As trustee of the nation's savings, the CPF has come a long way in re-engineering itself over the last six decades or so to ensure that it continues to cater to the retirement, housing and healthcare needs of the majority of Singaporeans. BT FILE PHOTO

Building - and sustaining - trust in Singapore's CPF system

A new study finds a clear link between trust and pension behaviours of older Singaporeans.

BY JOELLE H FONG AND BENEDICT KOH

WHEN it comes to retirement savings, most Singaporeans look to the Central Provident Fund (CPF) system to help them accumulate sufficient assets and savings for their golden years. While some sceptics claim that there is hardly any choice anyway since the CPF is an enforced pension saving scheme, it appears that there are certain decisions that participants can make within the parameters of the CPF system that may influence their retirement preparedness.

One decision is how much pension wealth to hold in the CPF. For most of us, this involves deciding whether to leave the CPF savings intact or withdraw some for housing, education and other current needs. Where applicable, members may also consider topping up their own or loved ones' CPF accounts using voluntary savings. For some older members, the choice between leaving the funds in the retirement account or making substantial lump sum withdrawals will affect their total CPF balances remaining in the system.

Another decision pertains to investing through the CPF Investment Scheme (CPFIS) to enhance retirement savings. The CPFIS provides members with an option to invest a portion of their Ordinary and Special Accounts savings in a wide range of financial instruments, such as stocks, bonds, unit trusts, endowment policies, and exchange-traded funds. CPF members need to deliberate whether to utilise this scheme as it implies taking on some market risk and investing part of their savings outside of the default risk-free CPF fund.

It turns out that people's trust in the CPF system play an important role in explaining both of the above-mentioned outcomes. A new study by the authors and others, published in the *Journal of the Economics of Ageing* in 2020, found that older Singaporeans who trust CPF representatives have larger CPF balances, and are also more likely to invest through the CPFIS programme, compared to Singaporeans who do not.

The large-scale survey, conducted in 2018-2019 through the Singapore Life Panel at the Singapore Management University, was undertaken alongside collaborators from the National University of Singapore and The Wharton School. The representative sample comprised close to 6,000 older Singaporeans aged 50 and above. These were mostly persons born in 1940s to 1960s, and of whom about half were still active in the labour force when interviewed.

DO OLDER SINGAPOREANS TRUST THE CPF?

In the study, respondents were asked "how much trust" they had in persons who worked for particular financial and governmental institutions, including CPF officials, insurance agents, civil servants, and financial advisers. Responses were collated using a five-point scale ranging from "do not trust at all (1)" to "trust completely (5)". The research found that the highest levels of trust were reported for CPF officials and civil servants. Trust in CPF representatives averaged 3.67 out of 5, while trust in civil servants averaged 3.29. Lower scores were reported for insurance agents and bank financial advisers, with mean scores of 2.79. At the bottom of the trust ranking was nonbank financial advisers, which included securities brokers, mortgage brokers, and freelance advisers.

Possible reasons include the general low confidence levels in the financial services industry, the credibility and professionalism of various representatives as perceived by the public, as well as the fact that financial representatives often receive commissions whereas governmental representatives don't. For example, a survey commissioned by the CFA Institute in 2018 reported that only 10 per cent of Singapore retail investors believe their investment adviser or firm always puts their interests first, while less than half of those surveyed trust the financial services industry.

TRUST AND PENSION BEHAVIOURS

How does trust in CPF relate to pension behaviours among older Singaporeans?

Our study revealed a clear link between trust and certain financial decisions that people make regarding their CPF savings. First, people who trust CPF representatives have approximately 10 per cent larger CPF balances than their counterparts who do not. This is after accounting for the potential effects of other factors that may influence total CPF balances such as age, education, employment, health, financial literacy, risk preferences, and so on.

Second, respondents who trust CPF officials are 1.4 per cent more likely to have invested through the CPFIS programme. While it is not immediately evident why CPF members who trust the system would be more inclined to partially invest outside of the system in market-based assets, it could be that more trusting members are confident in the ability of the CPFIS to help them enhance their retirement nest-egg and are comfortable with having their investment returns (for example, dividends from stocks purchased using CPFIS) secured within the CPF system until drawdown is allowed.

These findings are perhaps not too surprising considering evidence from other countries, such as the United States, where trust has been shown to influence retirement savings behaviour. For instance, individuals with low trust in financial institutions are more likely to opt out of automatic enrolment in their pension plans than persons with higher levels of trust. What is different, and interesting perhaps, in Singapore's context is that such pension behaviours are linked almost exclusively to the level of trust in CPF representatives, and not associated with other trust measures such as trust in civil servants, trust in financial advisers, or general trust in others.

