

Speech by Dr Ng Eng Hen, Minister for Manpower and Second Minister for Defence at Close of the Debate on Ministerial Statement on CPF Reforms and Other Measures for a Secure Retirement on 19 Sep 2007

1. Let me thank MPs for their support. Many MPs affirmed with deep conviction that these CPF reforms had to be carried out to better prepare us for an ageing population. Knowing full well the radical demographic shifts we are now experiencing, that more will grow old with fewer young people to depend on, it would be irresponsible for this Government not to re-set our CPF system to respond adequately.

2. It is this Government's responsibility to govern well, not only for today but to make sure that we are building a strong Singapore that can withstand the pressures for many more years ahead of us. This is the abiding philosophy of the PAP Government. Yes, it would be convenient and tempting to pass these challenges to the next generation since as many noted, most of us in this house may not be around to face accusations then. Politically convenient but still a dereliction of our duty, if we had succumbed to that temptation. It would heap insurmountable problems upon future generations, if we do not strengthen our CPF system now.

3. I am proud to stand with members who have supported these changes. I am gratified by your unflinching support even when you know that your constituents will face some difficulty adjusting to these changes. Some MPs said we need to be better at PR to sell our policies. They are right. We have to communicate the why, what and how of these measures. We have to engage hearts, hold hands and assuage fears. It is not enough to have pristine policies, no matter how well crafted.

4. I need your help to communicate these changes to your residents. As you have done in this house during this debate, I need you to spout poetic lines to convince your constituents that these measures are meant to help them. Spew forth with passion your Hokkien lyrics and poetic metaphors.

5. Explain to them why Government could not leave the CPF system unchanged. If we could, we would have. We are changing the CPF system because we are compelled to, by circumstances unimaginable and unanticipated when the CPF system was started 50 years ago. Who then could have predicted that people would live this much longer. A system designed in 1955 for an average life expectancy of 61, left unattended would falter under the weight of needs as more grow old. It was never meant to support 20% of a population above 65, and numbering nearly 900,000 by 2030. The CPF system needs to be updated and strengthened. We are not acting irresponsibly as Mr Low Thia Kiang has accused. Far from it.

6. Even Mr Chiam See Tong recognises the fact that we have little choice but to raise the Draw Down Age (DDA). After the NDR, he was asked for his response. This is what he said: "Well, it's a fact that people are growing older. So the government will have to delay in the paying out - there's no other way. The life span of a person is going to 82 or above 80 - people are living longer. So the CPF is not inexhaustible. I mean if it's too long, people don't save enough money in the CPF, they just don't have enough for their old age, as simple as that."

7. "There is no other way." When each examines the situation truthfully, the things that have to be done become plainly obvious, as Mr Chiam so honestly put it. We need to save enough to be able to enjoy our golden years - it is "as simple as that". Anything else we promise to Singaporeans would be less than truthful. No one can deliver on false hopes.

8. But MPs should also comfort and reassure Singaporeans under your care. Yes, each Singaporean must make provision for his own needs. This is fair and right, but it is not true that we are leaving them to fend for themselves. No responsible person should accuse the Government of this. We are expending considerable resources to help them. We will spend at least \$1.1 billion each year to build up their CPF savings through workfare and higher CPF. We will provide up to \$1.2 billion in deferment bonuses. These changes are real. They will see their CPF accounts grow faster after these changes.

9. Reassure them that we are fully committed to helping them work till 65 years old. There remains much work to be done but it can be done. Laws will be passed, mindsets and practices changed and we can find jobs for them. It is wonderful to be able to live that long. This is a blessing for Singaporeans. Would you rather be in Russia, where the life expectancy is 66 years instead of 80 here? Singaporeans can look forward to a peaceful and fulfilling life here. And with more savings, they can look forward to the future with confidence. This is what we are trying to achieve.

10. Help me communicate these messages.

11. MPs also provided many inputs. We will adopt valuable suggestions on how to better implement measures. But, I would like to directly address key concerns raised:

a. Will re-employment work?

- b. Is the new interest rate structure fair?
- c. On Longevity Insurance (LI) or annuities, why must the LI be compulsory? Have we moved from self-responsibility to shared responsibility in LI?
- d. Why not fund a national pension scheme from reserves?
- e. Has our CPF system delivered economic and social progress for all?

