CPF Trends

April 2008

Composition of CPF Balances

CPF savings are maintained in 4 accounts, namely the Ordinary Account (OA), Special Account (SA), Medisave Account (MA) and Retirement Account (RA). The RA is set up upon a member reaching age 55 *(see glossary for details).* The summation of the net OA, net SA, net MA and net RA balances (for those aged 55 and above) make up the net CPF balances, while the regrossed balances refers to the sum of net CPF balances and withdrawals made under the CPF for housing, investment and education schemes.

Glossary /Abbreviations Used:

- Ordinary Account (OA) – the savings can be used to buy a home, pay home insurance premiums and for investment and education purposes.
- Special Account (SA) – the savings can be used for investment in retirement-related financial products, for old age and contingency purposes.
- Medisave Account (MA) – the savings can be used for hospitalisation expenses and payment of approved medical insurance premiums.
- Retirement Account (RA) – the savings is used to help meet your basic retirement needs, when you reach the legislated draw-down age.

Regrossed Balances versus Net Balances

With a series of CPF policies being implemented over the years, the percentage of net CPF balances being held in the OA has dropped from 64% in 1997 to 45% in 2007 on an average basis *(See Chart 1a & 1b).* In comparison, the percentage of SA and MA, when added together, formed almost half of the net CPF balances in 2007. With the yearly increase in Minimum Sum to be set aside in the RA, savings in the RA witnessed a notable increase from 2% in 1997 to 7% in 2007.

Looking at regrossed balances which is net CPF balances plus withdrawals, it is observed that there was a significant increase in withdrawals for housing, investment and other purposes from 1997 to 2007. Total withdrawals grew at a compound annual growth rate (CAGR)[1] of 9%, from 47% in 1997 to 54% in 2007.

As at 2007, the largest net amount withdrawn, at a whopping $129 billion, was for housing purposes. It formed 43% of the regrossed balances (and about 80% of the total withdrawals). The majority of the housing withdrawals were made under the Public Housing Scheme (PHS). This could be attributed to the fact that more and more Singaporeans were using their CPF savings to service the housing loans for their HDB flat.

Withdrawals for investment accounted for 10% of the regrossed balances as at end 2007, while withdrawals for education and non-residential properties, amongst others, were at a low of 1% of the regrossed balances.

Chart 1a: Regrossed vs Net CPF Balances as at Dec 1997

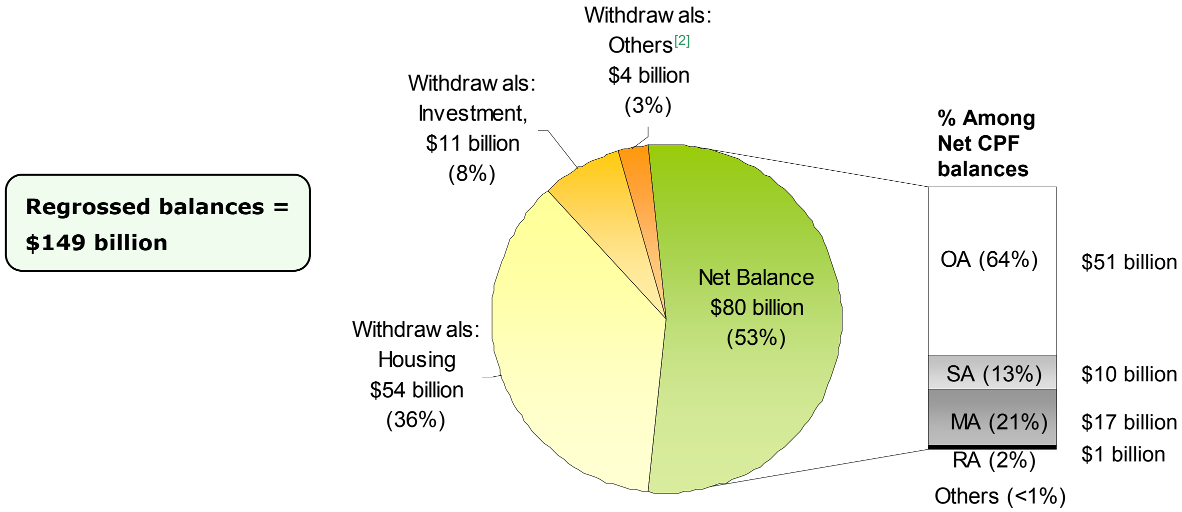
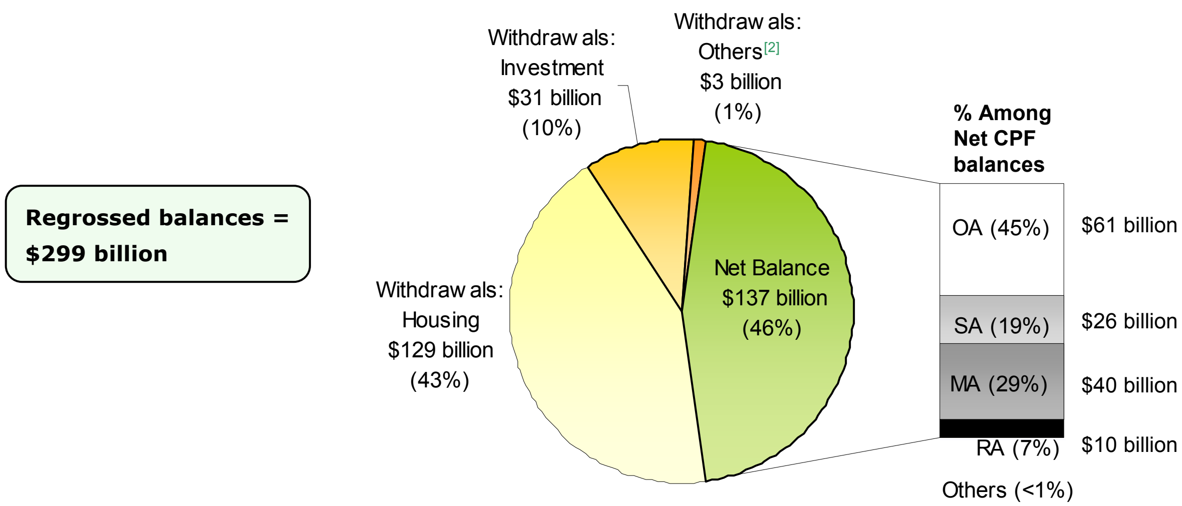


