



CHAIRMAN'S STATEMENT



Over the past 55 years, the CPF has evolved into a comprehensive and unique social security savings system providing for the retirement, healthcare and housing needs of Singaporeans. Since its inception in 1955, CPF membership has grown from 0.18 million to 3.29 million as at 31 December 2009. Members' cash balances with the CPF Board have increased correspondingly from \$9.1 million to \$166.8 billion. The recent financial crisis has not adversely affected the growth in our members' balances. This can be attributed to two key factors. First, the provision of risk-free returns inherent in the CPF system has effectively shielded our members from the risks and volatility in the capital markets. Second, the introduction of the Jobs Credit Scheme¹ in 2009 has helped businesses to preserve jobs in the downturn, thus avoiding large job losses.

With the strong fundamentals built up over the last 55 years, we are confident that the CPF system will continue to play an important part in providing financial security for our members' retirement. The CPF Board on its part will continue to strive to provide the excellent services that we are known for to our members.

TURNING 55 – KEY HISTORICAL MILESTONES

Our past success has given us the motivation and confidence to face the challenges ahead. But we are also mindful not to be complacent. We regularly take stock of how we have developed through the years to ensure that the ethos and values that have been built in the CPF Board are not lost, but strengthened over time.

As we turn 55, it is fitting to recap some of our key historical milestones in the evolution of the CPF system in providing for the social security of Singaporeans, comprehensively encompassing the four pillars of financial security - retirement, home ownership, healthcare and workfare.

Retirement Adequacy – Self-provision and self-reliance are the principles underlying our national policy on retirement provision. We started as a national old age savings plan in 1955 with the simple objective of ensuring that every worker in Singapore had the basic necessities after retirement. Over time, as our economy progressed, changes were made to the CPF system to enable members to have adequate savings for retirement. These included the introduction of the Special Account in 1977, the establishment of the Minimum Sum Scheme in 1987 and its subsequent enhancements in 2003. However, it was not until the introduction of CPF LIFE in 2009 that we could begin to realise the ideal of a lifelong retirement income for our members. The CPF LIFE Scheme, which pools together part of members' retirement savings to mitigate longevity risks, is an important improvement over the Minimum Sum Scheme, and will be the key retirement pillar moving forward.

Home Ownership – Home ownership is a key national policy. To complement the basic objective of financial retirement adequacy, the Public Housing Scheme and Residential Properties Scheme were introduced in 1968 and 1981 respectively to support this policy. Through these schemes, home financing through the use of CPF monies was made possible for members. This, together with the Government's subsidy for public housing, has played a key role in enabling a home ownership rate of around 90% in Singapore.

¹ Under the Jobs Credit Scheme, an employer will receive a 12% cash grant on the first \$2,500 of each month's wages for each employee on the CPF payroll in 4 payments: March, June, September and December 2009. In October 2009, the Government announced that the Jobs Credit Scheme will be extended for half a year with another 2 payments at stepped-down rates in March and June 2010.

Healthcare Financing – Co-payment by individuals with Government subsidy in healthcare underpins our national health financing policy.

With an ageing population and increasing healthcare costs, two other integral milestones in the evolution of the CPF system were the implementation of Medisave in 1984 and MediShield in 1990 to cater to members' healthcare needs. Further, to emphasise the importance of having early MediShield coverage, all newborn Singaporeans and Permanent Residents have been automatically offered MediShield coverage on an opt-out basis since December 2007. A one-off exercise has also been underway since 2008 to facilitate MediShield coverage on an opt-out basis for children and youths.

Workfare – Encouraging employment and continued employability of older low-wage workers is a key thrust to strengthening social inclusion.

A recent supplement to the CPF system has been the introduction of the Workfare Income Supplement Scheme (WIS) in 2007 for older low wage workers. The scheme provides income supplements to older low wage workers to encourage them to stay in work and help them save for their longer term needs. From 2010, the scheme will be further enhanced, with an increase in the maximum income supplement and an extension of the qualifying income ceiling. To complement the WIS scheme and support our older low-wage workers in enhancing their skills, a new 3-year Workfare Training Scheme (WTS) has also been introduced. The WTS will provide 90% to 95% of funding for absentee payroll and course fee outlay for employers who send their older low-wage workers for training. WIS recipients who go for skills upgrading could receive a Training Commitment Award of up to \$400 per year in cash grants when they complete the required training. The WIS and WTS will help more low income members stay employed and build up their CPF savings.

BEYOND 55 – CHALLENGES AND PRIORITIES

It is also important to recognise the challenges ahead.

