Composition of CPF balances

CPF savings are maintained in four accounts, namely the Ordinary Account (OA), Special Account (SA), Medisave Account (MA) and Retirement Account (RA). To ensure that CPF continues to meet the social security needs of Singaporeans, CPF policies are reviewed and modified from time to time in the light of changing demographics and members' rising aspirations. This article examines the change in the composition of CPF balances over the last decade that may have resulted from policy enhancements and the specific reasons for such shifts.

Total net balances and regrossed balances

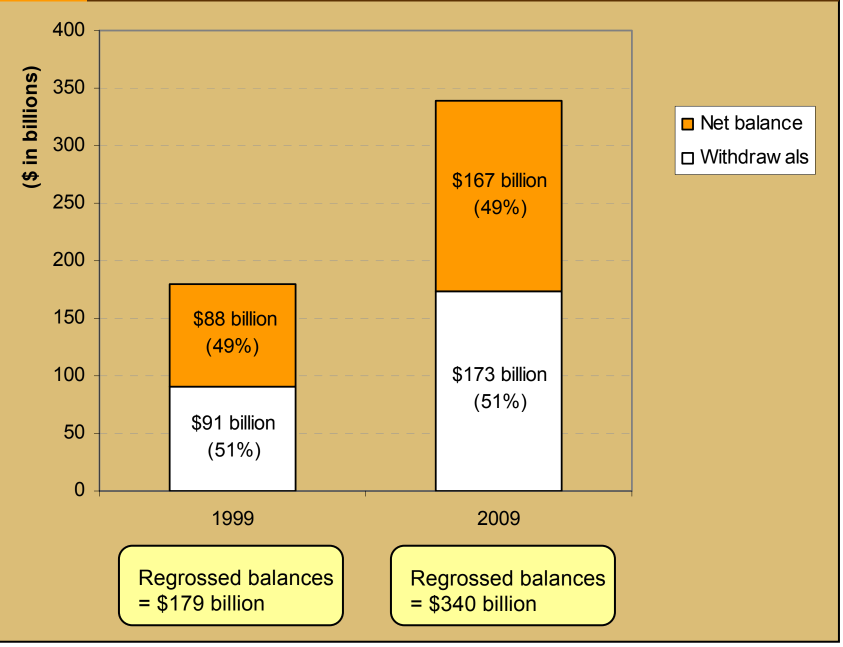
Net balances doubled from 1999 to 2009 but remained at 49% of regrossed balances

The sum of the net OA, SA, MA and RA balances make up the total net CPF balances. Regrossed balances refer to the sum of net CPF balances and net amount withdrawn for housing, investment and education purposes (please see **Annex** for a description of the abbreviations used).

As at end 2009, regrossed balances stood at $340 billion, almost double the 1999 level of $179 billion **(See Chart 1)**. Total net balances showed a similar trend, increasing almost two-fold from $88 billion in 1999 to $167 billion in 2009. However, the proportion of net balances to regrossed balances has remained stable at 49% during the two periods.

The various components of net balances and how the composition has shifted in the last decade will be examined in the next section.

Chart 1 Net balance as a percentage of Regrossed balances as at end Dec 1999 & 2009



Components of net balances

Share of OA balances dipped over the decade, while SA and MA balances increased to form almost half of net CPF balances

The proportion of total net CPF balances held in the OA saw a drop from 60% in 1999 to 42% in 2009 **(See Chart 2a and 2b).** In contrast, the combined share of SA and MA balances increased from 37% to 49% over the same period. Savings in the RA also increased significantly from 2% in 1999 to 9% in 2009. Changes in the allocation of contribution rates to the various CPF accounts are likely to have contributed to the shift in the composition of CPF balances over the last decade. Other factors include the uneven increase in withdrawals under the various CPF schemes. These will be examined further in the following sections.

