



CPF Investment Scheme

The **CPF Investment Scheme (CPFIS)** gives members the opportunity to invest their CPF savings to enhance their retirement funds. This article summarises how members can invest their CPF savings under the CPFIS. We also look at net CPF monies withdrawn¹ annually and examine key changes to policies that might have contributed to the peaks in withdrawal over the years².

Under the current CPFIS, members may invest all available balance in their Ordinary Account (OA) and Special Account (SA) in professionally-managed 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, and exchange traded funds (ETFs)³. On top of that, members can also invest up to 35% of investible savings⁴ in their OA in shares, corporate bonds and property funds, while 10% can be invested in gold.

When the investment scheme was first introduced on 1 May 1986, it was known as the **Approved Investment Scheme (AIS)** which allowed CPF members to invest up to 20% of their gross OA savings, in excess of the Minimum Sum, in stocks, unit trusts and gold (up to 10% of investible savings). On 1 November 1986, this 20% limit was raised to 40%.

In Oct 1993, the AIS was renamed **Basic Investment Scheme (BIS)** and the **Enhanced Investment Scheme (EIS)** was implemented. Under the BIS, members could invest up to 80% of their gross OA savings, up from 40% under the AIS, after setting aside the prevailing Minimum Sum. In comparison, under the EIS, a member could invest in investment instruments approved under the BIS the lower of:

- (i) 80% of the gross OA and SA savings in excess of \$50,000 or
- (ii) the balance in OA less any amount set aside in OA as part of the \$50,000 in (i).

In addition, members could also invest in shares listed on SESDAQ, government bonds, bank deposits, fund management accounts and endowment policies. In 1993, the net amount of OA monies withdrawn for investment was 16 times that amount withdrawn in 1992. This marked the first major peak since the investment scheme began in 1986 (refer to Chart 1).

1 Net amount withdrawn refers to the difference between the gross amount withdrawn and the gross amount refunded, including adjustments.

2 This article serves as a snapshot to the CPFIS and does not attempt to dwell on the mechanics of investment or economic conditions. For more information on the CPFIS, please visit <http://www.cpf.gov.sg>

3 For the complete list of investment instruments available, visit <http://mycpf.cpf.gov.sg/Members/Gen-Info/FAQ/Investment/INV.htm>.