Singapore is ageing. In 2009, one out of every 11 Singapore residents was aged 65 or above. By 2030, it will be one in five. This challenge of the demographic reality requires long-term sustainable solutions. Our CPF system will need continual enhancement to meet the needs of an ageing society, particularly in the areas of retirement and healthcare adequacy.

An immediate challenge in the next five years is the implementation of CPF LIFE as a mandatory national annuity scheme for those turning 55 from 2013. We are very encouraged by the numbers who have opted in thus far, as it reflects that many members do recognise the importance of ensuring that they receive an income for life from their CPF savings. We will learn from our experience with the opt-in group and obtain feedback from members to further fine-tune the scheme.

The effectiveness of CPF LIFE in providing members with an adequate level of income is dependent on the amount of CPF savings members have at retirement. Hence, another key focus in the years ahead is to ensure that Singaporeans have enough CPF savings in their cash balances for their old age. Of the active CPF members who turned 55 in 2009, 40% met their Minimum Sum with cash and a property pledge. However, only 20% could meet their Minimum Sum fully in cash. To help more members meet their Minimum Sum to be better prepared for their retirement needs, withdrawal rules are being tightened progressively such that from 2013, members must meet the CPF and Medisave Minimum

Sums first before they can withdraw their balances at age 55. In addition, to facilitate family support through CPF and encourage members to participate in CPF LIFE, members may make top-ups to their family members' CPF accounts, including those of their parents and grandparents, provided they have set aside the prevailing Minimum Sum in their own CPF accounts, compared to 1.5 times previously. We will do more to get members to understand and accept the importance of having the right balance between investing their CPF savings in properties and having enough cash balances in their retirement accounts.

As at 31 December 2009, CPF savings withdrawn for housing totalled \$139.3 billion. This is comparable to members' total CPF cash balances of \$166.8 billion. With housing forming a significant part of retirement assets, providing members with the means to monetise their housing equity will be another important thrust in helping members to achieve an adequate retirement income. The Lease Buyback Scheme was launched by the Housing and Development Board (HDB) in March 2009 to help older lower income members staying in three-room or smaller HDB flats monetise their residential property assets. With the money obtained from their properties, these members would be able to buy a CPF LIFE policy, which would allow them to enjoy a monthly income for life. From April 2010, the scheme will be further expanded to include elderly households who had downgraded their HDB flats to three-room or smaller ones.

In the healthcare arena, Medisave and MediShield are key mechanisms put in place to help finance the medical needs of Singaporeans. Of the active CPF members turning 55 in 2009, 61% met the Medisave Minimum Sum, which is the amount to be retained in a member's Medisave Account before the withdrawal of CPF savings. This Medisave Minimum Sum ensures that enough savings are set aside to help our members meet their future healthcare expenses. Moving forward, with increasing healthcare demands from members and rising medical costs, we will need to review these schemes regularly to ensure that they continue to meet the objective of healthcare adequacy.

Following the economic downturn and the SARS epidemic, the CPF contribution rate was reduced by 3 percentage points in 2003. One percentage point of this reduction was subsequently restored in July 2007. With the recovery of the economy this year, a further 1 percentage restoration will be implemented in two steps to moderate the impact on employers. Half a per cent will be effected on 1 September 2010, and will be made into the Medisave Account. The remaining half a per cent will take place 6 months later on 1 March 2011, and will be made to the Special Account.

The CPF has grown to become an important institution in Singapore, playing important roles in many aspects of our lives. The CPF Board has the confidence of Singaporeans. On our part, we have strived to provide our members with excellent service. It is important that the CPF Board and our people continue to live up to our organisational ethos of integrity and service to members. The CPF Board will nurture our staff at all levels, from management to frontliners, to serve our members with respect and understanding, and further enhance our reputation for excellent service. We will also look into ways to more effectively help our members understand the various CPF schemes and the importance of starting to save for their retirement early.

APPRECIATION

As we look back on our last 55 years, we must thank and express our appreciation to all those who have served as our Chairmen and Board Members, and to the generations of staff who have given us their years of dedicated service.

I would like to also express our appreciation to Dr Ng Boon Hoo, Mr Ong Chong Tee, Mr Ravi Menon and Mr Terry Lee, who have retired from the Board, for their contributions. I would also like to thank Mr Ong Chong Tee and Mr Law Song Keng for their service as Chairpersons on the Investment Committee and Audit Committee respectively, whose terms also ended in 2009.

In addition, I would like to welcome our four new Board Members, Mr Keith Tan (Government representative), Mr Lim Kuang Beng (employee representative), Mr Lawrence Leow (employer representative) and Mr Low Kwok Mun onboard.

KOH YONG GUAN

Chairman