

**HANDOUT ACCOMPANYING 17 SEP 2007 MINISTERIAL STATEMENT ON
CPF REFORMS AND OTHER MEASURES FOR A SECURE RETIREMENT**

1) NEW INTEREST RATE STRUCTURE

OA rate = 2.5%

10YSGS = 3.0%

SMRA rate = 10YSGS + 1% = 4%

Extra Interest = 1% for first \$60K (up to \$20K from OA).

Interest earned each year

Example 1: Combined balances = 60K; OA = 20K, SMRA = 40K

Total balances	OA \$20,000	SMRA \$40,000	Total \$60,000
Interest earned	2.5% → \$500	4.0% → \$1,600	\$2,100
Extra 1%	\$200 (credited to S/RA)	\$400	\$600
Total interest earned	\$500	\$2,200	\$2,700

\$600 more compared to current system = \$(2,100 + 600) = \$2,700

Example 2: Combined balances = 60K; OA = Nil , SMRA = 60K

Total balances	OA Nil	SMRA \$60,000	Total \$60,000
Interest earned	2.5% → \$0	4.0% → \$2,400	\$2,400
Extra 1%	Nil (credited to S/RA)	\$600	\$600
Total interest earned	Nil	\$3,000	\$3,000

\$600 more compared to current system = \$(2,400 + 600) = \$3,000

Example 3: Member with balances below \$60,000

	OA	SMRA	Total
Total balances	\$10,000	\$20,000	\$30,000
Interest earned	2.5% → \$250	4.0% → \$800	\$1,050
Extra 1%	\$100 (credited to S/RA)	\$200	\$300
Total interest earned	\$250	\$1,100	\$1,350

\$300 more compared to current system = \$(1,050 + 300) = \$1,350

Example 4: Member with high balances

	OA	SMRA	Total
Total balances	\$30,000	\$70,000	\$100,000
Interest earned	2.5% → \$750	4% → \$2,800	\$3,550
Extra 1%	Max \$20,000 → \$200 (credited to S/RA)	Max \$40,000 → \$400	\$600
Total interest earned	\$750	\$3,400	\$4,150

\$600 more compared to current system = \$(3,550 + 600) = \$4,150

2) EXAMPLES OF INTEREST GAINS UNDER NEW INTEREST SYSTEM OVER 10 YEARS AND 20 YEARS

The examples below assume certain starting balances and no further contributions nor withdrawals.

OA = 2.5%

10YSGS = 3.0%

SMRA = 10YSGS + 1% = 4.0%

Extra Interest = 1% for first \$60K (up to 20K from OA).

Example 1: \$20,000 in Ordinary Account, \$40,000 in Special, Medisave, Retirement Accounts

Time Horizon	Total CPF Balances		Gain
	Current System	New System	
In 10 yrs	\$84,800 (\$25,600 OA, \$59,200 SMRA)	\$92,000 (\$25,600 OA, \$66,400 SMRA)	\$7,200
In 20 yrs	\$120,400 (\$32,800 OA, \$87,600 SMRA)	\$138,300 (\$32,800 OA, \$105,500 SMRA)	\$17,900

Example 2: \$60,000 in Special, Medisave, Retirement Accounts

Time Horizon	Total CPF Balances		Gain
	Current System	New System	
In 10 yrs	\$88,800	\$96,000	\$7,200
In 20 yrs	\$131,500	\$149,300	\$17,900

Example 3: \$120,000 in Special, Medisave, Retirement Accounts

Time Horizon	Total CPF Balances		Gain
	Current System	New System	
In 10 yrs	\$177,600	\$184,800	\$7,200
In 20 yrs	\$262,900	\$280,800	\$17,900

