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

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

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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 (CIPS) to enhance retirement savings. The CIPS 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 lowering part of their savings outside of the default risk-free CPF fund.

It turns out that knowing the trust in the CPF system play an important role in explaining both of the above-mentioned decisions. 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 CIPS 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” to “trust completely”.

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 3.25. 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 the respondents believe their investment advisor 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 don’t. 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 CIPS 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 these trusting members are confident in the ability of the CPF to help them enhance their retirement nest egg and are comfortable with having their investment returns (for example, dividends from stocks purchased through CIPS) secured within the CPF system until drawdown is allowed.

These findings are perhaps not 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, is 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-thirds of the respondents in the study qualified for withdrawal option. And of those, about half choose to withdraw their CPF assets at age 55. This is despite the fact that the CPF retirement account pays 0.1 per cent safe interest.

The research found that the decision to withdraw partial CPF monies at age 55 was not associated with cutting off automatic enrolment in their pension plans than persons with higher levels of trust. What is different, and interesting perhaps, is 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.

The CPF is not a perfect system. Nevertheless, its decades of experience in policy administration and the checks-and-balances that are embedded within the system contributes to its integrity, credibility, and trustworthiness.

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 2.5-2 per cent annual returns. CPF members may opt to continue to save in the CPF System, or continue to invest through the CPF to enhance their retirement balances.

As a state-managed scheme and guardian of the population’s retirement savings, the CPF has inbuilt in most Singaporeans’ financial psyche the belief 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, notably, the CPF Board progressively took on the administration of the Home Protection Scheme, the School Fees Assistance Scheme, and others. More recently, it also implemented the Retirement Sum and CPF Life schemes. It is currently working on the CPF Life Improvement Scheme. This is not a perfect system. Nevertheless, its decades of experience in policy administration and the checks-and-balances that are embedded within the system contribute to its integrity, credibility, and trustworthiness.

Effective Communication to Singaporeans

The need for trust in pension institutions continues to be a challenge for policymakers in Asia and elsewhere. This is particularly 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 continues 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 to Singaporeans will ensure that the CPF continues to operate as an effective retirement safety net.

This post went viral on social media, and the issue caught the attention of Singaporeans both young and old, who expressed misunderstandings and (mistakenly) concluded that the payout age has been increased from 55 to 60. TheCPF Board responded quickly and leveraged on the press and social media platforms to clarify the issue, damage had been done.

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