Chart 2a Net and Regrossed CPF balances as at end Dec 1999

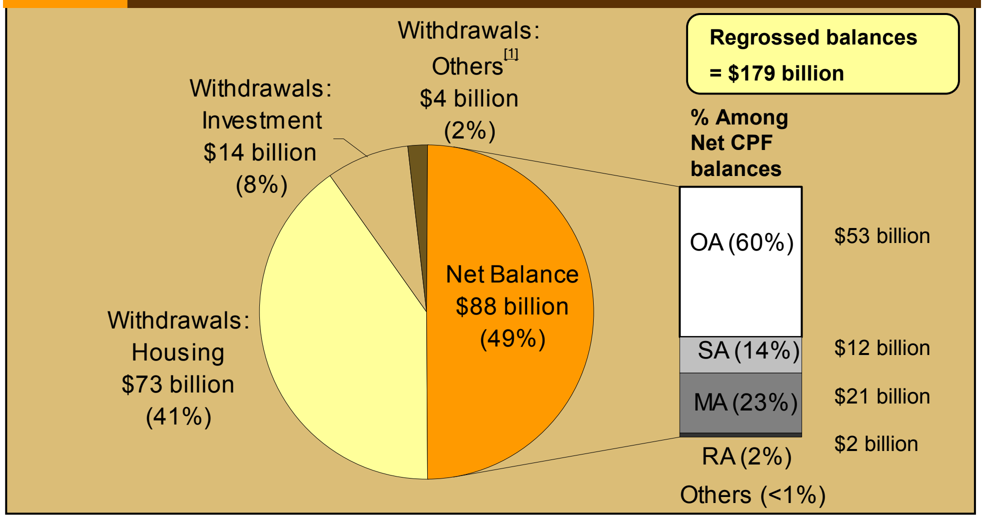
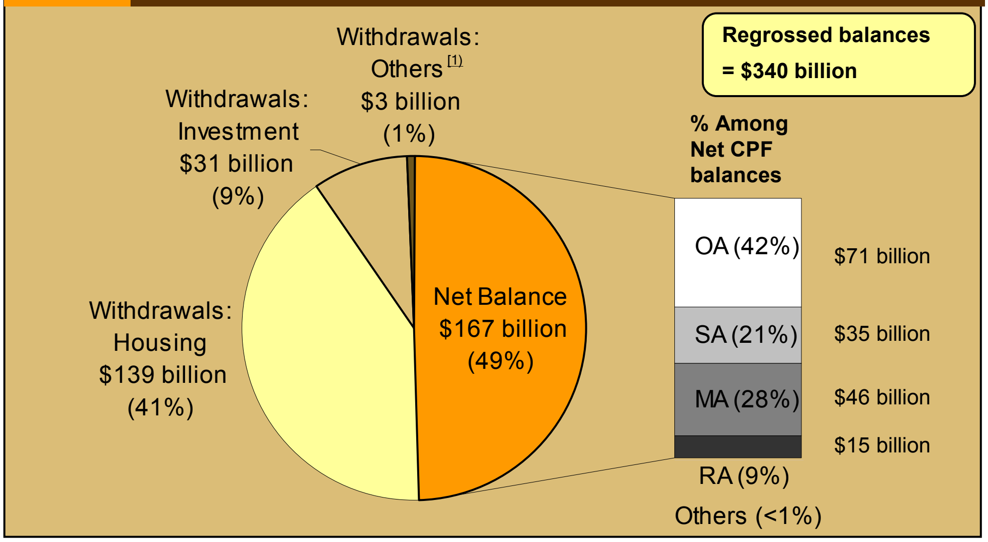


Chart 2b Net and Regrossed CPF balances as at end Dec 2009



[1] Other withdrawals refer to withdrawals under the Education Scheme, Singtel Discounted Shares Scheme and Non-Residential Properties Scheme. Withdrawals for 1999 includes withdrawals made for Delgro Shares.

Total withdrawals and regrossed balances

Total amount of withdrawals increased, but remained constant as a proportion of regrossed balances

Comparing the withdrawals in 1999 with those in 2009, we observe an increase in the net amount withdrawn for housing, investment and other purposes in 2009. The total net amount withdrawn grew at a compound annual growth rate (CAGR) [2] of 7%, from $91 billion in 1999 to $173 billion in 2009 **(See Chart 2a & 2b).** However, the proportion of total withdrawals to total regrossed balances during the two periods remained unchanged at 51%.

