

Chapter 5

Details of the Lifelong Income Scheme

AVAILABLE MINIMUM SUM BALANCES

1 By the end of his or her working life, a CPF member would have accumulated significant savings in his CPF accounts. The first cohort of CPF members to participate in the LI scheme will be those turning 50 years old in 2008. Of the approximately 35,000 active members in the first cohort of LI participants, 60% will have at least \$67,000 in cash in their Retirement Accounts by age 55 (see Table 5-1). Most of them would also have a property or investments bought with CPF monies which can be converted into additional income for the member.

Table 5-1: Projected Cash RA Balance of Active Members of First Cohort of LI Participants at Age 55 in 2013

Male		Female	
Percentile according to RA balance	Projected cash RA balance at 55	Percentile according to RA balance	Projected cash RA balance at 55
25	\$38,000	25	\$36,000
50	\$101,000	50	\$67,000

Source: CPF Board

2 The Committee was strongly encouraged by these figures. They provide a more holistic picture of the retirement adequacy of Singaporeans, and point to significantly healthier amounts of cash available for retirement among the first LI cohort. This is due to three reasons:

- a. By 2013, members at age 55 must set aside the full Minimum Sum in their Retirement Account (either fully in cash, or partly in cash and partly in property).
- b. By 2013, when the first group of LI participants reaches 55 years, the Minimum Sum that they would have to set aside would be about \$134,000.
- c. The new CPF interest rate structure announced as part of the 2007 CPF Reforms, will pay more interest and increase the member's CPF balance. The Government

had announced that members will receive an extra 1% of interest on the first \$60,000⁹ of savings and that the draw-down age will be raised to 65 by 2018, to help them build up their retirement savings.

3 The LI scheme should build on these positive factors to efficiently structure these substantial savings, so as to provide members with a steady stream of income that would last their lifetime.

PRINCIPLES OF THE LI SCHEME

4 The Committee's primary goal is to recommend to the Government an LI scheme that is basic and affordable, fair and flexible. The LI scheme therefore should be:

Basic and Affordable

- Premiums should be affordable, and preferably refundable, so that if the member dies, his beneficiaries can inherit the remaining portions of his Minimum Sum balance.
- The member should be able to receive a steady income for life. This should be the basic plan offered by the LI scheme.

Fair

- Premiums and payouts should be determined by an independent actuarial consultant and reviewed periodically to reflect actual mortality and investment outcomes.
- Members should get payouts proportional to what they have saved in their RA.

Flexible

- Members should be allowed options to vary plans according to their needs.

HOW THE LI PLAN WORKS

5 When participants join the LI scheme at age 55, their Minimum Sum cash balances will be split into two parts—a larger part that remains in the **Retirement Account (RA)**, and a smaller part, the **Refundable Premium (RP)**. The RA pays a monthly income from age 65 to the LI payout age, which the member chooses. The RP continues the same monthly payouts from the LI payout age as long as the member is living. If the member dies before LI payouts start, the unused RA including interest, and the RP will be returned in full to his beneficiaries. If the member dies after the LI payouts start, the RP less sum of LI payouts given will be returned to his beneficiaries.

⁹ With up to \$20,000 from the OA

Refund 80 Plan as Default

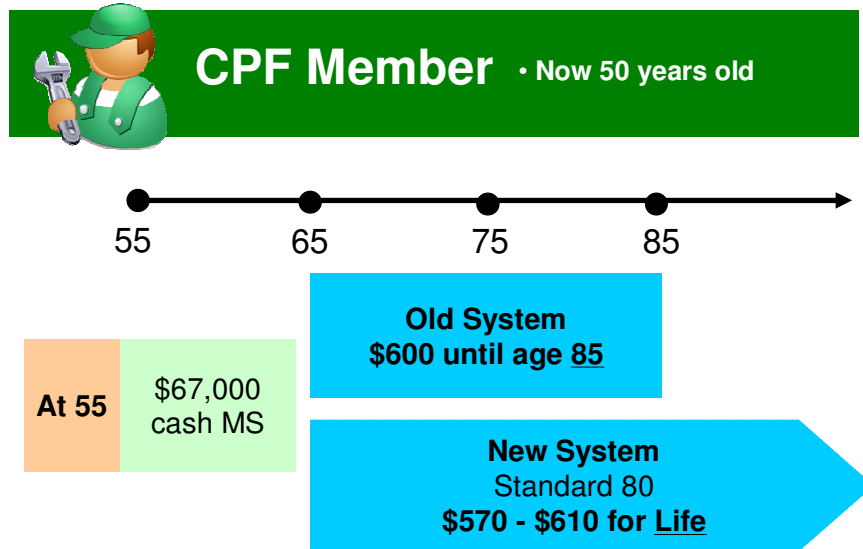
6 Participants can choose when their LI starts. But if they do not, they will be placed into the default “Refund 80” Plan with LI starting age at 80. The Committee took into account public feedback expressing preference for LI payouts to start earlier than 85. With an expected 72% or more of potential LI participants expected at age 65 to be alive at age 80, the majority of them are expected to enjoy LI payouts.

