



## CPF Interest Rates

The Central Provident Fund (CPF) was introduced in 1955 as a form of compulsory savings to help workers support themselves in retirement. Like most savings, members earn interest on their CPF balances. In this article, we will look at the interest rates paid on CPF savings, and how these interest rates have changed over the years, including the changes that were announced during the National Day Rally in August 2007.

From now to 31 Dec 07, the interest rates are 2.5% for the Ordinary Account (OA) and 4% for the Special, Medisave, Retirement Accounts (SMRA) (see Table 1). The OA interest rate is calculated based on the 12-month fixed deposit and month-end savings rates of the major local banks. Currently, members enjoy an additional 1.5% above the OA interest rate for funds that are intended for retirement purposes and would remain in the CPF accounts for a longer period of time. The additional interest rate applies to savings in the Special Account (SA) and the Retirement Account<sup>1</sup> (RA). In addition, to help members build up their savings for medical needs faster, savings in the Medisave Account (MA) also earn the additional 1.5% interest above the OA interest rate.

**Table 1: CPF Interest Rates (1 Oct 2007 to 31 Dec 2007)**

<b>ORDINARY ACCOUNT</b>	<b>2.5% p.a.</b>
<b>MEDISAVE, SPECIAL &amp; RETIREMENT ACCOUNTS</b>	<b>4% p.a.</b>

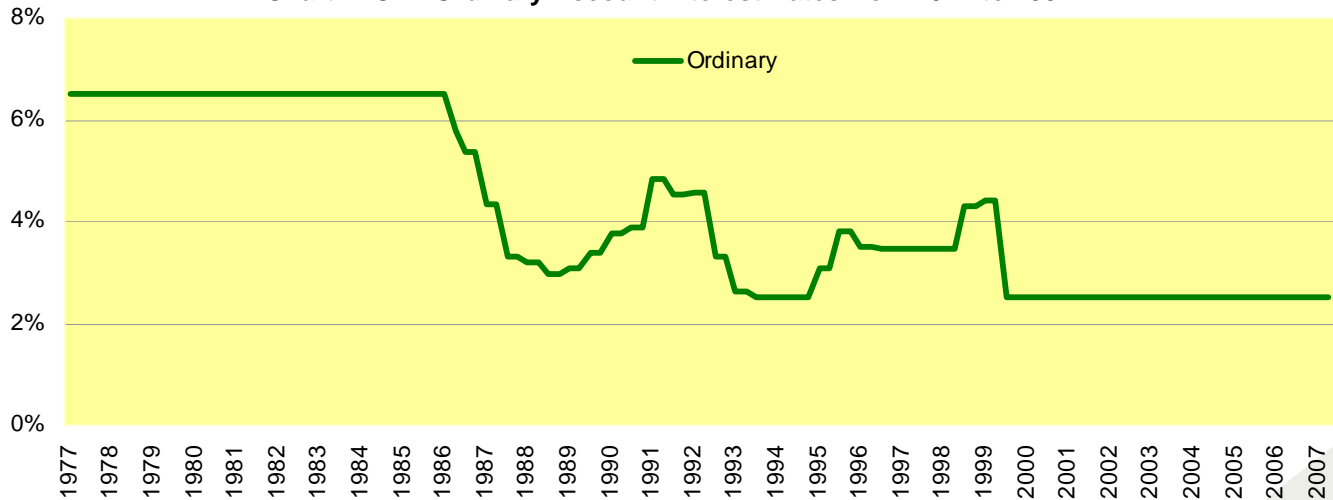
Between 1955 and 1976, CPF monies were not differentiated into different accounts. All monies were deposited into the OA. When the CPF was first implemented, the interest rate was 2.5%. This rate remained at 2.5% up till the end of 1962. The interest rate was raised to 5% in 1963 and later to 5.25% from 1964 to 1966. Subsequently, the interest rate was raised progressively for the next 8 years and reached 6.5% for the first time in 1974. The CPF interest rate remained at 6.5% till 1985.

Chart 1 shows the OA interest rate over the last 30 years (from 1977 to 2007). Between 1977 and 1985, the interest rate stood at 6.5%. On 1 March 1986, the OA interest rate was pegged to market interest rates. Based on a weightage of 50% on the 12-month fixed deposit rates and 50% on the savings rates of the major local banks, the OA interest rate was adjusted to 5.78%. The OA interest rate was set for review every half-yearly.

<sup>1</sup> The Retirement Account is opened when a CPF member reaches 55. The Minimum Sum (savings from the Special and Ordinary Accounts) is set aside in this Retirement Account.

