Recap: CPF Advisory Panel's Terms of Reference

1. The 13-member Panel, chaired by Professor Tan Chorh Chuan, comprises academics, financial industry practitioners and community representatives from the unions, social sector and grassroots. Our Terms of Reference were to study:

    a. How the Minimum Sum should be adjusted after 2015, in order to meet the objective of delivering a basic monthly retirement payout for life;

    b. How to enable CPF members to withdraw more as a lump sum upon retirement, and the circumstances for their doing so, taking into consideration the impact on retirement adequacy for different groups;

    c. How to provide an option for members who prefer CPF payouts that are initially lower but rise with time to help with increases in the cost of living; and

    d. How to provide more flexibility for members who wish to

        i. Seek higher returns while balancing the higher investment risks involved, through private investment plans;

        ii. Invest in private annuities when they retire as an alternative to CPF LIFE.

From Part I to Part II

2. The CPF Advisory Panel submitted Part I of our recommendations to the Government in February 2015. These recommendations covered our first two Terms of Reference, pertaining to future adjustments to the Retirement Sums and to provide the additional flexibility for a lump sum withdrawal at the Payout Eligibility Age. More details of Part I of our recommendations can be found within the preceding chapters of our report.

3. The next two chapters lay out Part II of our recommendations, which cover our third and fourth terms of reference, and explain the Panel's deliberations in arriving at our recommendations.

4. The Panel's recommendations in Chapter 4, on providing an option for CPF payouts that rise over time to help with increases in the cost of living, were informed by our Focus Group Discussions (FGDs) with the general public.

5. The Panel's recommendations in Chapter 5, relating to private investments and private annuities, also benefitted from additional FGDs with the general public as

well as consultations with the financial industry. In addition, the Panel engaged a consultant, Mercer, to ensure that our recommendations were feasible.

6. The Panel recognised that in contrast to our recommendations in Part I and our recommendation for an additional CPF LIFE plan with escalating payouts in Part II, our recommendations for a Lifetime Retirement Investment Scheme in Part II are likely to be more applicable to younger cohorts of CPF members who have a longer runway and more investible savings to take investment risks for a higher expected return.

Key Guiding Considerations

7. The key considerations of flexibility and simplicity that guided the Panel in Part I also applied to Part II.

8. The Panel recognised that a significant number of CPF members desired greater flexibility to take some investment risks in the hope of higher expected returns, so as to increase their savings for retirement. Other members would like the flexibility of an option that provides CPF LIFE monthly payouts that would rise over time to help with increases in the cost of living, even though the initial payouts for such a plan would be lower than the existing level payout options.

9. The Panel was also mindful of the need for simplicity in formulating its recommendations. For example, while some members of the public asked, during the FGDs, for "as much choice as possible", the trade-off is a much higher degree of complexity. The CPF system is already not well understood by many, hence in the interests of simplicity, the Panel's recommendations in Part II of our report, propose only one additional CPF LIFE plan with escalating payouts, and a simple Lifetime Retirement Investment Scheme for CPF members.

Overview of Key Points and Summary of Recommendations

10. This section provides an overview of the Panel's key findings and summary of our recommendations, while the next two chapters explain the Panel's deliberations and recommendations in greater detail.

11. To cater to CPF members who are concerned that currently, CPF LIFE payouts do not increase over time to address the rising cost of living, the **Panel recommends introducing an additional CPF LIFE plan, with payouts that increase at a set 2% per year**. Such a plan will naturally have lower payouts at the start, as compared to the level payouts offered by existing CPF LIFE plans for the same amount of CPF savings committed. However, our recommendations in Part I provide the flexibility for CPF members to choose to top-up their CPF LIFE premiums further, up to the Enhanced Retirement Sum, or defer their payout start age if they wish to have higher starting payouts.

12. The Panel expects that there will be an increasing number of CPF members, particularly among younger members, who would wish to invest their CPF savings to achieve higher returns because of larger CPF balances and greater expectations in terms of their lifestyles in retirement.

13. However, the current CPF Investment Scheme (CPFIS) has some limitations for such CPF members. While the current CPFIS offers a wide menu of investment products to cater to a broad range of investor expertise and experience, it is not specifically designed to meet the needs of CPF members who wish to invest but feel they lack the financial expertise and/or time and resources to actively manage their investments. There are a significant number of such CPF members and these members would benefit from an investment scheme that is simpler to choose from, and has significantly lower fees as compared to what can be realised by CPFIS, which mainly operates on a retail basis where funds are marketed and sold to individual investors.

