u> Allow the option to withdraw up to 20% of Retirement Account Savings at the Payout Eligibility Age. This withdrawal should be**:**

- Inclusive of the $5,000 that can already be withdrawn unconditionally from age 55. This will ensure that members with very low balances do not deplete their retirement savings further.
- Made available to CPF members who turned 55 from 2013 onwards, as older cohorts already had more liberal withdrawal rules, and were able to withdraw 20% or more of their retirement savings from age 55[3].

4. CPF savings are fundamentally for retirement, and with high and rising longevity, need to provide monthly payouts for as long as the member lives. At the same time, the Panel recognises that many members may have some short-term cash flow needs in retirement. While allowing a further lump sum withdrawal will decrease retirement payouts, the Panel felt that some flexibility could be given so that CPF members would have the option to consciously trade off the benefits of a lump sum withdrawal against a lower monthly retirement income.

5. In this regard, the Panel received feedback that a lump sum withdrawal at the Payout Eligibility Age may be too late for some members, who may wish to have the cash sooner to cover religious obligations such as the Haj, or to cover a child's tertiary education or wedding expenses. Some members may also find themselves unemployed before their Payout Eligibility Age. The Panel studied various options that would allow for a limited lump sum withdrawal prior to the Payout Eligibility Age. However, given the primary importance of post-retirement adequacy particularly for members with lower CPF balances, we felt that on balance, the flexibility to make a lump sum withdrawal is ideally exercised at the Payout Eligibility Age, where the trade-off between a lump sum withdrawal of one's retirement savings and lower monthly payouts is most clear to members. Other sources of government assistance should be available to help those who find themselves in financial need before their Payout Eligibility Age.

[3] An allowance can be made for members who turned 55 in 2012 to withdraw an additional 10% of their RA savings at the Payout Eligibility Age, as they were only able to withdraw 10% of their balances from 55.

6. The Panel also considered different options for lump sum withdrawal at the Payout Eligibility Age and their potential impact, particularly on members with lower CPF balances. Based on this, the Panel recommends allowing members the option to make withdrawals of **up to 20% of their Retirement Account (RA) Savings at the Payout Eligibility Age to meet shorter-term cashflow needs**, subject to the following conditions:

   a. The withdrawal should be inclusive of the $5,000 that can already be withdrawn unconditionally from age 55. This will ensure that members with very low balances do not deplete their retirement savings further.

   b. Made available to CPF members who turn 55 from 2013 onwards, as older cohorts already had more liberal withdrawal rules and were able to withdraw 20% or more of their retirement savings from age 55.

7. We recognise that for members who turned age 55 in 2012, they could only withdraw 10% of their savings from age 55 as a result of the tightening of the withdrawal rules. To make allowance for this in relation to the recommended withdrawal rules, the Panel recommends that this cohort should be allowed to make a further withdrawal of 10% of their RA savings at their Payout Eligibility Age.

8. The impact of the Panel's recommendation on retirement payouts for members with different CPF balances is shown in the table below. Should members choose to exercise this flexibility, they may reduce their retirement payouts below what they need. Hence, members should exercise this option with care.

Figure 3.1: Illustrative Impact of Lump Sum Withdrawal on Retirement Payouts

@ Age 55		@ Age 65		
Set aside for withdrawal at any time	**Remaining CPF savings that are moved to the Retirement Account (RA)**	**Estimated Payouts from RA Balances (before withdrawal)**	**Withdrawal Amounts from RA**	**Estimated Payouts from RA Balances (after withdrawal)**
$5,000	**$80,500**	$680	**~$19,700**	$580
$5,000	**$40,000**	$360	**~$7,700**	$320
$5,000	**$20,000**	$180	**~$1,400**	$170
$5,000	**$15,000**	$140	**$0**	$140

(*See footnotes*[4])

[4] (a) The $5,000 that is withdrawable is set aside outside of the Retirement Account, and is not counted towards the Retirement Account balances at age 55. It can be withdrawn at any time from the age of 55;
(b) Figures assume Retirement Account savings grow with interest at current CPF interest rates, a payout start age of 65, and that annuitisation of premiums occur at 65. For simplicity, additional savings from CPF

9. Members should not feel compelled to make the additional withdrawal at their Payout Eligibility Age if they do not have a pressing need for the lump sum. The Panel recognises that for many members, it is not ideal to exercise this option for lump sum withdrawal especially if they have low CPF balances. Hence, we recommend that the Government consider providing incentives to encourage CPF members to retain their retirement savings in the CPF to provide for higher monthly payouts, particularly for members with lower balances. Members who do not exercise the lump sum withdrawal at the Payout Eligibility Age, should continue to retain the flexibility to withdraw the amount at any point after, less any monthly payouts already drawn.

Additional Observation: the Medical Grounds Scheme

10. At some of our Focus Group Discussions (FGDs), there were concerns raised that some CPF members may need earlier access to their CPF savings for medical reasons, for example, members who suffer from a terminal illness. The Panel noted that many did not know that there are already existing provisions today under the CPF Medical Grounds Scheme to allow for the early withdrawal of CPF savings for members with serious medical conditions. More information on the scheme can be found in Annex 3-B.