# CPF Trends

Chart 1: CPF Ordinary Account Interest Rates from 1977 to 2007



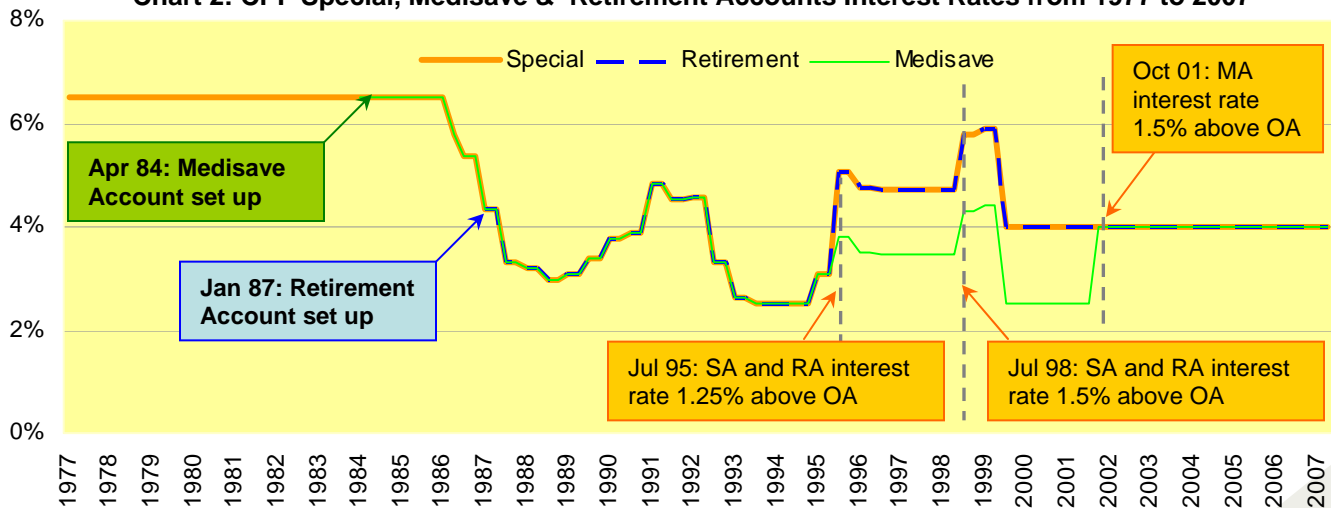
On 1 July 1999, the formula for computing the CPF interest rate was again revised. Since then, the OA interest rate is calculated based on a weightage of 80% on the 12-month fixed deposit rates and 20% on the savings rates of the major local banks. Also, it is reviewed quarterly instead of half-yearly, so that the OA interest rate would be more responsive to the market interest rates. Thus, when the market interest rates fall, the CPF interest rate and HDB subsidised mortgage rate (which is pegged to the CPF rate) would be adjusted faster according to market conditions.

The rationale for changing the formula from a 50:50 weightage for fixed deposit rates and savings rates to a 80:20 weightage is to recognise that CPF savings are long-term in nature and meant for retirement needs. The reviewed formula gives higher weightage to the fixed deposit component so CPF members will earn higher interest on their CPF savings.

The Special Account (SA) was introduced in July 1977 and the Medisave Account (MA) was set up in April 1984. The Retirement Account (RA) was set up in January 1987. At the beginning, balances in these accounts were earning interests similar to that of the OA (refer to Chart 2 for the interest rates for the SA, MA and RA). From 1 July 1995, savings in the SA and RA began to earn 1.25% above the OA interest rate while the interest rate for MA remained the same as that of the OA. Subsequently, on 1 July 1998, the interest rate for the SA and RA was raised again to 1.5% higher than that of the OA. From 1 Oct 2001, the MA interest rate was also raised to 1.5% higher than that of the OA to be equivalent to the interest rate of the SA and RA. Since then, the guaranteed interest rates have remained at 2.5% for OA and 4% for SMRA (Special, Medisave, Retirement Accounts).

# CPF Trends

Chart 2: CPF Special, Medisave & Retirement Accounts Interest Rates from 1977 to 2007



At the 2007 National Day Rally, our Prime Minister announced a few key changes that will impact the interest rates. From 1 January 2008, the first \$60,000 of a member's combined CPF balances, with up to \$20,000 from the Ordinary Account, will earn an extra 1% interest. The extra interest earned on the OA funds will be paid into the SA, or RA if they are 55 years old and above.

In addition, interest rate for the Special, Medisave and Retirement Accounts (SMRA) will be pegged to the yield of the 10-year Singapore Government Securities (10YSGS) plus 1%. Thus, if the 10YSGS is 3%, the SMRA rate will be 4%. To help members adjust to the new SMRA formula, SMRA funds will have a guaranteed interest rate of 4% for the first two years from 2008 to 2009.

The above changes are aimed at helping CPF members improve the returns on their CPF savings so as to save more for retirement. The changes to the CPF interest rates, as well as other changes announced during the recent National Day Rally<sup>2</sup>, are initiatives put together by the government to tackle the ageing population. CPF members must play their part by saving early to ensure sufficient savings for their golden years and to remain financially self-sufficient during retirement.

Prepared by Management Information Department, Central Provident Fund Board

<sup>2</sup> More information on the changes to the CPF policies announced during the National Day Rally 2007 can be found on *my cpf* portal ([http://mycpf.cpf.gov.sg/Members/Gen-Info/ChangesAndYou/CPFReforms\\_OtherMeasures.htm](http://mycpf.cpf.gov.sg/Members/Gen-Info/ChangesAndYou/CPFReforms_OtherMeasures.htm))