

4 February 2015

## **CPF ADVISORY PANEL RELEASES PART ONE OF RECOMMENDATIONS - TO PROVIDE GREATER ASSURANCE AND MORE FLEXIBILITY**

The CPF Advisory Panel, set up in Sep 2014 to review ways to strengthen the CPF system, has submitted Part One of its recommendations to the Government. The Panel's report covers the first two of the areas under review by the Panel, pertaining to future adjustments to the Minimum Sum and the issue of lump sum withdrawals.

2. In its report, the Panel recognised that the retirement needs and concerns of CPF members varied widely. Its recommendations aimed to strike a balance between ensuring that the focus of the CPF remains on providing a basic level of lifelong support in retirement, while offering additional flexibility to cater to varying needs.

### ***Clearer Choices over CPF LIFE Payouts and the Retirement Sums to Set Aside***

3. In explaining its proposals for adjustments to the Minimum Sum, the Panel has recommended focusing first on the desired level of monthly payouts in retirement, as this is a more intuitive way of planning for retirement.

4. Referencing retiree household data from the Department of Statistics, the Panel has assessed that it would be prudent for CPF members turning 55 in 2016, to set aside enough CPF savings to provide for a Basic Payout of about \$650 to \$700 per month when they retire in 10 years' time. To receive this Basic Payout, members would need to set aside a Basic Retirement Sum (BRS) of \$80,500 as premiums in 2016. This premium amount is calculated by CPF Board's external actuaries. Of active CPF members turning 55 in 2020, it is expected that about 7 in 10 will have enough CPF savings to meet the Basic Retirement Sum.

5. CPF members can withdraw their savings above the BRS subject to a CPF charge/pledge on the value of their property. This means that if the member sells his property, the amount of the charge/pledge will be returned to his CPF to supplement his basic payout, particularly if he now needs to pay rent on his accommodation. Members who do not own their homes should set aside the Full Retirement Sum (FRS) at two times the BRS, or \$161,000 in 2016.

6. The Panel has also recommended that CPF members who want higher CPF LIFE payouts be allowed to voluntarily top up their CPF LIFE premiums with savings or cash up to the Enhanced Retirement Sum (ERS), which is set at three times the BRS, or \$241,500 in 2016.

7. CPF members should also be given the flexibility to defer their payout start age, up to age 70, to enjoy permanently higher monthly payouts of 6-7% for every year deferred.

### ***Providing Longer Notice to the Adjustment of the Retirement Sums***

8. The Panel emphasised that the Basic Payout for successive cohorts should increase so that it remains adequate for basic retirement needs, taking into account long-term inflation and some increase in the standard of living. To receive the increased Basic Payout, the Basic Retirement Sum will also have to be adjusted accordingly. The Panel recommended that the Basic Retirement Sum (of \$80,500 in 2016) be increased by 3% for each successive cohort of members turning 55 from 2017 to 2020. This will give future cohorts longer lead notice of the Basic Retirement Sum applicable to them, as compared to the current system where the Minimum Sum is announced only a few months in advance.

### ***Flexibility for a Lump Sum Withdrawal at the Payout Eligibility Age<sup>1</sup>***

9. To cater for members who may have shorter-term cash needs in retirement, the Panel recommended that CPF members be given the option to withdraw up to 20% of their Retirement Account Savings at the Payout Eligibility Age, inclusive of the \$5,000 that they were eligible to withdraw from age 55. The Payout Eligibility Age is currently 64 and will rise to 65 in 2018. The Panel stressed that CPF members who exercise this option should bear in mind that their monthly CPF LIFE payouts will permanently decrease as a result.

### ***Top-Ups to Members with Lower CPF Balances***

10. The Panel highlighted that every CPF member should be encouraged to have his/her own CPF LIFE plan, with incentives to top up the CPF accounts for lower-balance family members. This is especially important for housewives who are reliant on their husbands' CPF LIFE payouts, as women tend to outlive their husbands. The Panel proposes that members be allowed to transfer their CPF savings above what they require for the Basic Retirement Sum, to their spouse's Special or Retirement Accounts. In this way, each spouse would benefit from the Extra Interest on lower CPF balances, and have their own lifelong income from CPF LIFE.

### ***Targeted Information and Financial Education***

11. With these additional options in retirement, the Panel recommended that specific and timely information, and financial counselling, should be provided to members to enable them to make informed choices.

12. In a letter to Minister for Manpower Tan Chuan-Jin, Panel Chairman Prof Tan Chorh Chuan said that he was "grateful to everyone who [had] taken the time to share their experiences, views and suggestions with the Panel", and added that "the Panel hopes that our recommendations will provide useful insights in helping the Government to improve the CPF system and ensure that Singaporeans are adequately supported in retirement, with sufficient flexibilities to meet their varied needs."

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<sup>1</sup> Also known as the Draw Down Age, which will be 65 from 2018 onwards.

13. In his response, Minister Tan said that the Government has accepted the Panel's recommendations and will provide details on the CPF changes it will make in response to the Panel's recommendations at the Budget and Committee of Supply parliamentary debates later this month.

14. The Panel will continue its work on two other areas under its purview on alternative private investments and annuities and introducing a CPF LIFE plan with an escalating payout structure. It aims to complete its study and submit Part Two of its recommendations by mid-2015.

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