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Include GIC returns when determining CPF interest rate?

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Experts believe the interest rate for the Central Provident Fund (CPF) Ordinary Account (OA) could be tweaked in the light of rising interest rates in the United States.

One option raised at a forum yesterday was to include the returns of the sovereign wealth fund GIC when devising the formula that determines the OA rate.

Interest on OA funds is adjusted quarterly. It is either the legislated minimum 2.5 per cent a year or the average three-month rates at the three local banks, whichever is higher. GIC publishes five-, 10- and 20- year returns for all its investments of government assets, including CPF funds. The annualised 20-year real rate of return for the year ended March 31, 2014, was 4.1 per cent.

The returns CPF members get are not pegged to GIC's returns.

This could be re-thought, suggested associate professor of economics Chia Ngee Choon of the National University of Singapore (NUS).

Professor Chia told the Symposium on Social Security yesterday: "One option is to explore including the returns of GIC in the peg, instead of just pegging the formula to the average of banks' rates. However, there is a need to work out the appropriate weight. This could possibly lead to a higher OA rate."

She added that the legislated 2.5 per cent floor rate for OA should still be maintained even with the suggested tweak in the formula, noting as well that more study is needed.

The CPF Board has said the OA interest rate will be maintained at 2.5 per cent from Jan 1 to March 31, as the computed rate of 0.21 per cent is lower than the legislated minimum interest rate.

Prof Chia also suggested allowing more flexibility in the transfer of CPF monies from the OA to the Special Account (SA) for members to take advantage of the spread between OA and SA rates and earn a higher return to grow their retirement savings.

Her suggestions will be part of her upcoming book on the CPF.

American economist Peter Diamond, a Nobel Prize winner, told the symposium that the key ingredients of a good social security system should include low investment charges and inflation- hedged payouts.

Practice professor of finance at NUS Business School Joseph Cherian said it was important to ensure a person's retirement income was "safe, adjusted for inflation and guaranteed". He advocated a safety net in which a certain portion is kept in safe assets such as the national annuity scheme CPF Life.

Being able to monetise our homes is another consideration.

The symposium was organised by the Singapore Centre for Applied and Policy Economics and the Next Age Institute at NUS.

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