Ministerial Statement on CPF Reforms and Other Measures for a Secure Retirement by Dr Ng Eng Hen, Minister for Manpower, 17 September 2007, at Parliament

Introduction

1. During the National Day Rally (NDR), the Prime Minister focused on our ageing population and the widening income gap. Singaporeans are living much longer than before. To ensure that we have enough retirement savings, we have to work longer and make changes to our Central Provident Fund (CPF) system.

Facing our challenges squarely

2. There has been much public discussion on this important national issue. Rightly so, because having enough savings to last our lifespan affects us all. Many of us have dependants who are elderly. All of us want financial security when we grow old.

3. Many wrote to CPF Board and Ministry of Manpower directly. The National Trades Union Congress (NTUC) and other MPs had lively dialogue sessions with their constituents. REACH received emails and SMSes. The press published well-written letters from Singaporeans who were financially savvy and understood what the proposed changes were trying to achieve. They gave good suggestions. Let me thank the public for their inputs, which have been helpful. We will adopt workable ideas to accommodate the different needs of Singaporeans, wherever possible.

4. Some Singaporeans did however find the proposed changes to be complicated. A recent Straits Times poll also showed that a significant proportion did not fully understand the CPF system. We have taken this feedback to heart. Over the next few months, we will communicate simplified messages to the masses to better explain the new CPF system.

5. While reactions to the changes have varied, Singaporeans, by and large, understand and accept the need to address the challenges of our ageing population now. They can see themselves and those around them ageing. This reality is clearly visible and hard to escape.

6. Take as an example, my constituency at Toa Payoh Central. It is an old estate that has many elderly residents. During each house to house visit, I invariably meet a few residents in their 80s and 90s – it is no longer a novelty. I am told that we have a few centenarians in Toa Payoh. I look forward to meeting them. My grassroots leaders tell me that if we had a contest for those still active and over-100 in Toa Payoh, we might have not one but a few winners! Foreigners, who come here, especially from younger ASEAN countries, note quickly that we are a greying nation. These impressions of Singapore being a fast ageing society were confirmed by a recent UN study. The study projected that by 2050, Singapore could become the 4th oldest population in the world.[1]

7. Singaporeans must come to terms with our longevity, both individually and as a nation. And the quicker we do this, the better. Because whether we are ready or not, the inevitable consequences from increasing needs as more grow old within our society will be upon us soon. We must therefore tackle this challenge

now, as we have done with other national issues which can affect our nation's well-being and future. Whether it is SARS, economic recession or terrorism, our approach is to think long-term and act quickly before a problem becomes unmanageable.

8. This collective and enlightened approach explains much of Singapore's success today. It has helped us avoid many pitfalls that afflict other countries that are unwilling or unable to confront similar challenges decisively.

9. We must tackle the challenges of our ageing population with the same spirit of resolve and perseverance. In this Statement, I will fill in the details in the NDR speech to present the complete picture of how we can improve the retirement security of Singaporeans.

10. Amidst many views, different opinions and competing needs, we must remain focused and remind ourselves of the ultimate goal: to put in place a better and sustainable CPF system that will help Singaporeans save enough for their full life spans.

Singaporeans – living very long

11. We should begin by asking: how much longer are Singaporeans living? How many more years do we need to save for? We are already among the longest-living globally. A UN study puts Singapore with a life expectancy at 80 years close to the top of the table. Japan is longest at 83 years, while the global average is only 67 years.[2]

12. That we are living longer than most other populations is yet another indication that we have developed into a First World country. We are living longer as a result of good healthcare, nutrition and living environment. This is a good thing. Longevity is a blessing, something that every one of us hopes for. We wish our elders long lives and celebrate their birthdays. We want to see our children graduate, get married and play with our grandchildren, and even see them graduate and get married; to look forward to being around to see the future Singapore as a modern thriving cosmopolitan city. For those in their 50s now, some will even be around to see with their own eyes what the World and Singapore will be like in 2050. Yes, this will be humanly possible – 1 in 7 now will live beyond 95 yrs.