1. Will re-employment work?

12. I take members' point seriously that re-employment has to work; otherwise Singaporeans will face hardship with the later DDA. MOM knows this, NTUC our partner is acutely aware of this, which is why we had started work much earlier. MOS Gan Kim Yong has given a report of the progress of the Tripartite Committee working on this. I need not re-iterate except to say that there are positive signs that companies are already adopting re-employment practices.

- a. Many examples have been provided - by MOS and by Cham Hui Fong and Josephine Teo.
- b. Employers are supportive, as shared by Edwin Khew.

13. But there remains much work to be done. None of the tripartite partners under-estimate the practical issues that have to be dealt with, and that itself is a good start.

14. Some members suggested that the re-employment law be enacted well before 2012. NTUC Sec-Gen was wise in counselling that laws will not be sufficient to achieve our full targets. Laws assist but there are no short cuts. We will work on guidelines first and gauge the progress. The law will be in effect by 2012.

15. But the best assurance of remaining employable is for the worker to remain healthy and productive.

16. What about those who cannot find jobs? Some have called for CPF savings to be drawn down earlier, should the worker be unable to be re-employed. We should be cautious in going down that road. With rapid economic restructuring and disruptive employment, it is a fact that some workers may face episodes of unemployment during their working life. If CPF savings, rather than other personal savings, were used to tide over such periods of unemployment, the end result is that the retirement adequacy of the worker is compromised. He would not be able to enjoy the higher interest that the CPF pays, had the money been left there until the DDA. We will have to assist them in other ways, as we did in the last economic downturn in 2002.

17. Should, however, a worker be unable to find work because of his medical condition, the CPF Act already allows for the member to make an application for early withdrawal. So the system already has flexibility to cater to such needs.

2. Is the new interest rate structure fair?

18. Some MPs asked if this system was sustainable. Others asked if this was fair, why not pay more. Minister Tharman has addressed this point comprehensively – from the fiscal perspective and more importantly, how we must not shift our CPF system to one that takes away the responsibility of self-provision. I will add only a few salient points here.

19. Some have voiced concerns about the floating SMRA rate, pegged to 10Y SGS plus 1%. The SMRA peg and the extra 1% on the first \$60K are to be taken as not two separate features but one essential whole for the new interest rate structure. That was how it was conceived and designed to be fiscally prudent and sustainable. For example, we could have provided a fixed SMRA rate, but pay the extra 1% on smaller sums. Or we could have paid the extra 1% on larger sums, but reduce the SMRA rate. The most important point to remember is that under the new interest rate structure, we are paying \$700M more each year. All CPF members will get more but those with small and middle sized balances will benefit the most. Another important point is that 70% of all CPF members will effectively enjoy 3.5% for OA and 5% for SMRA because they will have less than \$60K in their accounts. Even after the 4% floor is removed after two years, the interests paid will be better than the current system.

20. The 3.5% for OA and 5% for SMRA are more than fair. It is essentially risk-free. Furthermore, interest once paid, belongs to the member. Unless you withdraw, your CPF sums will never decrease. In fact, it will always be increasing each year. Because even if the SMRA rate was to fall, for a short period, the gains previously made are already locked in. This is the distinct difference compared to equity and even bond investments where you can suffer capital loss, or only have your principal protected. This is truly risk-free.

21. What some members are asking for in terms of even higher risk free interest rates is too good to be true. Higher returns come with higher risks – that's the standard caveat. You can reduce cost of distribution and administrative charges. You can diversify your risks through a balanced portfolio but no one can insulate you from market risk. It is easy to claim that our investments should do better, but who dares to promise you this? And how are they accountable? Under the CPF system, the risks are minimised and the minimum guarantee can stand up to market scrutiny and competition. There is no equivalent product in financial markets that offers such assured rates at no risk. There are no suitors asking to take over our funds and guaranteeing equivalent returns. No one will be willing to underwrite this system simply because it is more than fair.