Chart 1b: Regrossed vs Net CPF Balances as at Dec 2007



[1] Compound Annual Growth Rate (CAGR): Measures the average annual growth rate over a specified period of time
[2] Other withdrawals refer to withdrawals under the Education Scheme, Singtel Discounted Shares Scheme and Non-Residential Properties Scheme. Withdrawals for 1997 includes withdrawals made for Delgro shares.

Proportion of Net Balances by Age Group

Members across all age groups held less of their OA in the net balances in 2007 compared to 10 years ago *(See Chart 2a, 2b, 2c & 2d).* In contrast, the average proportion of net balances held in the SA and MA was higher in 2007 than in 1997. The exception was the net balance held in MA for members aged 55 years old and above. *(See Chart 2d).*

The proportion of net balances held in SA rose the most among members aged 45 to less than 55 *(see Chart 2c).* As there was no contribution credited into the SA once a member exceeded age 55, this rise could be caused by the higher contribution rate credited into the SA. The rate for those aged 45 to less than 55 increased from 4% of wages (subject to wage ceiling) to 7% over the decade, while the corresponding increase was 4% to 6% for those aged 35 to less than 45.

Chart 2a: Proportion of Balances for members aged less than 35 years old

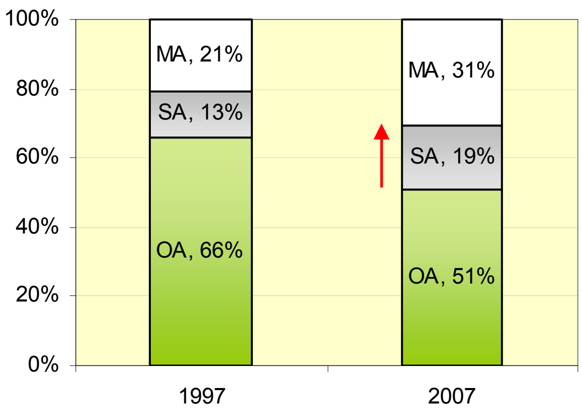


Chart 2b: Proportion of Balances for members aged 35 to less than 45 years old

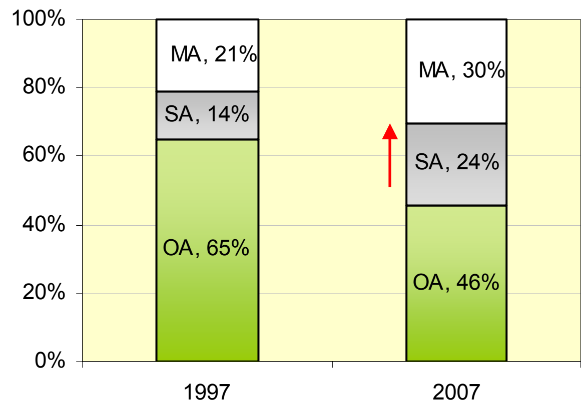


