THE SUPPER CLUB | TAN CHORH CHUAN

# 'Why we changed Minimum Sum'

Instead of a one-size-fits-all retirement savings figure, Central Provident Fund (CPF) members will soon be able to choose between different levels of savings based on the annuity payouts they prefer, under advisory panel recommendations accepted earlier this month. Panel chairman Tan Chorh Chuan, who is also president of the National University of Singapore, tells **Joanna Seow** how the new choices came about and gives hints of the next phase of changes to come.

ST PHOTO ILLUSTRATION: T. KUMAR & MANUEL FRANCISCO

■ *Under the new Basic Retirement Sum (the lowest of three retirement sums CPF members can choose from), the payouts of $650 to $700 a month work out to just over $20 a day. Is that really enough for a retiree to live on?*
Yes. We looked at the Household Expenditure Survey and that's the actual amount people spend.

We also did a build-up study, meaning that you look at the lower-income groups and add up how much money you need to spend on food and such. Bearing in mind that health expenses are covered under MediShield, MediShield Life and the Pioneer Generation Package government subsidies, and also that housing is taken care of because the vast majority have their own houses.

The other consideration is what the relevant inflation rate is (on which to base adjustments to the retirement sums).

The Department of Statistics is now studying whether they should create a retiree CPI (consumer price index), a kind of inflation measure which is more appropriate to a retiree household. If we review the adjustments to the retirement sums in, say, five years, we could certainly take that into account if such an index is eventually created.

■ *Do you think you should have done more for those who don't have enough savings to begin with?*
There are some additional things that you can do within the CPF system but there's a need for us to also go outside the CPF and not just try to make one system do so many things.

While there are a significant number of members who are near 55 who have low balances, the positive thing is that CPF savings levels are actually increasing quite quickly. In five years, nearly seven in 10 active members will be able to have enough cash to meet the Basic Retirement Sum (of $80,500 in 2016) and for new entrants into the CPF – who have just started working – their savings level will also be even higher.

We are very conscious that our recommendations need to be responsive to the issues of those now near 55, yet we also need to consider what the savings levels and aspirations of future cohorts will be. We need to strike a balance between these two groups.

■ *Technically, members can save any amount between the limits, and the three retirement sums are just recommended levels to meet certain payouts, right?*
Correct. I think having the Basic Retirement Sum (BRS), Full Retirement Sum ($161,000 in 2016) and Enhanced Retirement Sum ($241,500 in 2016) are important signposts.

But when we communicate with members, we are not recommending that people put in (only) the BRS, for example.

What we are saying is that we provide the flexibility but you have to decide how much you need and put in the corresponding amount of money. So we are not saying that everyone should gravitate towards the BRS.

There are many people who will need more than that and they should be encouraged to set aside more money so that they have enough to pay out.

■ *Isn't the system more complicated now with three retirement sums instead of one Minimum Sum?*
Inevitably, more options means more complexity. It's a trade-off we have to accept. What is very important is for us to try our best to make the communication as simple as possible so that at the general level Singaporeans can try to understand the scheme.

For the individual, we need to give much more targeted information which starts much earlier when you start working, when you decide to buy a house, when you're nearing 55.

It's important that, as all of us live longer, we start retirement planning much earlier and having to decide on some options is a good way for us to start to understand what some of the issues are, and to understand what we need to do in order to provide adequately for ourselves in retirement.

**What's for supper**

**Spinelli at University Hall**
**National University of Singapore**

■ Brioche: $2.50
■ Walnut pound cake: $2.20
■ Two iced chai tea lattes: $9.20
■ **Total:** $13.90

■ *During the panel's discussions, what was the issue you spent the most time on?*
One example is the option to withdraw (some savings) at 65. We recognise that many members want to have that option to withdraw part of their CPF savings at age 65, and, in particular, members with lower income and lower CPF savings often have genuine cash needs in the shorter term.

We also know that if you allow this withdrawal, then their long-term payouts would go down, and this would be particularly important for (the same) members who already have low savings in the first place.

So we considered options like should we have conditions for withdrawal, limited withdrawal to those with genuine financial needs, for example? But this would be extremely difficult to implement because who is going to decide whether a need is genuine or not and how much money you can withdraw?

So, in the end, we decided that we would provide the option to withdraw a part of your savings at age 65. It's an option, so you can exercise it if you need to but you don't have to if you don't need to.

There was also a discussion about allowing withdrawals earlier than that, why not allow withdrawals at age 55 or 60?

When you're 65 and you are deciding whether to withdraw money, knowing that your withdrawal would affect your payout a couple of months later will make that decision immediate and much more real – as opposed to making a decision on withdrawal 10 years before, but knowing that the impact would come a long time later.

We all are going to live longer and longer, we need to make sure we don't deplete our savings at too young an age. If you took out the amount at 55, it will have a much larger impact further down the road (because of compound interest).

■ *What was the panel's review process like?*
We had about nine meetings over the last four months; each meeting lasted half a day or more. We also did a lot of work by e-mail between meetings.

We made special efforts to try to reach out to as many groups as we could. For example, we worked with People's Association to reach out to grassroots leaders, with NTUC to reach out to union members and union leaders, and with the self-help groups such as CDAC, Mendaki and Sinda to reach out to predominantly lower-income Singaporeans.

For the focus-group discussions, I attended eight out of the 10 and many themes are recurrent. So we were able to get a good and broad range of feedback from Singaporeans from many walks of life.

■ *Did the focus-group discussions ever get angry or emotional?*
There were one or two emotional discussions. In one of the early focus-group discussions there was a retiree who felt that, "Well, it's my money, I should just be able to do what I like with it. If it's not enough for me, I'll eat less and then in the end, I can just eat porridge, right?"

What was interesting was that in that same small group, there were a couple of other people who are somewhat younger who said, "Yes, it's your decision what you want to do with your CPF money but it also affects the larger society because if you spend all your money and have no other resources, you come back to the Government and then public monies will have to be spent supporting you".

■ *So what's the No. 1 question people had about CPF?*
Many people said they don't quite understand what the Minimum Sum is all about, and also why it appears to keep on going up every year.

That is the reason the panel decided that we should frame the sum in terms of the monthly payouts because the monthly payouts are a benefit to yourself.

If you understand what that payout is, then there's an intuitive link to what sum you need to set aside to keep that payout, and it also makes sense why payouts – and therefore the sum you need to set aside – could be adjusted in the future.

■ *What surprised you most about Singaporeans' thinking on CPF during the review process?*
When we first started, friends commented that it's likely there will be people with strong and fixed views on the CPF which would be very much driven by their own personal interest.

What I found at focus-group discussions and in discussions with other people was actually very positive. Many people have views about the CPF system and their own personal perspectives. And, yet, they also understand that this is a national system that has to cater to the interests of others and not just themselves.

■ *Can you give us a sense of how part two of the recommendations is shaping up, including an option for payouts that rise over time?*
The goal is to try to provide members who opt for it a payout plan that will increase over time to take into account rises in the cost of living.

If you start off with the same sum that you set aside (for flat payouts), then the payout would be lower (than that under the flat payout plan) in the initial years.

You might allow members to do top-ups so that you can start at the same level. Or if members defer their payout start age, then their initial payout will be higher, and go from there.

Again the same issues apply: how to balance flexibility and complexity, because it will mean more options to decide on.

Another set of issues is whether we should go for a fixed rate of increase (for the payouts) which will give you a lot of certainty, or whether it will mirror inflation in some way. The downside of that is that it may go up in some years and it may go down in some years, so it creates a lot more uncertainty.

We've planned a number of meetings in the next few months. So it will be pretty busy soon.

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