14. Hence, the **Panel recommends introducing a new CPF Lifetime Retirement Investment Scheme** with the following design features:

    a. Comprise a small number of well-diversified funds, which are simpler for CPF members to choose from. These funds should not rely on CPF members to actively rebalance their portfolios and should help them enjoy the benefits of long-term investing. For example, for members with a sufficiently long investment runway, a fund with a life-cycle investment approach could be considered.

b. A lower cost of investing achieved by reaping economies of scale through pooling investments in bulk, and adopting a passive management approach. Passive management also removes the risk of under-performing the market due to poor active fund manager selection.

c. Allowing only CPF savings above $20,000 in the Ordinary Account (OA) and above $40,000 in the Special Account (SA) to be invested, similar to the current investment thresholds for the CPFIS.

15. The Panel also recommends that the Government proactively promotes awareness and understanding of the Lifetime Retirement Investment Scheme to eligible CPF members. Such members should be actively asked and reminded to choose between the CPF interest rates scheme and the Lifetime Retirement Investment Scheme. The Panel further recommends establishing an expert investment council to advise on the set-up and implementation of the Lifetime Retirement Investment Scheme.

16. In addition, the **Panel recommends that the Government review the current CPFIS** to better target it at knowledgeable CPFIS investors who feel confident of managing their investments on their own, and also have the time to do so.

17. Separately, with regards to providing more flexibility for members to invest in private annuities, the Panel affirms that **CPF LIFE continues to work well as the default annuity scheme that provides a stable, lifelong income stream for the majority of CPF members**. Nonetheless, the Panel recognises that there may be growing demand for private annuities to complement CPF LIFE, as CPF balances continue to increase for each successive cohort and more CPF members may desire higher lifelong payouts above what the Enhanced Retirement Sum can provide through CPF LIFE.

Conclusion

18. Building on the additional flexibilities and assurance provided by our Part I recommendations, the Panel believes that Part II of our recommendations will further enhance the CPF system by providing simple and meaningful choices that will help current and future generations of CPF members to strengthen their retirement adequacy.

List of Part II Recommendations

19. Part II of the Panel's recommendations can be divided into two broad categories:

    a. Providing flexibility for an additional CPF LIFE plan with escalating payouts; and

    b. Providing flexibility for an additional simpler investment option.

PROVIDING FLEXIBILITY FOR AN ADDITIONAL CPF LIFE PLAN WITH ESCALATING PAYOUTS

20. Recommendation 10: An additional CPF LIFE plan should be offered with payouts that increase at a set percentage every year.

21. Recommendation 11: The rate of increase of payouts should be set at 2% for the escalating CPF LIFE plan.

PROVIDING FLEXIBILITY FOR AN ADDITIONAL SIMPLER INVESTMENT OPTION

22. Recommendation 12: The Government should introduce another simpler investment option for CPF members who desire, and have the potential, to seek higher expected returns by taking some investment risks as the CPFIS is not specifically designed to meet the needs of CPF members who wish to invest but feel they lack the financial expertise and/or time and resources to actively manage their investments. For the purposes of this report, this additional investment option is referred to as the Lifetime Retirement Investment Scheme.

23. Additionally, the Government should review the CPFIS to better target it at knowledgeable CPFIS investors who feel confident of managing their investments on their own.

24. Recommendation 13: The Lifetime Retirement Investment Scheme should provide a small number of well-diversified funds, which are simpler for CPF members to choose from. These funds should not need to rely on CPF members to actively rebalance their portfolios and should help them enjoy the benefits of long-term investing.

25. Recommendation 14: The cost of investing in the Lifetime Retirement Investment Scheme should be kept as low as possible by pooling CPF savings to purchase investments in bulk. The funds offered under the scheme should be passively managed.

26. Recommendation 15: The current CPF investment limits that apply for OA and SA savings should be maintained. An increasing number of CPF members will reach these investment limits at a younger age.

27. Recommendation 16: The Government should proactively promote awareness and understanding of the Lifetime Retirement Investment Scheme to eligible CPF members. Eligible CPF members should be actively asked and reminded to choose between the CPF interest rates scheme and the Lifetime Retirement Investment Scheme.

28. Recommendation 17: An expert investment council should be established to advise on the set-up and implementation of the Lifetime Retirement Investment Scheme.