22. In fact, we were advised by consultants that there was no approach to funding a 2.5% guarantee through members' contributions that will completely eliminate the risk of a shortfall arising. This was because there isn't any 'risk-free' asset that can be certain to achieve the 2.5% per annum minimum return, let alone a 3.5% minimum return. Only the Government can provide that guarantee. Take Aviva's Big e fund for example, which Siew Kum Hong asked about. This guarantees members returns above CPF-OA rate. The reality is that should the Big e return fall below 2.5%, Aviva will return the money back to the CPF member. Aviva does not provide the guarantee. In periods of very low interest rates, it is the government which will have to bear risk of providing the 2.5% guarantee. We cannot design a long term structure for our CPF system based on occasional advertisements. Please read their fine print.

23. The sensible thing would be to take full advantage of the system. For example, what young CPF members should do to maximise returns would be to transfer OA monies to SA early as possible to earn the extra interest. \$10,000 transferred to SA at age 35, would have \$10,100 more interest 20 years later than if the money was left in OA.

24. What about the 30% with balances above \$60K? If they think that they can do better than the CPF interest rates, they can still invest sums above \$20K in the OA and SA through CPFIS. Can CPFIB help them invest? We have not ruled this out. We can contemplate this later. But let's put this structure in place first.

3. Why must LI be compulsory? Have we moved from self-responsibility to shared responsibility in LI?

25. Many members expressed the concerns on the ground about compulsory longevity insurance which Government intends to introduce. Mdm Halimah wondered if, by adopting risk-pooling, we were moving away from a core principle of the CPF system, which is that it is self-funded. Liang Eng Hwa and Inderjit Singh were concerned about its compulsory nature – Liang Eng Hwa asked to "give education a chance". Many other MPs also raised considerations of fairness, as well as the role of the Government in risk-pooling.

- a. We are not moving from self-provision to shared responsibility in introducing compulsory longevity insurance. Indeed, we are strengthening this very principle.
- b. What is required, and has always been the case, is that each person must save enough to last his life span. Indeed this is the cardinal principle that we all accept for the individual accounts for CPF. That is the basis for the Minimum Sum. But as life spans stretch, how long should members' MS in their RA be drawn down over?
- c. We know that half of us will outlive our Minimum Sum after drawing it down for 20 years. The problem is we do not know which half. So, we would have to stretch out the Minimum Sum for 30 years, even 35 years to cover all eventualities. Yes, this will make the savings last longer, but the monthly payments will be much reduced. Worse, while doing so may mean nearly everybody's longevity risk is catered for, it also means that the half who die before 85 have to make do with lower monthly payments while they are alive.
- d. In addition, such an approach would not cover the scenario of significantly extended longevity as a result of medical breakthroughs, a point made yesterday by Dr Lily Neo.
- e. Extending the Minimum Sum period is a solution but it reduces your monthly drawdowns. Longevity insurance is a better solution because you need only set aside a small fraction of your retirement savings, and it will guarantee you a monthly income for life, starting from 85 years. Since only a small fraction of your retirement savings is devoted to this, your monthly payments under the MS can be higher.

- f. Some members called for larger payouts, linking payouts to inflation, or for some amount to be returned back if the member dies earlier (Amy Khor). These options are all possible, and could be offered as an additional rider to the basic product. Essentially, from the minimum sum in the Retirement Account, members can choose which portion of it to be earmarked for payments in the first 20 years, which portion to be allocated for longevity insurance, and which portion to be devoted to additional riders on the longevity insurance. We should not preset the payout amounts for the Committee's consideration – whether it is at subsistence, \$300, \$400 or \$500, etc. Instead, the Committee should recommend options to cater to different needs and let member's choose.
- g. Some have asked if its possible for earlier annuity payouts , say at 75 yrs instead of 85 (Jessica Tan, Amy Khor). Others want to reduce their dependence on LI, and may want to stretch their RA to 95, and for their annuity to start then (Lam Pin Min). I say why not? The Committee for the National Longevity Insurance Scheme led by Prof Lim Pin should consider all these options. They will propose the design for the Scheme. Our goal is to provide basic, affordable and flexible options to meet the needs of different CPF members.
- h. I want to stress that this system should be fair to all. No specific group should feel that they are disadvantaged. We should let professionals determine the risks and the adjusted premiums. The actuarial information will be transparent. How long you need to live to, to break even or get more with your premium, should be supplied, so people can choose their plans with full information (Zaqy M). The scheme will be administered by the CPF Board. This will allow members to leverage on the CPF system and make longevity insurance premiums affordable. It will also establish longevity insurance as another integral piece of our CPF system.
26. Members have also asked what is the Government's contribution to the longevity insurance scheme. Could government fund part of the risk pool? In fact, we are already doing so. The extra interest that we are paying on the first \$60K of all CPF members' balances will be more than sufficient to pay the premium for a basic longevity insurance product.
27. Some have asked, instead of the extra 1% or deferment bonuses, why not take some of that to fund the LI? (Jessica Tan, Liang EH) These are two distinct aspects. We are strengthening our CPF system, by putting into place a missing critical piece with LI. This system must be put into place for many generations after us. We should not begin with the philosophy that it should be subsidised. The CPF system works and is sustainable because it is based on savings, not tax. Each must save for himself for his own needs. We must not depart from this fundamental strength of the CPF system. This brings me to my next point.