Chart 2c: Proportion of Balances for members aged 45 to less than 55 years old

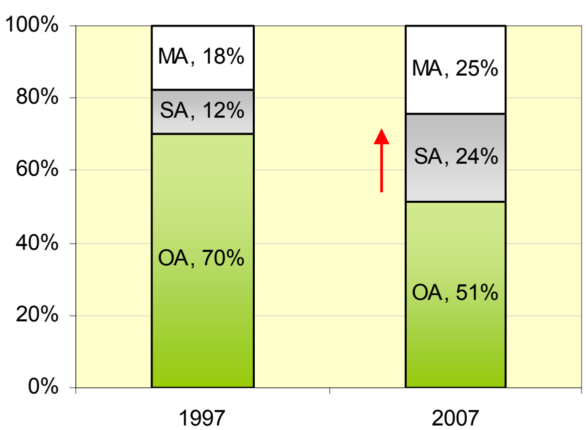
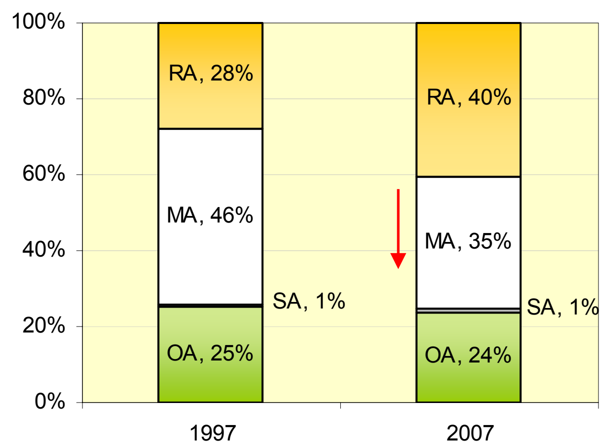


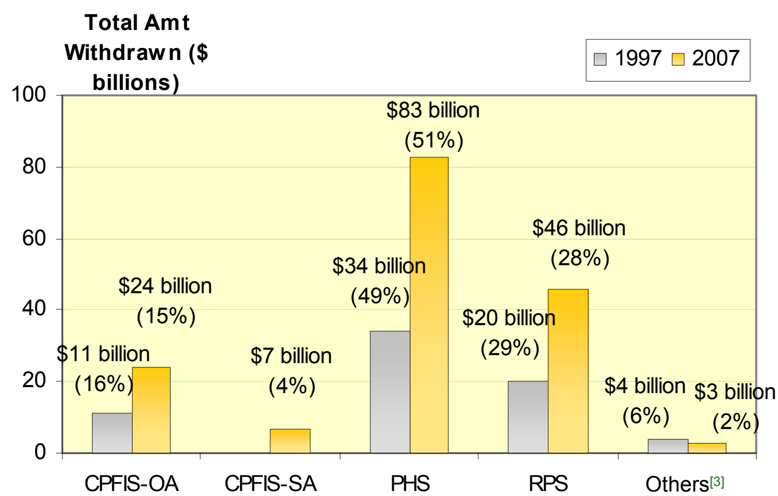
Chart 2d: Proportion of Balances for members aged 55 years old and above



Growth in Withdrawals

Focusing on CPF withdrawals as at 1997 and 2007, out of the total net amount withdrawn, withdrawals under the Public Housing Scheme (PHS) formed the largest percentage. It hovered around 50% for both 1997 and 2007 *(See Chart 3).* In comparison, withdrawals under the Residential Properties Scheme (RPS) accounted for close to 30% of the total net amount withdrawn. The figures show that home financing formed a major portion of the use of CPF savings. This could be a likely factor to cause the dip in OA savings. The withdrawal from SA for home financing was less significant, as the use of SA under PHS was subjected to members depleting their OA savings and meeting specific criteria.

Chart 3: Various Schemes as a Percentage of Total Net Amount Withdrawn, as at end 1997 & 2007



Abbreviations used:

CPFIS-OA – CPF Investment Scheme-Ordinary Account

CPFIS-SA – CPF Investment Scheme-Special Account

PHS – Public Housing Scheme

RPS – Residential Properties Scheme

About 15% of the total net amount withdrawn in 2007 were investments made using OA under CPFIS-OA. As CPFIS-SA was implemented in 2001, investments made using SA savings picked up gradually. It formed about 4% of the total net amount withdrawn in 2007.

