TRENDS

CPF Investment Scheme

Background

The CPF Investment Scheme (CPFIS) gives CPF members the opportunity to invest their CPF savings in a wide range of investments to enhance their retirement nest egg. The CPF Investment Scheme (CPFIS) comprises the CPF Investment Scheme-Ordinary Account (CPFIS-OA) and CPF Investment Scheme-Special Account (CPFIS-SA). Under both schemes, members may invest their CPF savings in products such as Fixed Deposits (FDs), Singapore Government bonds and Treasury Bills, Statutory Board bonds, annuities, endowment insurance policies, Investment-Linked Insurance Products (ILPs), Unit Trusts (UTs), and Exchange Traded Funds (ETFs)[1]. In addition, under CPFIS-OA[2], members can also invest in shares, corporate bonds, property funds, gold and gold ETFs.

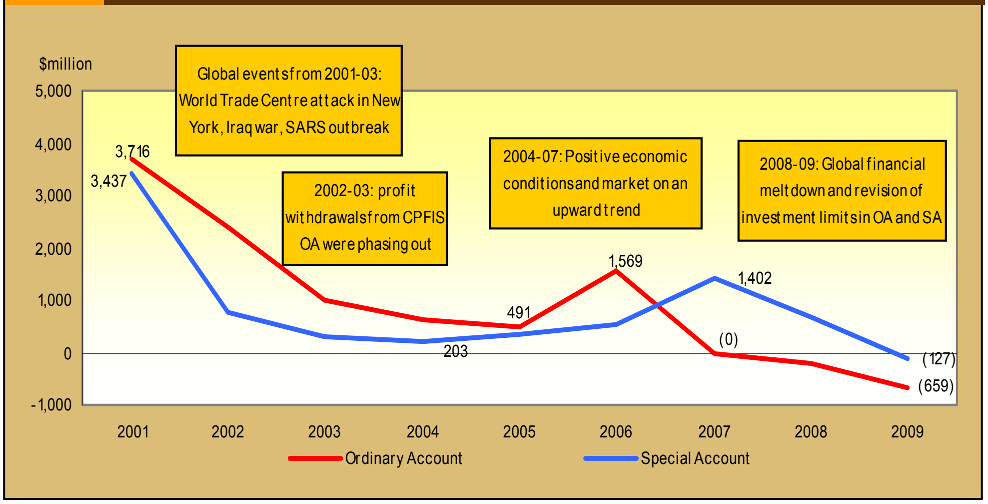
This article examines the changes in the net amount withdrawn[3] under CPFIS in the last decade (2001 - 2009) as well as possible reasons for the yearly variations.

Downward trend in net OA monies withdrawn (2001-2005)

Global events was a key factor that led to a decline in the net OA monies withdrawn for investment from 2001 to 2005

In the first half of the decade, the net OA monies withdrawn for investment showed a downward trend. From a net amount withdrawn under CPFIS-OA of $3,716 million in 2001, the level dropped significantly in the next few years to reach a low of $491 million in 2005 **(Chart 1)**. A key factor that probably dampened investors' sentiments - and resulting in the decline of the net OA monies withdrawn **-** was the occurrence of global and regional events such as 11 September 2001 attack on New York's World Trade Centre, the Iraq War and the 2003 SARS outbreak. Another contributing factor is likely to have been the change in policy to disallow CPF members from withdrawing their investment profits in cash from 2002 onwards.

Chart 1 Net amount withdrawn for investment (2001-2009)



1. For the complete list of investment instruments available, visit http://ask-us.cpf.gov.sg/Home/Hybrid/themes/CPF/Uploads/Investment/INV_Annex%20A.pdf Investments in UTs, ILPs, ETFs, and Fund Management Accounts are allowed to be denominated in non-Singapore dollar currencies.

2. Under CPFIS-OA, members can invest up to 35% of investible savings in their OA in shares, corporate bonds and property funds, while 10% can be invested in gold and gold ETFs. Investible savings is defined as the OA balance plus net amounts withdrawn for education and investments.

3. Net amount withdrawn refers to the difference between the gross amount withdrawn and the gross amount refunded.

Variations in yearly net OA monies withdrawn (2006-2009)

Similarly, fluctuations in net OA monies withdrawn from 2006-2009 could be explained by global economic conditions and policy changes

In the second half of the decade, the yearly net OA monies withdrawn for investment varied widely. In 2006, the net OA monies withdrawn rose to $1,569 million, reversing the erstwhile downward trend. This could be attributed to positive economic conditions and market sentiments prevailing then.

From 2007 to 2009, refunds to OA were larger than the gross amount of OA monies withdrawn, resulting in negative net amounts withdrawn from OA. Key factors behind this trend include the global financial meltdown during that period, and the introduction of restrictions placed on OA monies before they could be withdrawn for investment. The latter was implemented in April 2008, which restricted members to using only monies in excess of $20,000 in their OA for investment under CPFIS[4] .

The downward trend, to a lesser extent, could be attributed to the implementation of measures to mitigate the investment risks for members so that retirement savings are not eroded. For example, banks must also offer a minimum effective interest rate that is at least the prevailing CPF interest rate for new placements or roll over of any CPFIS Fixed Deposits (FDs). In this way, members will not be worse off than if they had left their monies in the CPF Accounts.

Net SA monies withdrawn exhibited similar trends

Generally, the net SA monies withdrawn for investment exhibited similar trends to those for the net OA monies withdrawn in the last decade. The CPFIS-SA in its first year of introduction in 2001 saw some $3,437 million in the net amount withdrawn. However, since then the annual amount has declined, reaching a low of $203 million in 2004. Similar to withdrawals under CPFIS-OA, global and regional events contributed to the decline in the net SA monies withdrawn.

Introduction and revisions of restriction on investment, and poor investment sentiments contributed to the fall in net SA monies withdrawn in recent years

From 2004 to 2007, the net amount of SA monies withdrawn was on an uptrend fuelled by positive investor sentiments, reaching a peak in 2007. However, this uptrend was arrested in 2008 due to the introduction and subsequent revisions of the investment restrictions on SA savings. Specifically, from April 2008 onwards, a member was allowed to invest monies above the first $20,000 in his SA. This amount was subsequently revised upwards to $30,000 and $40,000 in May 2009 and July 2010 respectively. Poor investment sentiments during the global financial crisis also contributed to the fall in the net SA monies withdrawn.

Summary

The variations in the yearly net OA and SA monies withdrawn for investment over the last decade has been influenced by a combination of global events and policy changes. Although investment of CPF monies under CPFIS can potentially reap returns exceeding the interest rate given on CPF balances, there is no guarantee that investments will always be profitable. Hence, members should exercise prudence when investing under the CPFIS-OA and the CPFIS-SA. They should carefully consider the level of risk that they can tolerate in order to safeguard a minimum level of adequacy in retirement. If members are not confident of investing on their own or do not wish to risk their savings, they can always keep their money with the CPF Board and earn the guaranteed risk-free interest.

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.

4. This change in rules was to allow members to benefit from the payment of 1% extra interest (EI) on the first $60,000 of balances (including the first $20,000 of OA monies), with the aim of enhancing returns on CPF members' savings for retirement.