



CHAIRMAN'S STATEMENT



The current global economic downturn has adversely affected pension funds in many countries. Retirees have lost their retirement savings as the values of pension plans fell. Many pension funds will face big challenges in the coming years to meet their on-going liabilities. Furthermore, inflation may emerge as a major threat, and with it, the challenge of achieving satisfactory real returns going forward.

In contrast, CPF members have been well shielded from the excessive fluctuations in the market because of the fundamentally different system that the CPF works on. Monies in CPF accounts are shielded from the risks and volatility in capital markets. They are invested only in risk-free Special Singapore Government Securities yielding up to 5% and guaranteed by the Singapore Government. As at December last year, CPF members' balances stood at \$151.3 billion, an increase of \$14.7 billion from \$136.6 billion in December 2007. Inclusive of withdrawals for housing (\$134 billion), investments under the CPF Investment Scheme (CPFIS) (\$31.5 billion), and other schemes, total CPF assets amounted to some \$319.6 billion at the end of 2008.

The fundamental problem that we face in this recession is not wage competitiveness but that of an unprecedented slump in global demand. To help Singaporeans cope with the difficult economic situation, the Government announced a major stimulus package in the 2009 Budget. The "Resilience Package" totalling \$20.5 billion, is estimated to result in a record budget deficit of about 6% of GDP. The focus of the assistance measures is on helping businesses to retain workers by helping them to meet their costs, strengthen their cash-flow and stay afloat. This Package will benefit Singaporeans substantially.

STRETCHING CPF SAVINGS TO LAST LIFE EXPECTANCY

CPF LIFE - Income For Life

Amidst these extra-ordinary times and challenges, the CPF Board is aware that it must look ahead and be well prepared to respond to the inexorable trends of rising longevity and rapidly changing demographics in Singapore. In this regard, we are proceeding with plans to implement a life annuity scheme (called CPF LIFE) to provide our members with a steady income from 65, for life.

The CPF LIFE scheme was first mooted in 2007. The scheme offers four different plan types catering to the diverse needs of our members. Members may choose plans with or without a refundable feature. The payout under CPF LIFE will vary, depending on the plan type and the amount of savings the individuals have in their Retirement Accounts. The premium and payout to individual members will be adjusted from time to time taking into account actual mortality experience and investment returns.

All CPF members born in 1958 or later will be automatically included in CPF LIFE if they have at least \$40,000 cash in their Retirement Accounts when they turn 55. They will enjoy a monthly income from age 65 for as long as they live.

Older members born before 1958 can choose to opt into CPF LIFE from September 2009. To encourage participation in CPF LIFE, a LIFE Bonus (L Bonus) ranging from \$2,200 to \$4,000 will be given.

As Singaporeans are living longer, increased retirement needs in future must be met through a combination of more savings, better returns and deferred retirement. The Board will continue to review and fine-tune its policies with these considerations in mind.

STRATEGIC THRUSTS IN 2008

Extra Interest (EI) - Enhancing Returns On CPF savings

To help members continue to grow their CPF savings without exposing them to the volatility and risks of the financial markets, the following changes were introduced on 1 January 2008:

- i) Members were paid an additional 1% interest on the first \$60,000 of a member's combined balances, with up to \$20,000 from the Ordinary Account (OA). With this change, CPF members can earn up to 3.5% on their OA and up to 5% on their Special Account, Medisave Account and Retirement Account (SMRA). All CPF savings will continue to have a guaranteed floor rate of 2.5%.
- ii) The interest on the savings in the SMRA has been pegged to the 12-month average yield of the 10-year Singapore Government Security (10YSGS) plus 1%. To help CPF members adjust to the floating rate, the floor rate for the SMRA will be kept at 4% for two years even should the 10YSGS yield fall below 3%. This means that CPF members will continue to earn at least 4% on their SMRA until December 2009.

Voluntary Savings - Growing CPF Members' Savings

Last year, the rules for the Minimum Sum (MS) Topping-Up Scheme were liberalised to encourage members to voluntarily top up the Special Accounts of their spouses and siblings below age 55 using their CPF balances. In addition, members can now also top up the Special Accounts of anyone using cash. From 1 April 2009, the minimum CPF balance that members must meet before being allowed to make top-ups for others will be lowered from one and a half times the prevailing MS to just the prevailing MS. This further liberalisation of the rules will enable more members to make top-ups.

OTHER STRATEGIES TO HELP MEMBERS SECURE RETIREMENT ADEQUACY

Lease Buyback Scheme - Monetising Property Assets

In March 2009, the Housing and Development Board (HDB) launched a lease buyback scheme to help older lower income members staying in three-room or smaller flats to monetise their residential property assets. Under the scheme, the HDB will buy back a part of the lease remaining, at market rate. The money will be used to help members buy CPF LIFE which will enable them to have a steady source of monthly income in their retirement years and for the rest of their life. This arrangement will allow them to live in the same flat, enjoy the familiarity of their home and community, while receiving a lifelong income.

CPFIS – More Stringent Fund Admission Criteria

Only about 10% of CPF savings are invested in the capital markets by members under our CPFIS. The market turmoil has negatively impacted some of the investments of CPFIS members. The measures that the Board has put in place over the years have reduced the adverse impact. Since 2006, new retail funds included under the CPFIS have to fulfil more stringent admission criteria which take into account the fund's relative rating, track record and expense ratio. To further lower the cost of investment and improve the quality of funds in CPFIS, the Board will require all existing funds under CPFIS to also meet these tighter criteria before they are allowed to accept new investments from 1 January 2011.

The minimum amount in the SA over which a member can use for the CPFIS will also be raised from \$20,000 to \$30,000 from 1 May 2009. For the OA, the minimum amount remains unchanged at \$20,000.

ENHANCING OUR SERVICE TO MEMBERS

In our continued efforts to deliver better services to our members, we introduced several new initiatives in *my cpf* portal and added a number of multimedia features on the website, including a new range of interactive, user-friendly calculators on CPF schemes.

The CPF Board was featured for its leading practices in customer service, in the Accenture Report 2008 on Leadership in Customer Service: Creating Shared Responsibility for Better Outcomes. The Board was given recognition for its proactive efforts in providing a wide range of services which catered to its diverse customer base.

The Board was also conferred a regional award from Asia Asset Management magazine for the "Best of Best Regional Category for Pension Plan" in 2008. The award, known as Plan Sponsor of the Year Award, recognises the progress and achievements of pension funds in Asia, the stability of the pension fund (or system) & deployment of benefits, investor education initiatives, sustainability of the fund, and performance and management excellence.

APPRECIATION

Lastly, on behalf of the staff and the Board, I would like to thank Board Members Mr Donald Low and Mr Leong Sow Chun who have retired from the Board, for their contributions and services.

I would also like to take the opportunity to welcome government representative Mr Ng How Yue and employer representative Ms Mary Yeo onboard.

KOH YONG GUAN

Chairman