11. In view of this, the Panel feels that the Medical Grounds Scheme should be more widely publicised to the public. Medical social workers and counsellors in hospitals and hospices should also be made aware of the availability of this scheme so that they can assist CPF members in such situations to access their CPF savings.

contributions between age 55 and 65 are not shown in the illustration. Payouts are estimates for males based on the CPF LIFE Standard Plan;

(c) For the member with $15,000 in his RA at age 55, no further withdrawal is allowed at age 65 because the member can already withdraw the $5,000 that is set aside at 55 or later, which is more than 20% of the Retirement Account savings that he has at age 65.

Recommendation 9: Provide appropriate and timely information, and financial counselling, to help members make informed choices before a withdrawal

- Especially for members who:
  - Own a property and are making a withdrawal of their CPF savings above the Basic Retirement Sum.
  - Opt to withdraw 20% of their Retirement Account savings at the Payout Eligibility Age but who have savings below the Basic Retirement Sum.

12. Recognising that these additional options in retirement could be confusing for some members, the Panel observes that more public education will be necessary to improve members' understanding of the CPF system and to enable them to make informed decisions best suited to their own unique circumstances.

13. The provision of specific and timely information to members is particularly critical for two key decisions:

    a. At 55, members who own a property can set aside the Basic Retirement Sum, subject to a charge/pledge on the value of the property. There might be situations when a member has a spouse with insufficient CPF savings of her own, or both members as a couple may have limited sources of post-retirement support outside the CPF. If the member has CPF savings above the Basic Retirement Sum, he should consider annuitizing the full amount rather than just the Basic Retirement Sum, so as to secure the higher level of payouts needed. Alternatively, he could use the excess savings above his Basic Retirement Sum to top up his wife's CPF. The Panel recommends that members in such situations be offered financial counselling on their retirement needs as a couple prior to opting for a lower payout from the Basic Retirement Sum.

    b. At the Payout Eligibility Age, members can opt to withdraw up to 20% of their Retirement Account savings. For those with RA savings that are less than the Basic Retirement Sum, opting for such a withdrawal will result in a decrease in their monthly payouts which may fall below what the members would require to cover basic expenses.

ANNEX 3-A – AGE 55 WITHDRAWAL RULES

Changes have been made to the age 55 withdrawal rules for CPF members over the years.

Year Which Members Turned Age 55	Applicable Withdrawal Rule (%)
2008	Highest of • **50%** of savings in the Ordinary Account (OA) and the Special Account (SA), and Medisave Account (MA) savings above the Medisave Minimum Sum (MMS); • $5,000; or • Savings above the Minimum Sum (MS) and prevailing MMS
2009	Highest of • **40%** of savings in the OA and SA, and MA savings above the MMS; • $5,000; or • Savings above the MS and prevailing MMS
2010	Highest of • **30%** of savings in the OA and SA, and MA savings above the MMS; • $5,000; or • Savings above the MS and prevailing MMS
2011	Highest of • **20%** of savings in OA and SA, and MA savings above the MMS; • $5,000; or • Savings above the MS and prevailing MMS
2012	Highest of • **10%** of savings in OA and SA, and MA savings above the MMS; • $5,000; or • Savings above the MS and prevailing MMS
2013 or after	Higher of • $5,000; or • Savings above the MS and prevailing MMS

ANNEX 3-B – CPF MEDICAL GROUNDS SCHEME[5]

1. Members can apply to withdraw CPF savings on medical grounds if you:

   i. Are suffering from an illness which renders you permanently unfit from ever continuing in any employment; or

   ii. Have a severely reduced lifespan; or

   iii. Are terminally ill.

2. If your application is approved under Condition (i) and (ii), you have to set aside a Reduced Minimum Sum (RMS) and the current Medisave Minimum Sum (MMS) in your Retirement Account and Medisave Account respectively. Any balance after setting aside the RMS and MMS will be paid to you in a lump sum.

3. In addition, you will receive monthly payments from the amount set aside in your Retirement Account until the balance in your Retirement Account is exhausted.

4. If your application is approved under Condition (iii), you will be able to fully withdraw the savings in your CPF Ordinary, Special and Retirement Accounts, and the savings in your Medisave Account in excess of the current MMS.

5. The following table sums up the allowed withdrawals under the Medical Grounds Scheme.

<table>
<tr><th colspan="3">Current Medical Grounds Scheme</th></tr>
<tr><th colspan="2">Eligible Members</th><th>Allowed withdrawals</th></tr>
<tr><td>i.</td><td>Permanently Incapacitated/ Unsound Mind</td><td rowspan="2">• Lump sum withdrawal of savings in RA <u>above RMS</u> (35% of current MS) and MS savings above MMS
• Receive monthly payouts for 7 years (subject to a minimum of $250/month)</td></tr>
<tr><td>ii.</td><td>Severely Impaired Life Expectancy</td></tr>
<tr><td>iii.</td><td>Terminally Ill</td><td>Lump sum withdrawal of CPF OA, SA and RA savings as well as MA savings above MMS</td></tr>
</table>

[5] Source: http://mycpf.cpf.gov.sg/CPF/my-cpf/Healthcare/PvdHC8.htm