*Numbers may not sum up due to rounding

3) CHANGES TO DRAW-DOWN AGE AND SCHEDULE FOR D- & V-BONUSES

Age at 31 Dec 2007	Draw- Down Age (DDA)	D-Bonus for later DDA (Max: Up to \$30,000)	V-Bonus to 65 years (Max: 2% up to \$30,000 for each year)	Max Total Bonuses
63	62	NA	\$600	\$600
62	62	NA	\$600 x 2 years	\$1200
58 - 61	62	NA	\$600 x 3 years	\$1800
56 - 57*	63	5% (\$1500)	\$600 x 2 years	\$2700
54 - 55*	64	5% (\$1500)	\$600	\$2100
52 - 53*	65	4% (\$1200)	NA	\$1200
50 - 51	65	3% (\$900)	NA	\$900

* These are the cohorts first affected by each change in the DDA

4) EXAMPLES OF TOTAL GAINS

Example: 57- year-old in 2007

How changes will help

Mr Tan is 57 years old and earns \$1,200 per month. He has \$21,000 in his Retirement Account and his current DDA is 62.

Under the present system, he will have \$36,000 in his Retirement Account when he turns 62, the draw down age. He will receive \$270 per month from age 62 but his CPF savings will be depleted at age 78

Scenario 1

Mr Tan is re-employed until 63 at a lower income of \$1,000. Through the changes the Government is making, he will receive additional amounts:

- Higher Workfare Income Supplement of \$2,400¹ a year.
- D-Bonus of up to \$1,500
- Extra interest on his RA² savings.

Effect of changes:

Mr Tan will have \$47,000 in his Retirement Account when he starts drawing down at age 63. In other words, he will have \$11,000 more with 1 more year of work and later draw down. With more than 30% gain in savings, he receives \$330 per month until age 82.

Scenario 2

Mr Tan is re-employed until 65 at a slightly lower income of \$1,000. Through the changes Government is making, he will receive additional amounts:

- Higher Workfare Income Supplement of \$2,400 a year
- D-Bonus of up to \$1,500
- V-Bonus of \$1,200 (if he volunteers to defer his draw-down age to 65)
- Extra interest on his RA savings

¹ With a monthly income of 1,000 at age 63, Mr Tan will be eligible for \$2,400 of Workfare Income Supplement for full 12 months of work during the year.

² Mr Tan will also earn extra interest on monies in his other CPF accounts, as part of the balances from those other accounts will also qualify for the extra interest tier.

Effect of changes:

Mr Tan will have \$60,000 in his Retirement Account when he starts drawing down at 65. In other words, he will have \$24,000 more with 3 more years of work and a later draw down. With more than 60% gain in savings, he will get a payout of \$400 until age 85.

Figure 1 summarises the total gains Mr Tan has.