4 Investible savings is defined as the OA balance plus net amounts withdrawn for education and investments.

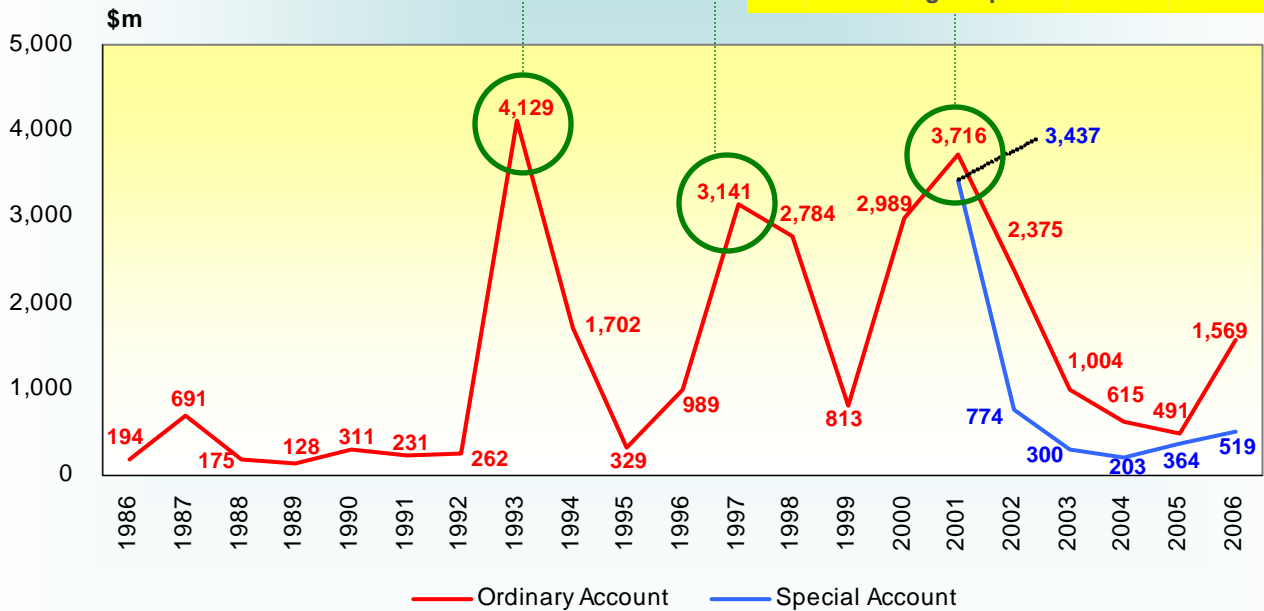
CPE Trends

Chart 1: Yearly Net Amount Withdrawn from Ordinary & Special Accounts (1986 – 2006) & Key Changes in Policies

- **BIS:** Investment raised from 40% to 80% of gross OA savings, after setting aside Minimum Sum.
- **EIS:** The lower of (i) 80% of the gross OA & SA savings in excess of \$50k or (ii) the balance in OA less any amount set aside in OA as part of the \$50k in (i), can be invested in products under BIS, shares on SESDAQ, etc.

- **BIS + EIS = CPFIS:** Approved unit trusts started to cover some regional stock markets.
- More flexibility in putting savings in FDs.
- More approved unit trusts for investment.

- **CPFIS renamed CPFIS-OA, and CPFIS-SA started.**
- Full balance of OA savings could be invested in a range of investment products, along with up to 35% of investible savings allowed in shares, property funds, and corporate bonds.
- Full SA savings could be invested in a narrower range of products.



CPF Trends

Subsequent to 1993, several key events took place that might have influenced the net amount of OA savings withdrawn.

- **1997** – BIS and EIS merged to form the CPF Investment Scheme (CPFIS). Members could invest in CPF-included unit trusts invested in regional stock exchanges of Malaysia, Thailand, South Korea, Taiwan and Hong Kong.
- **2001** – The CPFIS was renamed as CPFIS-Ordinary Account (CPFIS-OA) and the CPFIS-Special Account (CPFIS-SA) was introduced. For the first time, members could invest their SA savings in lower-risk approved financial instruments. Full OA savings could be invested in a variety of investment products, with a smaller proportion allowed for shares, property funds, corporate bonds, as well as gold. In comparison, full SA savings could be invested in a narrower range of products. These positive strokes were followed by a peak in the net OA monies withdrawn in 2001. Simultaneously, the CPFIS-SA started with a bang with some \$3.4b net amount withdrawn in its first year. However, the annual net amount of SA monies withdrawn has not returned to the 2001 level. This seems to indicate members' preference to leave their money in their SA to earn the guaranteed interest rate of 4% in the recent years.

Recently, as part of the constant effort to help members get better returns out of their investments using CPF monies, the criteria for funds included or to be included under CPFIS were tightened:

- Since 1 Feb 2006, new funds must meet the revised benchmark of top 25 percentile of funds in their global peer group. New funds must also have an expense ratio lower than the median of existing CPFIS funds in its risk category, and preferably have a track record of good performance for at least 3 years.
- Additionally, CPF Board also announced in Dec 2006 that CPFIS included funds must meet two criteria before new CPF monies can be invested in them: (a) from 1 Jul 2007 onwards, sales charges must not exceed 3%; and (b) from 1 Jan 2008, expense ratio must not exceed the median of existing CPFIS funds in its risk category.

Although investments can potentially reap returns exceeding the interests given to 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 be informed investors and among other things, consider the level of risks acceptable to them when investing in order to enhance their retirement funds.

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