Housing withdrawals, especially those under PHS, formed the bulk of total withdrawals

As at 2009, the largest component of net amount withdrawn, at $139 billion, was for housing purposes. These withdrawals formed about 41% of the regrossed balances. Withdrawals for investment accounted for 9% of the regrossed balances as at end 2009, while withdrawals for education and non-residential properties made up about 1% of the regrossed balances.

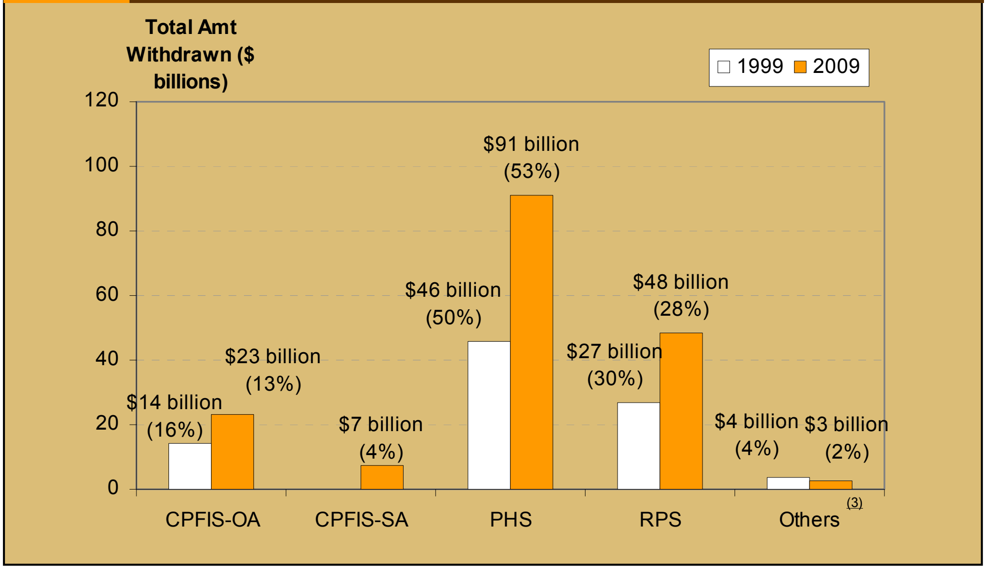
Components of total withdrawals

Home financing is likely a major cause for the dip in OA savings

As at both end-1999 and end-2009, withdrawals under the Public Housing Scheme (PHS) formed the largest percentage of the total net amount withdrawn, about 50% at both points in time **(See Chart 3).** This could be due to more members using their CPF savings to service housing loans for their HDB flats. In comparison, withdrawals under the Residential Properties Scheme (RPS) accounted for close to 30% of the total net amount withdrawn. Withdrawals under both PHS and RPS thus constituted about 80% of the total withdrawals. These figures show that home financing formed a major proportion of the use of CPF savings, which makes it a likely main cause for the dip in the proportion of OA savings among net balances.

About 13% of the total net amount withdrawn in 2009 were investments made under CPFIS-OA. This is a drop from the 16% of total net amount withdrawn in 1999, although the absolute amount withdrawn has increased. As CPFIS-SA was only implemented in 2001, investments made using SA savings formed a smaller proportion at about 4% of the total net amount withdrawn in 2009. In total, net amount withdrawn for investments using OA or SA savings made up only 16% to 17% of total withdrawals in both periods and thus do not help much in explaining the change in the proportion of OA or SA balances held.

Chart 3 Withdrawals under the various schemes as a proportion of total net amount withdrawn, as at end Dec 1999 & 2009



[2] Compound Annual Growth Rate (CAGR): Measures the average annual growth rate over a specified period of time.

[3] Other withdrawals refer to withdrawals under the Education Scheme, Singtel Discounted Shares Scheme and Non-Residential Properties Scheme. Withdrawals for 1999 includes withdrawals made for Delgro Shares.

