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Changes to the CPF may give the impression that the new Basic Retirement Sum of $80,500 is enough for basic retirement needs. It is not.

Potential pitfalls of CPF changes

By HUI WENG TAT
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THE recent recommendations by the Central Provident Fund Review Panel are intended to provide greater flexibility in CPF savings and withdrawals – and help Singaporeans better understand what is in store for them in retirement.

However, the new terminology used for the different retirement sum options poses potential pitfalls, as it could lead to the wrong perception of what is required to support retirement living.

Currently, the Minimum Sum totals $161,000, which contributors are required to set aside in their Retirement Account (RA) at age 55.

The panel proposes that impending retirees choose one of three retirement sums: the Basic Retirement Sum (BRS), the Full Retirement Sum (FRS) and the Enhanced Retirement Sum (ERS).

The BRS is set at $80,500 for 2016, and is for those who have used their CPF funds to purchase a property.

Existing CPF rules already allow a contributor to pledge property up to half the Minimum Sum, but what has changed is that there is now an explicit mention of the expected CPF Life payout for those doing so: $650 to $700 a month.

The FRS is the renamed version of the Minimum Sum amount, which previously provided contributors with a monthly income of $1,000 to $1,200 from the age of 65 to support a "basic standard of living" in retirement.

The ERS allows contributors to retain 1.5 times the FRS in their RA and is intended to help those in the median income group achieve higher payouts to improve adequacy in retirement living.

But amid all this renaming, a problem emerges – it may unwittingly convey the misimpression that the Basic Retirement Sum payout, going by its name, is nevertheless enough for basic retirement living.

The expected BRS monthly payout of $650 to $700, meanwhile, is pegged to what the CPF panel anticipates a retiree in a lower-middle income retiree household would spend 10 years after the start date of BRS in 2016, that is 2026.

The public may perceive this amount to be sufficient for basic retirement living. This would be mistaken, as I will show in this article.

The monthly payout from the FRS of $1,200 to $1,300 could be easily mistaken to adequately provide for full retirement living, but it may well not be the case.

Worse, if more people gravitate towards keeping only the Basic Sum for retirement, the outcome would be significant under-saving for retirement and increased angst in the future when retirement-adequacy expectations are not realised.

Another factor weighing on retirement adequacy is the proposal that at the start of the payout eligibility age of 65, contributors will have the option of withdrawing a lump sum of up to 20 per cent of the RA balance – even though this will only serve to aggravate the issue further.

To better appreciate how the recommendations affect actual retirement adequacy or perceptions of it, it is first useful to examine what the BRS payout would provide for a retiree.

Basic payout too low for basic needs

ALLOWING for an average inflation rate of 3 per cent per annum, the expected $650 to $700 BRS monthly payout in 2026 would be equivalent to only $470 to $506 per month in today's dollar value.

Statistics from the Household Expenditure Survey (HES) 2012-2013 indicate that spending on food typically takes up 37 per cent of total expenditure (excluding imputed rental) for the lower-middle quintile group which the BRS is benchmarked against.

The lower-middle quintile refers to the group in the 21st to 40th percentile by expenditure.

This means a person from this group can expect to spend about $183 per month, or $6 per day, on food. By today's standards, such amounts are hardly enough for any retiree aiming to sustain a simple lifestyle. And living standards and costs do rise at a faster pace over time.

The CPF Review Panel noted that HES data showed expenditure per head has been increasing at an annual rate of about 5 per cent between 2002/2003 and 2012/2013. This means the average expenditure of $518 per member in retiree households in the lower-middle quintile in 2013 should increase to about $976 in 2026.

Yet, retirees who set aside the BRS stand to get a monthly payout of only $650 to $700. In other words, spending is projected to exceed the BRS monthly payout by $276 to $326 per person.

How would this shortfall be met? The Government has indicated that it will introduce a Silver Support bonus for the elderly without family support or assets. Will it undertake to top up the accounts of retirees who set aside the BRS, to a level adequate to meet their daily needs?

Retirees' spending

Average monthly household expenditure and type of dwelling among retiree households* for 2012/2013

	Total**	1- & 2-room flats***	3-room flats	4-room flats	5-room and executive flats
Average monthly income**** per household member	$741	$472	$774	$725	$1,038
Average monthly expenditure per household member	$819	$624	$726	$879	$1,145
Average monthly income less expenditure	-$78.1	-$151.9	$47.8	-$154.1	-$106.3

* Retiree households are those comprising solely non-working persons aged 60 years and over.
** Total HDB includes non-privatised HUDC flats.
*** 1- & 2-room includes HDB studio apartments.
**** Excluding imputed rental of owner-occupied accommodation.

Source: DEPARTMENT OF STATISTICS SINGAPORE
ST GRAPHICS

Retirees' spending

TO GET a better sense of how retirees are coping today, it is instructive to further examine the income and expenditure pattern of retirees in HDB households, which formed more than 83 per cent of all the 77,481 retiree households in Singapore in 2013.

The HES defines retiree households as "those comprising solely non-working persons aged 60 years and over".

The HES data records that among the retiree households in HDB dwellings, an average of 36 to 42 per cent of their income was derived from contributions from relatives and friends not living in the same households as the retirees.

But, as shown in the table, even with this additional income support, about 60 per cent of these retirees were still unable to meet their monthly expenditure.

Average monthly income-expenditure shortfall per person ranged from $106 for those living in five-room and executive flats to $154 for those living in four-room HDB flats.

The average expenditure per retiree household member living in HDB dwellings was already $819 in 2013. For retirees living in one-room and two-room flats, it was $624 in 2013 – which translates to $1,176 in 2026 and which clearly would exceed the expected BRS payout of $650 to $700.

The HES data includes income from many sources, such as rental income, (excluding imputed rental of owner-occupied accommodation); investment income; contributions from relatives and friends not living in the same household; annuities and payouts from CPF schemes, income from pension, social welfare grant, regular payment from insurance protection policies and regular government transfers. In other words, it should capture most income received by retirees.

Given these figures, it is imperative that discussions on what is considered reasonably modest or basic living standards for future retirees should not be focused on meeting the BRS but, at the very least, on meeting the FRS or the Minimum Sum.

It might be that the recommendations of the CPF Review Panel stem from its narrow terms of reference – to study "how the Minimum Sum should be adjusted beyond 2015, in order to meet the objective of delivering a basic monthly retirement payout for life and 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".

The Minimum Sum is presumed to be associated with "basic retirement living". Hence, any lump-sum withdrawal must necessarily mean depletion of savings to a level which provides below-basic retirement living in years after the withdrawal.

The CPF Review Panel has done its work according to its narrow terms of reference. The Government has said that it will also look at ways to improve retirement adequacy for the large majority of CPF members.

Meanwhile, following up on the panel's proposals, the Government should send a clear message to Singaporeans that setting aside the BRS of $80,500 will not be enough to fund basic retirement needs.

Setting aside $161,000 is good, and $241,500 is even better.

Nomenclature affects behaviour, so the sum of $80,500 under the proposed BRS should be renamed the Partial Retirement Sum.

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