

Executive Summary

INTRODUCTION

1 The Central Provident Fund (CPF) is a key pillar of Singapore's social security system. Started in 1955, it has helped Singaporeans own homes, afford good quality healthcare and save for their retirement. But the CPF needs to be regularly updated to keep up with the changing needs of our population. Thus, major reforms were undertaken over the years with the introduction of the Minimum Sum Scheme in 1987 and the 2003 CPF Retuning Exercise.

2 In 2007, the Government conducted another fundamental reform of our CPF system to respond to increasing life spans. This was necessary as under the existing system, the majority of members would run out of CPF money while still living. A significant piece of this reform was the introduction of the Lifelong Income (LI) scheme to help Singaporeans' CPF savings last for their lifetime.

PUBLIC CONSULTATION

3 The Government appointed the National Longevity Insurance Committee, helmed by Professor Lim Pin, to seek views from the wider public, so as to design an LI scheme that would meet the diverse needs of CPF members. The Committee concluded from its consultations that Singaporeans wanted the LI scheme. They understood the merits of a scheme that provided an income for life and that would replace the present system, where payouts stop completely after 20 years. However, to increase public acceptance, the LI scheme should:

- a. Be fair and affordable;
- b. Offer options and flexibility to cater to different members' needs and circumstances;
- c. Provide a steady income for life;
- d. Be operated by a trusted administrator; and
- e. Be accompanied by public education to help all members understand the scheme through simple explanations.

KEY CONCLUSIONS AND RECOMMENDATIONS

The Need for a Lifelong Income Scheme

4 The Committee met with an independent actuarial consultant, Trowbridge Deloitte to understand the mortality experience of CPF members and the general population. The consultants had examined data from the CPF Board and the Department of Statistics. They concluded that Singaporeans are indeed living much longer. Of the potential LI scheme participants, at age 65, it is expected that at least 72% will be alive at age 80, and at least 55% will be alive at age 85. Furthermore, these experts advised that life expectancy for Singaporeans is expected to increase even more for future cohorts, as this had occurred in other developed countries.

5 In view of these new demographic realities, an LI scheme is timely and necessary. The Committee therefore strongly recommends to strengthen the CPF system by introducing a National Lifelong Income Scheme (NLIS) which ensures that Singaporeans receive an income for life. To be fair, the scheme should exempt members medically certified to have shortened lifespans as they would not benefit from such schemes. Members who have alternative lifelong pensions or annuities should also be exempted.

6 The Committee further recommends that mortality experience in the LI scheme be reviewed periodically. This will ensure that premiums are always based on sound actuarial assessments and take into account longevity improvements in future groups of LI participants.

An Integrated Minimum Sum and Lifelong Income Scheme

7 Since its inception in 1955, our CPF system has helped deliver strong economic growth and social progress for our society. The CPF system is fully funded because it is based on the cardinal principles of self-reliance and self-provision – a member can only spend what he has saved. This principle must be maintained for the LI scheme, so as not to weaken the CPF.

8 The Committee notes the Government's efforts to build up retirement savings through the Minimum Sum Scheme.¹ Together with the extra 1% interest introduced in 2008, the first and subsequent cohorts of LI participants will have significantly higher Minimum Sum balances than past cohorts.

¹ Measures from the CPF Reforms 2007 include:

- Extra 1% interest on first \$60,000 of CPF savings, with up to \$20,000 from the Ordinary Account
- Raising of the CPF draw-down age to 65 by 2018

9 The Committee therefore recommends that the National Lifelong Income Scheme be seamlessly integrated with the Minimum Sum Scheme as they fulfil the same objective of providing a basic income for retirement. In addition, the property pledge which forms up to half of the full Minimum Sum, should be utilised to provide a lifelong income when redeemed.

CPF Board to operate

10 The operation of the LI scheme will involve significant mortality and investment risks over a very long time horizon. For example, a major medical breakthrough could lead to an improvement in life expectancy across the population. It has been estimated that a small improvement in population mortality would greatly increase financial liabilities for the scheme operator. Similarly, small decreases in the actual rate of return from investments will increase premiums or reduce payouts.

11 The Committee notes the difficulties that some annuity providers abroad had run into when various risks were not properly managed. In some circumstances, providers risked insolvency as they were unable to meet liabilities because of an unanticipated improvement in life expectancy or a reduction in rate of returns. To serve successive generations of Singaporeans well, the LI scheme must therefore be financially sustainable over the long term.

12 The Committee notes that private sector parties have expressed interest to offer products under the LI scheme. However, most current commercial annuity providers price their products on the assumption of lower rates of return on investments. Members of the public have therefore expressed preference for the CPF Board to administer the scheme due to the favourable CPF interest rates.

13 In addition, as participants will need to have confidence in this national scheme to provide for their retirement, the operator must engender public trust and have strong administration capability.

14 Having weighed the various considerations, the Committee strongly recommends the appointment of the CPF Board to administer the NLIS. However, members should be allowed to select other approved annuity plans if they do not wish to accept the terms of the LI plan under the CPF Board.

The Lifelong Income Scheme

15 The Committee's primary goal is to recommend to the Government an LI scheme that is basic and affordable, fair and flexible. The Committee proposes to achieve this through the following considerations:

1) Basic and Affordable

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

2) Fair

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

3) Flexible

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

16 The details of such a proposed scheme incorporating these five elements are in Chapter 5. 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 a month for life.

17 CPF members aged 50 and below in 2008 (i.e. aged 55 and below in 2013) with at least \$40,000 in their MS will automatically participate in the LI scheme, while those with smaller balances can opt-in. Similarly, those older than age 50 in 2008 should be encouraged to join this scheme to receive an income for life.

Public Education and Assistance

18 The NLIS will start in 2013 and automatically include those who are aged 50 now and who have the required Minimum Sum when they reach age 55. These participants will get to enjoy an income for life. The Committee recommends that the Government provide one-off incentives to encourage more opt-ins. This should also include those older than age 50.

19 The Committee also recommends that the CPF Board embark on a public education effort to explain the rationale and benefits of the scheme, as well as to provide appropriate information to assist members in making informed choices on the LI plan options.

20 A summary of the key conclusions and recommendations is at Table 1.

CONCLUSION

21 The Committee believes that the NLIS will significantly strengthen the CPF system, and enable Singaporeans to have an income for as long as they live.