Differing allocation rates based on the different CPF accounts or members' age, help explain the changes in the composition of CPF balances

Drop in OA contribution rate and increase in housing withdrawals explain the fall in the proportion of OA balances

Higher combined proportion of SA and MA balances explained by jump in SA contribution rate and slight increase in MA contribution rate

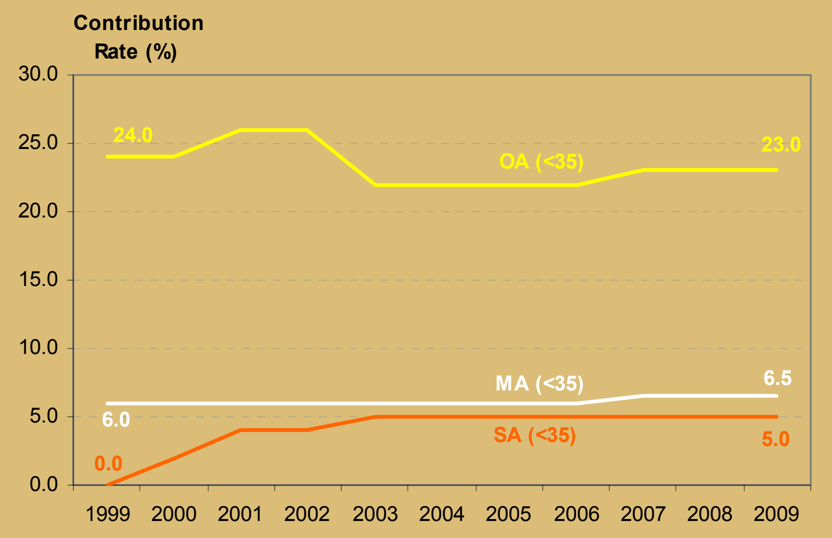
Changes in contribution rate as a key factor

CPF contribution rates have changed over the past decade. Changes were made either to the percentage allocated to various CPF accounts, or to the contribution rates applicable to various member age groups. Generally, the contribution rate for OA has dropped (for the younger members) while the rates for SA and MA have risen.

For illustration purposes, let us look at the contribution rates from 1999 to 2009 for those below age 35. The OA contribution rate showed a slight downward trend **(see Chart 4).** falling from 24% in 1999, to 23% in 2009. Coupled with the increase in housing withdrawals, this could explain the fall in the proportion of OA balances.

The rate for SA was zero in 1999 but gradually increased to 5% in 2009. This accounted for the larger proportion of SA balances in 2009 compared to 1999. The MA contribution rate has remained fairly stable over the years, registering a slight increase from 6% in 1999 to 6.5% in 2009. However this could only partially explain the increase in MA balances. Other factors that are likely to have contributed to this increase are discussed in the next section.

Chart 4 Contribution Rate [4] allocated to the respective CPF accounts for a member below age 35, 1999 to 2009



[4] Refers to the total contribution rate from both employee and employer that is allocated to the respective CPF accounts.

Yearly adjustment in Medisave Minimum Sum requirement and Medisave Contribution Ceiling

Increase in Medisave Minimum Sum and Medisave Contribution Ceiling plays a part in raising the proportion of MA balances

Together with the higher contribution rate to MA over the last decade, the yearly increase in the Medisave Minimum Sum (MMS) and Medisave Contribution Ceiling (MCC) also helped raised the proportion of MA balances from 23% of net balances in 1999 to 28% in 2009. Members who withdraw their savings at age 55 are required to set aside the MMS, or their actual Medisave balance, whichever is lower. The MMS is adjusted every year for medical inflation to ensure healthcare adequacy for members during retirement. The MCC, the maximum limit to which members can contribute to their MA, has also been raised on a yearly basis **(See Table 5).**

Table 5 Medisave Minimum Sum and Medisave Contribution Ceiling schedule, 1998 to 2010