CPF members who had turned 55 before 2009 can choose to make unconditional lump-sum withdrawals of up to 50 per cent or leave their funds in CPF. About two-fifths of the respondents in the study qualified for withdrawal option. And of these, about half choose to withdraw their CPF assets at age 55. This is despite the fact that the CPF retirement account typically pays 4 per cent safe interest.

The research found that the decision to withdraw partial CPF monies at age 55 was not associated with

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trust in CPF. This contrasted with the two pension behaviours outlined above. Instead, older adults who distrusted civil servants and bank financial advisers were more inclined to withdraw their CPF pension monies when eligible. Notably, those who trusted non-bank financial advisers were also more inclined to withdraw their CPF assets at age 55. Non-bank advisers included securities brokers, mortgage brokers, management consultants, and freelance financial advisers.

CPF AS THE TRUSTEE

The CPF plays a key role in safeguarding our nation's retirement savings. As trustee of the nation's savings, CPF has come a long way in re-engineering itself over the last six decades or so to ensure that it continues to cater to the retirement, housing and healthcare needs of the majority of Singaporeans. It gained reputation as a scheme that 'works', featuring good governance, low levels of non-compliance and efficient scheme administration. As a social security system, it has taken the role of securing and protecting its members' savings seriously.

It caters well to CPF members who prioritise the capital preservation of their accumulations over the life course, providing guaranteed 2.5-4 per cent annual returns on the CPF savings. Members with some risk appetite can invest through the CPFIS to enhance their retirement balances.

As a state-managed scheme and guardian of the population's retirement savings, the CPF has imbued in most Singaporeans a sense of trust. People recognise that even if they were to do nothing, at the very least, they would get back what they had put aside plus some interest income.

This may be especially so for older Singaporeans born in the 1940s to 1960s since they had witnessed the growth and expansion of the CPF over the years. As the nation developed, the CPF Board progressively took on the administration of the Home Protection Scheme, MediShield Scheme, Minimum Sum Scheme, EduSave Scheme, and others. More recently, it also implemented the Retirement Sum and CPF LIFE schemes. It is currently working on a new Lifetime Retirement Investment Scheme.

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EFFECTIVE COMMUNICATION TO SUSTAIN TRUST

The need for trust in pension institutions continues to be a challenge for policymakers in Asia and elsewhere. This is especially so in countries where pension reforms increasingly shift risks to individuals and citizens have a greater stake in being concerned about how pension providers handle their money. As Singapore's demography continues to age, trust in our social security system will continue to be essential in ensuring a strong social compact.

Aside from a fine institutional design, improving communications and information is perhaps also key to the goal of building and sustaining trust in pensions. Effective communication is crucial in maintaining trust in the CPF system. In January 2019, a number of social media posts and messages circulating online suggested that the government had surreptitiously raised the CPF payout eligibility age from 65 to 70. It started with a Facebook post which included a photograph of a letter from CPF advising the recipient of the letter of the CPF payout options upon turning 65. One sentence in the letter read: "No action is required if you wish to start your payouts at age 70."

This post went viral on social media, and the issue caught the attention of Singaporeans both young and old. Some netizens misunderstood the wording and (mistakenly) concluded that the payout age has been increased to 70. Others were unhappy and confused. Some thought that if they do not apply to start their monthly payouts at 65, the next time they can do so is at age 70. Although the CPF Board responded quickly and leveraged on the press and social media platforms like Facebook to clarify the issue, damage had been done.

Our study surveyed the respondents' level of trust in the CPF before and after this "incident". Our empirical results noted a significant decline in the levels of trust in CPF representatives immediately after the event. Among respondents who were initially interviewed in 2018 and re-interviewed in February 2019, the mean score for trust in CPF representatives averaged 3.52 out of 5 (previously 3.67). The decline in trust score for CPF representatives was larger in magnitude than those for financial representatives. These results show that trust in the CPF system cannot be taken for granted. It can be lost easily due to miscommunication as shown by the highlighted event.

How can CPF administrators continue to build and sustain trust in the system? As retirees are concerned about their retirement adequacy, they will be particularly sensitive to any policy changes to the CPF system. Any policy changes should be subject to robust debate. Before implementation, they should be communicated in simple language that is easily understood by the public. Miscommunication can occur from time to time and when that happens, it is critical to clarify immediately through official channels as well as social media platforms. Always remember that trust is hard to build – and even harder to sustain.

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