LI scheme compared with old scheme

7 To illustrate, we use an example of a CPF member in the first LI cohort with half of the full Minimum Sum in cash which is estimated at \$67,000 at age 55. Under the old scheme, he will get \$600 for 20 years from age 65 to 85. Under the new LI scheme, the member could expect to get about \$570 to \$610, but this will be for as long as he lives.¹⁰ The member is able to get as much compared to the old scheme because of the extra 1% on the first \$60,000 and the benefit of pooling. See Figure 5-2.

¹⁰ Under the new LI scheme, a male member will get \$610 and a female member \$570. The amounts are estimates as the exact payouts will depend on the actual SMRA interest rates and mortality experience of the LI participants over that period.

Figure 5-2: LI scheme compared with old scheme



Refundable Premium

8 The premium to fund the LI scheme is affordable. Preliminary calculations indicate that for males, this will be 24% of the Minimum Sum, and for females, this will be 28%.¹¹ However, as this is fully refundable or paid out, the percentage is less important. The LI premium will be fully refunded, as monthly LI payouts to members when alive, and any remaining unpaid amounts refunded to their beneficiaries upon their death. The Committee took into account the strong public preference for the LI premium to be refundable. As such, the only cost to individual participants is the interest from their RP, which is pooled to fund the LI scheme. The new CPF interest rate structure also significantly enhances the affordability of this plan. A person with \$60,000 in his CPF would have earned an additional \$17,900 over 20 years, under the new interest rate structure.¹² This is enough to cover a substantial part of the Refundable Premium.

Range of Payouts

9 The income stream that members receive will be proportional to what they have set aside as cash for their Minimum Sum. Those with a higher cash Minimum Sum will receive a higher lifelong income. The payouts will range from about \$350/mth at entry level (see para 13) to

¹¹ Based on half MS and Refund 80 plan.

\$1,100/mth for life, for those with the full MS in cash.. As stated, 60% of the first LI cohort in 2013 will receive about \$600 or more for life.

Property Pledge, Other CPF Investments, Top-Ups and Additional Contributions from Employment

10 CPF contributions after age 55 from employment, top-ups, sale of investments and property will provide additional income. Under CPF rules, the money from sale proceeds of the property pledge will be recovered into their Minimum Sum. Similarly, members may have withdrawn their CPF savings under the CPF Investment Scheme, and subsequently dispose of those investments after age 55. The proceeds would be returned to their CPF account, and so increase the amount of cash set aside for the Minimum Sum. Members can also receive additional contributions from top-ups and employment. These additional contributions after age 55 should be included into the LI scheme and used to provide additional income for life.

Choices

11 To provide flexibility, the following choices will be available to members. These choices will be exercised by the members when they enter the LI Plan.

- a. **LI Payout age.** The Committee recognises that different members have different retirement and bequest needs. The Committee therefore proposes to give CPF members the flexibility to choose to start their LI payouts at age 65, 70, 75, 80, 85 or 90. The plans with refundable premiums are thus named—Refund 65 (R65), Refund 70 (R70), Refund 75 (R75), Refund 80 (R80), Refund 85 (R85) and Refund 90 (R90).

If members prefer to receive higher monthly payouts during their lifetime, they can start their LI earlier, say at age 75 or even 65. The earlier their LI starts, the more they will receive each month but the higher the RP proportion will have to be to fund the plans. This means less RA balance would go to their beneficiaries if they pass away before their LI starts.

If members are prepared to receive less each month, they can start LI later, at age 85 or 90. This way, the RA portion is stretched to last longer, and the LI premium will

¹² Assumes SMRA rate = 4%.

be less. So when members pass away, there will be more RA left to go to their beneficiaries.

- b. **No refunds.** Members can also opt not to receive any refunds from their LI premium in the event of their early demise. All other things being equal, this option will allow members to receive even higher monthly payouts during their lifetime. A member who chooses LI payouts to start at age 65 with no refunds would enjoy the highest payout among all the options.

However, the range of choices available to a member will depend on whether he has the minimum required balance for each of the options. Indicative premium and payouts for different LI plans are at [Annex B](#).