4. Why not fund a national pension scheme from reserves?

Strengthen, not weaken the CPF system

28. Some have asked that Government start a nationalised pension system and bear part of the cost (Inderjit, Chiam and Low TK), That would be fundamental mistake. It would take us many steps backwards, and bring upon us the very problems that those with socialised pension schemes are trying to get out of.
29. Any system where someone else pays for your retirement needs, such as in Pay-As-You-Go systems, or state funded pension systems are difficult to sustain. Indeed, other countries which run such systems, are attempting to move away from them, because their old persons support ratio is also declining. Taxes cannot support the needs. Italy spends 14% of its GDP just to fund state pensions. Seeing others falter, we should not repeat their mistakes, especially since we are among the fastest ageing societies, and our old person support ratio will fall to 4:1 by 2030.
30. Our CPF system is strong and fully funded because individuals saved for their own needs and spend what they saved. Government can top up from time to time, when it has budget surpluses. But that is radically different from saying that Government should now take on the responsibility of providing for the retirement needs of every Singaporean. It will slow us down, deplete our reserves and impoverish us. We would then have little resources to help anyone.
31. Even longevity insurance is not asking others to shoulder your needs. You have to pay a premium first to share risks, so there is a cost to you that you are providing yourself. If you do not want to share risk, we should allow you to pay a higher premium so that part of your money goes to your dependents. Or, you can stretch out your payments so that you cover yourself for 30 years and reduce your dependence on LI.
32. There is a Chinese saying – wealth cannot last three generations. We must avoid this and maintain personal responsibility.
33. Why not use our reserves to fund this? Surely, the old have contributed to the reserves. The argument is seductive but short-sighted. Every generation would claim that it has built and has a right to

the reserves. But our reserves belong to all generations of Singaporeans, including future generations, not only our generation. It would be most unwise to deplete on it for only the needs of this generation. To guard against that constant temptation of every generation to do so, is the very reason that the Elected Presidency serves as an impassive gate-keeper for all generations. We are still a small island and our reserves are a strategic store that gives us weight in this world. It may be needed to tide us over calamities as in not mortgage our future to serve present needs.

5. Vulnerable Groups

34. Some members have appealed for more help to be given to vulnerable groups such as housewives, contract workers, odd-job labourers and caregivers of disabled children, and those who are unable to find work. Mdm Halimah called for the Government to contribute towards “social pooling”. We will need to help these groups. And we have – through Comcare, financial assistance schemes, additional housing grants, the CDCs, top-ups during budget surpluses, we do assist them. Indeed, since 2001 and including the GST Offset package, special transfers from the Government have totalled \$11.7 billion. But we should not again for these groups that need help change the cardinal principle of self-provision that underpins our CPF system. It would weaken it.

35. Indeed, we must ensure that under our CPF system, those that can afford to must make full provision for their life spans. Otherwise precious resources will have to be used to assist too many that have not done so.

