CPF INVESTMENT SCHEME 'NOT FIT FOR PURPOSE'

Tharman prods younger S'poreans to take 'controlled risks' with CPF funds

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SINGAPORE – For Singaporeans who have sufficient savings in their Central Provident Fund (CPF) accounts, the Government wants them to start taking "controlled risks" with their CPF monies at a younger age to earn higher returns, said Deputy Prime Minister Tharman Shanmugaratnam yesterday.

Speaking at the Economic Society of Singapore's annual dinner at Mandarin Orchard hotel, Mr Tharman said helping those who have more than the basic amount of CPF savings earn better returns was one of the priorities for the country's retirement system.

He also described the CPF Investment Scheme (CPFIS) — which the Ministry of Manpower is reviewing, following a recommendation by the CPF advisory panel — as being "not fit for purpose".

Under the CPFIS, members can invest their CPF savings, as long as they maintain at least S$20,000 and S$40,000 in their Ordinary and Special Accounts, respectively. The products promise potentially higher returns, but at higher risks. "It hasn't worked out," said Mr Tharman.

Unlike the previous generations, he noted, Singaporeans today are going to have substantially more savings because of higher incomes and the tightened rules that ensure people save more in their CPF accounts. "So we've got to enable people, starting from a younger age to take controlled risks using their CPF monies in order to earn higher expected returns. Not guaranteed but expected over the long run to earn higher returns than what CPF accounts would normally offer," he added.

These returns come on top of the guaranteed returns of 3.5 per cent annual interest on the first S$20,000 in their Ordinary Accounts and the 5 per cent returns per year on the first S$40,000 in the Special Accounts, he said, adding that the authorities want to "make it easy" for this group to earn a good return.

The traditional way to invest with CPF monies would be through the CPFIS, where people can pick from a whole plethora of unit trusts and other financial instruments, said Mr Tharman, who also noted that the global challenge of retirement is compounded by a new macroeconomic environment characterised by low long-term interest rates.

Official figures showed that over the past decade, more than 80 per cent of those who invested their monies through the CPFIS would have been better off leaving their monies in the Ordinary Accounts, where, beyond the first S$20,000, they can earn a 2.5 per cent interest per year. In fact, 45 per cent of them made losses, he said.

Unveiling its recommendations last month, the advisory panel — chaired by National University of Singapore President Tan Chorh Chuan — found that the CPFIS was "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".

Mr Tharman and Professor Euston Quah, President of the Economic Society of Singapore (ESS), during the society's annual dinner yesterday. Mr Tharman also highlighted three priorities for Singapore's retirement system, including helping the elderly to unlock value from their homes. PHOTO: NURIA LING

Mr Tharman also referred to the panel's proposal for a Lifetime Retirement Investment Scheme, which provides CPF members with a small number of well-diversified funds that do not require active portfolio management and charges less in fees.

Mr Tharman also highlighted three other priorities for Singapore's retirement system, including helping the elderly to unlock value from their homes. Most elderly today are quite happy to hold on to their homes even if they do not hold much cash as they are able to rely on their children, he said.

But he urged Singaporeans to take up the Lease Buyback scheme or the Silver Support scheme for the lower income to supplement their retirement payout. This is a move common in other advanced countries, where concepts such as reverse mortgages have been around, he said.

The authorities are also looking to help Singaporeans work for as long as they would like to and to make this an attractive option, said Mr Tharman.

It is a social need, for the health of the body and mind of the elderly. "Staying at home and on the treadmill doesn't do it," he said.

"(But) it does require a cultural change and I would say we are not there yet. We are, like most other countries, still an ageist society and we have to change," he added.

The retirement system also rests on sound governance, he said. This is because part of the retirement system depends on the spending of the Government budget, he said. In that regard, the recent proposals on the changes to the Elected Presidency are important, he noted. The Government, the Elected President, the Council of Presidential Advisers and the Parliament each play critical roles in the system of checks and balances.

Public transport fares could be cut by as much as 5.7%

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by the PTC is pegged to changes in the Core Consumer Price Index, the Wage Index and the Energy Index over the preceding year. "Based on this, the maximum allowable fare adjustment quantum is -5.7 per cent," PTC said.

With the public bus industry transiting to the bus contracting model, bus operators will not be required to apply to the PTC for approval of fares. Train operators may submit fare adjustment applications by Oct 7.

The PTC will announce its decision on the fare adjustment quantum in the last quarter of this year. Typically, the new fares kick in from April. Experts interviewed noted the falling energy prices and the deflationary environment. Last month, consumer prices fell for the 21st consecutive month — the longest streak of negative inflation on record.

National University of Singapore transport researcher Lee Der-Horng cited the downward trend in energy prices as a major factor. He added that the significant reduction for fares next year could be due to a time lag effect.

"The (fares) could have been adjusted downward (further this year) but was constrained by the data available," he said.

SIM University senior lecturer Walter Theseira noted that energy prices had fallen greatly over the past year. On top of that, Singapore is currently in "a mildly deflationary environment", he said.

Nevertheless, he felt that the question is whether fares can cover the long-term costs of delivering a world class public transport, including funding the quality of service which the public expects and the costs of replacing assets. He said: "The fare formula is well-tuned to cover operating costs but it may not do as good a job of covering longer run system-wide costs."

He added: "Public subsidies may be necessary to deliver the quality of service Singaporeans expect at the price they're willing to pay, but as time goes on, we have to ensure the system remains cost effective."

The PTC said that in considering the applications, it will ensure that fares "strike a balance between ensuring that the public transport system is financially-sustainable and keeping fares affordable for commuters".

SBS Transit said it would make an announcement if it submits an application for a fare review. SMRT declined comment. In 2009, with Singaporeans reeling from the global financial crisis, fares were cut by 4.6 per cent after the two public transport operators chose to pass on cost savings from Government's measures to commuters in the form of lower fares.