Coverage

12 The Committee noted that participants would need to have sufficient balances to be able to generate enough income to last their lifetime. It decided to include all those with at least \$40,000 in their Minimum Sum at age 55 into the LI scheme. This would cover about 75% of active members in the first cohort, who are aged 50 today. The percentage to be included into the LI scheme would rise for subsequent cohorts who would have benefited from longer periods of extra interest earned. However, those with balances below \$40,000 should still be encouraged to opt into the LI scheme.

13 **Automatic Coverage:** The LI scheme will start in 2013 and CPF members who are aged 50 and below in 2008 (i.e. aged 55 and below in 2013) will join the scheme. Those with \$40,000 or more in their Minimum Sum at age 55 will be automatically included into the LI scheme. \$40,000 will provide about \$350 a month for life under the default plan—Refund 80. In all cases, they should not fall under any category of exempted members (see Chapter 3).

14 **Opt-In Coverage:** The Committee recommends that the Government allows and facilitates opt-in by members to the LI scheme, including:

- a. Older members i.e. members age 51 or older in 2008 (aged 56 or older in 2013); or
- b. Members who attain age 55 in 2013 or younger but with insufficient balance (i.e. below \$40,000 for those who turn 55 in 2013).

Impact on Members

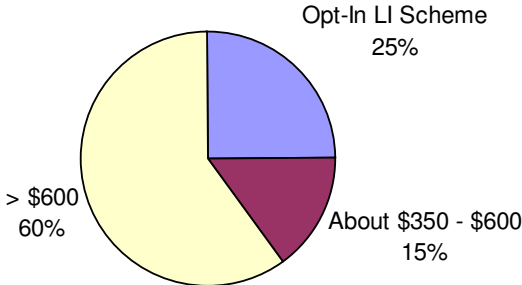
15 It is estimated that 60% of active members in the first LI cohort would have at least half of the full Minimum Sum in cash (estimated at \$67,000) at age 55, and will receive about \$600 or more for life (see Chart 5-3).

16 In addition, actual payouts at 65 would be higher if members accumulate more CPF savings after age 55 through continued employment, realisation of investment proceeds, property sale or top-ups.

17 Younger cohorts are likely to accumulate even higher amounts of cash in the Minimum Sum, and thus to receive correspondingly higher monthly payouts. This is because of the higher cohort Minimum Sum and higher interest which over time will greatly enhance their CPF balances.

Chart 5-3: 60% of Active Members in First LI cohort can Expect about \$600 or More Per Month for Life under Default Refund 80 Plan¹³

% of Active Members Receiving Payout



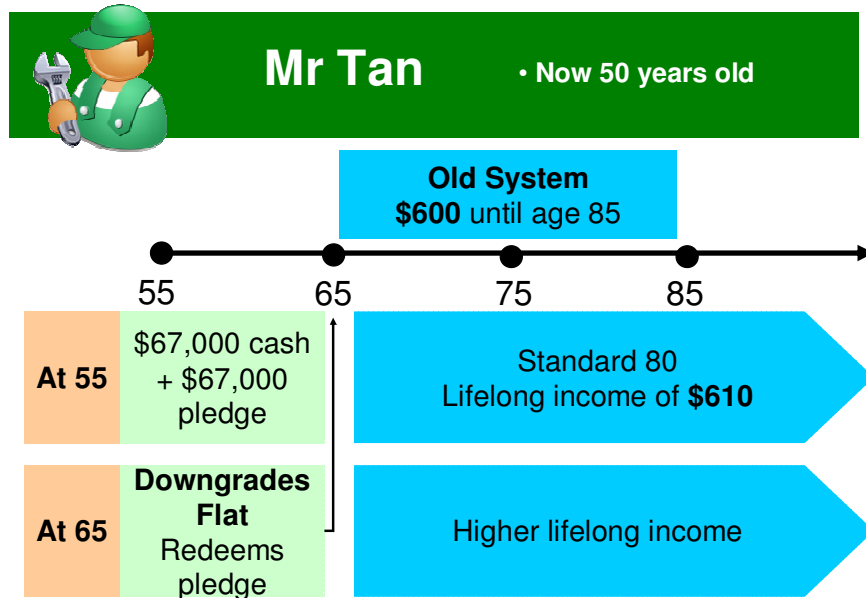
Illustrations

18 The following example illustrates how the default Refund 80 Plan compares with the old system.

¹³ Percentages are estimates

Refund 80 Plan

Figure 5-4: Refund 80 Plan, with enhanced income from redeeming property pledge



Mr Tan is aged 50 this year and is married with two children who have just entered the workforce. When he reaches age 55, he has the full Minimum Sum of about \$134,000 in his RA (\$67,000 in cash and \$67,000 in property pledge). In the old system, Mr Tan would have received about \$600 each month, but only for 20 years, after which he receives no more income from CPF. Under the new scheme, he participates in the Refund 80 Plan. From age 65 to 80, Mr Tan can expect to receive about \$610 each month from his Retirement Account. From age 80 onwards, his LI plan will continue these monthly payouts, but the big difference is that this will now continue for as long as he lives.