6. Has our CPF system delivered economic and social progress?

36. Some members have questioned if the CPF system has delivered. They cite reports from World Bank and look to other models. It is good to keep abreast of developments, but at the end of the day, what do you believe? Has the CPF system been a plus for Singapore and Singaporeans? Yes, we have low income households. We will always have them. But even such households own homes which are a substantial store of value which members can cash out on. In a survey in 2003, each HDB household was estimated to have an average housing equity worth about \$154,000. Even the lowest 20% of households had average housing equity of \$138,000. While these figures would be even higher in today’s market, the important point is that each HDB household has significant value in their flat. Singaporeans own an asset which they can subsequently monetise, either by rental, or by sale, if they need to. Flats are already subsidised, but for lower-income, we give Additional Housing Grants. In addition, HDB will introduce a Lease Buyback Scheme to help lower income elderly to monetise the tail end of the lease on their 2 or 3-room HDB flats to provide for monthly income for the rest of their lives.

37. Is our 3M framework working? Our approach of financing healthcare through the 3Ms framework - Medisave, Medishield and Medifund have been successful. Collectively, there are \$36 billion in our Medisave Accounts today and this is still growing at more than \$1 billion a year. The lower income has good access to relatively affordable healthcare. In 2001, WHO ranked the performance of Singapore’s healthcare system as number six in the world. I am quite familiar with healthcare standards around the World. Singaporeans can take comfort that we have one of the best healthcare delivery systems in the World.

38. Our aspiration to make sure that all Singaporeans are included in our economic and social progress is a good one. Indeed, we must always strive for this, as MPs representing them. But we need not diminish the progress that we have achieved. We need not unfairly malign the CPF system. It has worked well and allowed us to achieve a social compact that few others have. It has provided economic security and equity to the majority of Singaporeans. It needs to be strengthened but is by no means ineffectual, by any yardstick.

39. Does usage from CPF funds need to be tightened? Have we allowed it for too many purposes, or too lax in any one area? These are serious questions to be considered? Our projections show that under the new system, 84% of new entrants to the workforce would have enough to meet the Minimum Sum for retirement, even for low wage workers and even after buying their first home. The additional housing grant will help further. So our home ownership need not be sacrificed for retirement adequacy. We can have both. But some Singaporeans can over-commit in buying bigger and subsequent homes. They plough back gains from the sale of their first home to purchase a bigger home. This is good if you can afford it, but perhaps they ought to think about how much funds they have in their retirement account when they sell their homes to buy another. Because the earlier you put money in your SA/RA, the faster your CPF savings will grow. Up to first \$60K, will get 5% and this compounded over many years increases your retirement savings substantially. We will study how to advise them, as MPs have suggested.

7. Conclusion

40. The changes to the CPF system are fundamental and long term. It will better prepare Singapore to support its larger older population. It will help provide security and peace of mind for Singaporeans when they grow old. With higher CPF interest, all CPF members will be better off, especially the lower and middle income groups. Working longer, later draw-down, deferment bonuses, and longevity protection will ensure that as many as possible will have savings for as long as they live. Singaporeans can look forward to their golden years.

41. Sir, this has been a high quality debate and one that this Parliament can justifiably be proud of. There was an abundance of sound views, probing questions and well-argued alternatives. But there was no vitriol, less rhetoric and little posturing. One got a sense that we were all trying to find the best system to make sure all could age well. That all members in this house, including those from different political parties can sit here, deliberate calmly and responsibly is itself a strong affirmation that we have a strong and effective political system.

42. We could not have imagine 40 odd years ago when this nation was conceived, that we would be here today in 2007 discussing how to deal with the problem of people living much longer. Faced with stark issues of survival then of having to provide basic necessities for an impoverished nation; indeed, not being sure that we could last as a nation, making provision for retirement savings to last till 100 would not even have been a remote possibility on the minds of its leaders and Singaporeans.

43. What will they say 40 years hence of this House about this debate on September 19, 2007? As they pore through the Hansard, what will they think of us? How will we be judged? It is hard to be completely sure. Some younger members here will physically be around. And if technology has allowed you to speak to those who cross over - please SMS me on the other side. But of this one thing I can be reasonably sure that they will conclude: that this Government did not shirk its responsibility but lived up to its duty; that this House had resolve and courage to do what was necessary. That this generation of Singaporeans did what was right and good for future generations. That, Sir, must mean something to each of us here and to all Singaporeans now.