Period	Medisave Minimum Sum	Medisave Contribution Ceiling
From 1 Jul 1998	$16,000	$21,000
From 1 Jul 1999	$17,000	$22,000
From 1 Jul 2000	$19,000	$24,000
From 1 Jul 2001	$21,000	$26,000
From 1 Jul 2002	$23,000	$28,000
From 1 Jul 2003	$25,000	$30,000
From 1 Jul 2004	$25,500	$30,500
From 1 Jul 2005	$27,500	$32,500
From 1 Jul 2006	$28,000	$33,000
From 1 Jul 2007	$28,500	$33,500
From 1 Jul 2008	$29,500	$34,500
From 1 Jul 2009	$32,000	$37,000
From 1 Jul 2010	$34,500	$39,500

Yearly increase in Minimum Sum requirement

Increase in Minimum Sum requirement explains increase in proportion of RA balances

Next, we examine the changes in the RA balances over the last decade. The Minimum Sum (MS) Scheme was introduced to provide CPF members with a monthly income to support a basic standard of living during retirement. The MS has been increased progressively over the years **(see Table 6).** This has contributed to an increase in RA balances and is the likely reason behind the jump in the proportion of RA balances to total net balances - from 2% in 1999 to 9% in 2009.

Table 6 Full Minimum Sum to be set aside in RA, 1998 to 2010

Period	Minimum Sum requirement
From 1 Jul 1998	$55,000
From 1 Jul 1999	$60,000
From 1 Jul 2000	$65,000
From 1 Jul 2001	$70,000
From 1 Jul 2002	$75,000
From 1 Jul 2003	$80,000
From 1 Jul 2004	$84,500
From 1 Jul 2005	$90,000
From 1 Jul 2006	$94,600
From 1 Jul 2007	$99,600
From 1 Jul 2008	$106,000
From 1 Jul 2009	$117,000
From 1 Jul 2010	$123,000

Summary

The composition of CPF balances in the various CPF accounts has clearly been affected by policy changes. For example, the decrease in the proportion of OA balances to total net balances may be attributed to policy changes in CPF contribution rates, in addition to increased withdrawals for housing purposes. Similarly, the increase in the proportion of SA and MA savings could also be attributed to changes in CPF contribution rates for different age groups and the allocation of CPF contribution to different CPF accounts. Furthermore, the yearly increase in the Medisave Minimum Sum, Medisave Contribution Ceiling and Minimum Sum also invariably increase the proportion of balances going to MA and RA. Hence, the proportion of savings held in the various CPF accounts have correspondingly evolved over the years in line with changes in policies and withdrawal trends.

One of the key policy objectives for the government has been to ensure sufficient savings for retirement even as members withdraw their CPF savings for various uses prior to their retirement. To this end, CPF withdrawal policies have been tightened for those turning 55, and limits on the amount of CPF savings which can be used for housing have been introduced to ensure prudent property purchases. In the face of an ageing population and rising aspirations for home ownership, striking a judicious balance between allowing pre-retirement withdrawals and ensuring sufficient retirement savings will continue to be a key priority for the government.

About *CPF Trends*

CPF Trends is a regular series of papers produced by the Management Information Department to disseminate analyses of statistical data and trends on CPF related issues. These papers are generally brief and aimed at a broad audience interested in CPF related issues.

Glossary/Abbreviations used:

Ordinary Account (OA)

• Savings which can be used to buy a home, pay home insurance premiums and for investment and education purposes.

Special Account (SA)

• Savings which can be used to invest in retirement-related financial products, or for old age and contingency purposes.

Medisave Account (MA)

• Savings which can be used to pay for hospitalisation expenses and approved medical insurance premiums.

Retirement Account (RA)

• Savings to help meet members' basic retirement needs, when one reach the legislated draw-down age.

CPF Investment Scheme Ordinary Account (CPFIS-OA) and CPF Investment Scheme Special Account (CPFIS-SA)

• Schemes which give members an option to invest one's OA or SA savings in a wide range of products to enhance their retirement nest egg.

Public Housing Scheme (PHS) and Residential Properties Scheme (RPS)

• Schemes which allow members to finance the purchase of their homes (HDB flat and private residential properties) and to repay mortgage loans.