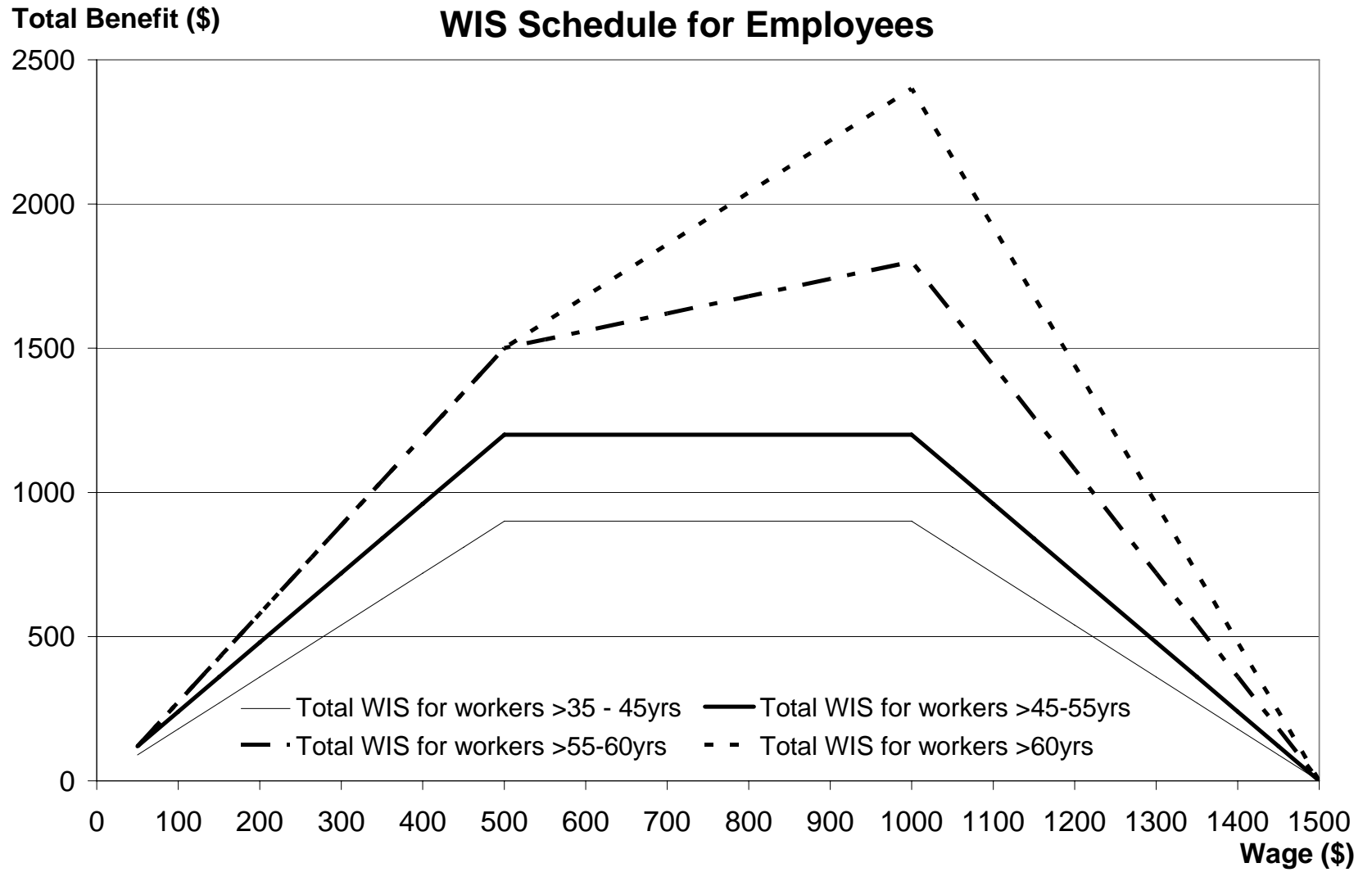
Figure 1: Examples of Total Gains for 57-year-old in 2007³

<p>Mr Tan</p> <ul style="list-style-type: none"> • Now 57 years old • With \$21,000 in Retirement Account 		
<p>Current system</p>	<p>New system</p>	
<p>2012 (Age 62)</p>	<p>2013 (Age 63)</p>	<p>2015 (Age 65)</p>
<p>\$36,000</p> <ul style="list-style-type: none"> ▪ \$270/mth ▪ Until 78 	<p>\$47,000</p> <ul style="list-style-type: none"> ▪ \$330/mth ▪ Until 82 	<p>\$60,000</p> <ul style="list-style-type: none"> ▪ \$400/mth ▪ Until 85

³ Notes

- Assumes no withdrawals from any CPF account throughout projection period (e.g. insurance premiums, Medisave withdrawals etc.)
- Assumes members top-up RA account with OA savings accumulated just before draw-down, and does not apply to withdraw from OA anytime from age 55 to draw-down.
- Numbers may not add up due to rounding
- Assumes SMRA interest rate of 4.0% and OA rate of 2.5%.

5) WIS SCHEDULES



Total Benefit (\$) **WIS Schedule for SEPs / Informal Workers**