At age 65, Mr Tan sells his HDB flat and moves into a smaller property. He returns the \$67,000 of property pledge into his CPF account. This will also be put into the LI scheme, and it will provide a second stream of additional income to Mr Tan for as long as he lives.

Should Mr Tan pass away, his beneficiaries will receive the Refundable Premium less any LI payouts that have been made, as well as any outstanding RA balance.

BEYOND THE LIFELONG INCOME PLAN

Beyond Full Minimum Sum

19 Some CPF members may want a higher lifetime income and are willing to pay more for this. The Committee proposes that CPF Board need not provide such an option. This will ensure that the CPF Board focuses on operating the LI scheme as an integral part of the Minimum Sum Scheme. The Minimum Sum represents the basic retirement sum that the Government will help members to accumulate by giving generous interest rates. Should members desire higher monthly payouts beyond what is provided by their Minimum Sum balances, they could buy annuities from commercial providers.

Step-Up Payouts

20 Some CPF members may want to have lifetime income stepped-up at higher ages to protect themselves against the effects of inflation. The Committee discussed extensively whether the default plan should provide a steady nominal income for life, or be indexed so that it would progressively increase over time. While it is ideal to have inflation-indexed payouts to maintain the value of the lifelong income, making this part of the default plan would mean a significantly reduced initial income at age 65. This would also be expensive and require a higher RP to fund it. Taken together with the requirement to provide a reasonable minimum payout, it would mean that fewer members would be able to participate in the LI scheme. In addition, many members of the public feared that they would not live long enough to receive later and higher payouts.

21 Under the present system, members already enjoy a certain level of protection from inflation through ownership of property. Besides the Minimum Sum, the member's property is another very important part of his retirement savings. About 85% of active CPF members turning 55 own homes, and 70% of CPF members pledge their property as part of the MS¹⁴. With inflation, the value of their homes is likely to go up, both in selling price and rental value, thus helping to mitigate the effects of inflation on members.

22 The Committee concluded that a steady payout feature in the default plan was a more practical and realistic option. As the current Minimum Sum Scheme works on a steady payout basis, the CPF Board should focus the LI Plan on providing a steady income. Members who desire inflation protection should arrange with commercial annuity providers for annuities that are inflation-indexed or which step up payouts at later ages.

Facilitate Family Support

23 Women have a longer life expectancy than men, but are less able to afford LI due to their lower CPF balances. In some countries, annuity providers provide a survivorship rider that, on the death of the annuitant, pays a reduced income to the spouse for the rest of his or her life.

24 However, advice from the CPF Board's actuarial consultants is that providing a survivorship rider would increase the complexity of the scheme significantly. A more viable alternative may instead be to encourage couples to purchase two separate annuities. The Committee further noted that the CPF Minimum Sum Topping-Up Scheme already allows members to top up the RA balances of spouses, parents, grandparents and siblings, which the recipient could use to participate in the LI scheme. Hence, the Committee recommends that the CPF Board study various options for spousal support, before committing to any measure. As family support is a strong value that we should continue to uphold, the Committee further recommends that the CPF Board look into ways to promote family support for retirement, by encouraging top-ups by spouses and children. The Committee wanted to also highlight the point that lifelong income under this scheme should be only one of the sources of retirement provision for members. Therefore, it should not undermine or diminish the importance of family support.

¹⁴ The percentages on home ownership and property pledge are based on the statistics in 2006.

Key Recommendation #4: The Committee recommends a plan which:

- 1. Provides a steady income for life proportional to individual members' cash balance set aside to meet the Minimum Sum requirement;**
- 2. Provides on death a refund of premium; and**
- 3. Starts lifelong income payouts from age 80 as the default option.**

The Committee also recommends providing options to:

- 1. Vary LI payout age; and**
- 2. Have no refund of premium but to receive higher payouts instead.**

Key Conclusion #2: 60% of active members in the first LI cohort are expected to have at least half the full Minimum Sum in cash (estimated at \$67,000) at age 55, and under the default Refund 80 LI plan, are expected to receive about \$600 or more a month for life.