Policy Changes

In this section, we shall examine when various schemes were implemented and how the policy changes contributed to the shift in the proportion of CPF balances *(see Diagram 4).*

Diagram 4: Major CPF Schemes and Policy Changes during period from 1997 to 2007

1997

Basic Investment Scheme and Enhanced Investment Scheme merged to form the CPF Investment Scheme (CPFIS): *Liberalisation of investment rules*

1998

Transfer of OA and/or cash to SA is allowed

1999

SA savings can be used for housing payments (subject to criteria)

2001

Launched CPFIS-SA: SA savings can be used for investment

- Changes in contribution rates and income ceiling: *Affects balances in the various accounts*
- Yearly increase in Minimum Sum Requirement: *Increases balances in the RA*

[3] Other withdrawals refer to withdrawals under the Education Scheme, Singtel Discounted Shares Scheme and Non-Residential Properties Scheme. Withdrawals for 1997 includes withdrawals made for Delgro shares.

Along with changes in CPF contribution rates for the different age groups, the contribution rates for the respective OA, SA and MA were also affected.

For illustration purposes, let's look at the contribution rates over the years from 1997 to 2007 for a member who is less than 35 years old. The rate that was credited into the OA showed a downward trend *(see Chart 5).* The rate for OA fell from 30% in 1997 to 23% in 2007. This, coupled with the higher withdrawals for housing payment, could help explain the fall in the proportion of OA balances. The rate for SA was zero in 1999 but went back up slightly to a higher percentage.

Chart 5: Contribution Rate[4] credited to the respective CPF accounts for a member less than 35 years old, 1997 to 2007

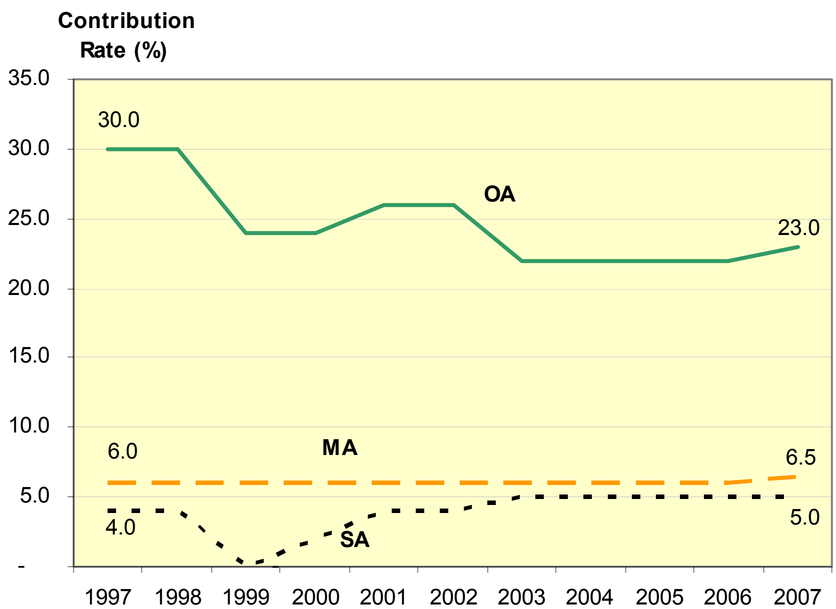


Table 6: Minimum Sum Requirement, 1997 to 2007

Period	Full Minimum Sum To Be Set Aside In The Retirement Account
From 1 Jul 1996	$45,000
From 1 Jul 1997	$50,000
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

Since July 1998, CPF members were also allowed to transfer savings from their OA and/or cash to their SA to enjoy the higher interest rate in the SA, subject to a cap. Since the scheme's inception, the number of members who transferred to SA from OA and cash top-ups have grown from 1,833 ($37 million) in 1998 to 40,962 ($363 million) in 2007. This, however, formed a small percentage of the $26 billion amount in the SA for 2007. The increase in contribution rate is likely to account for most of the rise in SA, similar to that for MA.

The yearly Minimum Sum that is to be set aside in the RA has increased gradually *(see Table 6),* which invariably increased the balances in RA.

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

Conclusion

The changes in OA balances were attributed to policy changes as well as the increased withdrawals for housing purposes. Along with changes in CPF contribution rates for the different age groups and the contribution rate that is credited into the respective accounts, the proportion held in the accounts had evolved over the years as a result.