13. But if we are to look forward to and enjoy our golden years, we must prepare early, to ensure that we have enough savings for old age, that we can cope with infirmity or illness, that we will not be left stranded because the children are unable or unwilling to take care of their parents. These changes to the CPF system will help us achieve this. And it can be done. It will mean some adjustments for each of us, but we are in a far better state than many countries which have waited too long, and seen their problem grown too large. Otherwise, instead of growing old being a cause for joy, it can be the opposite.

14. When Singaporeans were told that the average life expectancy at birth had increased from 61 years in 1957 to 80 years today, many were surprised. Some still do not believe that we are living so long. Ask them why they don't think they will live so long, and you will get a potpourri of urban myths, some quite fascinating. This one that I heard recently from my residents deserves a prize, at least for being the most innovative. This group of disbelievers concede that the present life expectancy of 80 years is correct. “Ah”, but they say, “this is because the elderly that we have now were born in China, India or wherever they

came from. They were farm-folk. True Singaporeans, born and bred in modern Singapore, won't live as long!" I am not sure if we should include this as another criterion for being a true Singaporean – to qualify would have literally cost you your life.

15. It is precisely because so many individuals do not anticipate how much longer they will live, that we have to act now and ensure that all Singaporeans make provision for their old age. Left to themselves, too many would leave things to chance, or prepare inadequately or worse, not at all. When their savings run out, other Singaporeans would have to support them. It is neither fair nor sustainable to expect others and society to assume the full burden of meeting our needs. Government must always help those who are poor but it would be too heavy a burden for society if each of us has not prepared for his own retirement. By 2030, we will have nearly 900,000 (873,000) residents above 65 years, one in 5 Singaporeans then.[3]

16. We must not construct a national plan for our retirement needs based on how long each individual thinks he might live or on anecdotal incidents or wild theories – it would be seriously flawed. We must build our retirement framework on solid facts, not subjective opinions. We must rely on actuarial data that the insurance companies use and reliable information from the Department of Statistics (DOS) that is updated constantly to give the true picture of how long Singaporeans are living, as a whole.

17. According to DOS, of those aged 62 in 2006, 1 in 2 will live beyond 85; 1 in 7 to age 95; and 1 in 20 to age 100. More old women than men will be alive, because it is a fact that women do live longer than men. But generally, of those who stop work at age 62, more than half will have to provide for more than twenty years of retirement.

18. Twenty or more years of retirement is a long time. Even if you work for forty years, you have to plan early to make sure you have saved enough. This is why making provision for unanticipated longevity is a priority for us now.

Make provision for your own retirement needs.

19. There is another important reason why each of us must set aside enough for our own retirement needs: there will be too few younger people to depend on. Today, many old people look to their children for support. This is good and right and why we recently made it easier to top up the CPF accounts of family members. We must continue to hold firmly to our values of filial piety where children support their parents emotionally and financially. As Bertha Henson of the Straits Times wrote – if parents are not receiving income from their children, they should just ask.

20. But, fewer babies now and in the past decades will mean smaller families and more single households in the future. In 1960, 23 people aged 15 to 64 supported 1 person aged 65 and above. Now, it is 8; by 2020 it will be 5, and by 2030 only 4 – nearly a six fold reduction compared to 1960. We will not be able to depend on so few economically active persons to shoulder the full burden of supporting the elderly, themselves and their children. Each of us must set aside enough for our own retirement needs. Then, the income from our children can be extra.

Three pillars for retirement support

21. The three fundamental changes that PM outlined will better prepare us individually and as a nation for our ageing population – working longer, improving CPF returns and making savings last for one's life expectancy.

I) Working Longer

Re-employment legislation

22. Re-employment legislation will kick in by 2012 to 65, then 67 years.

23. Gan Kim Yong's Tripartite Committee will work through the practical aspects by producing guidelines for employers and employees to be ready within two years. The guidelines will serve as a reference manual to provide clarity on terms and conditions for re-employment and platforms for dispute resolution. Under these guidelines, the majority will be offered re-employment. But, it may not be in the same job or with the same pay. Even with legislation, the best assurance for a worker to remain employable is to stay healthy and economically productive.

24. The Government will step-up its efforts and assistance programmes. We have the ADVANTAGE! scheme to make work easier for older Singaporeans. Through the efforts of NTUC and WDA, many companies have already adopted re-employment practices voluntarily. It makes sense for them to do so, as they want to be well-prepared for the new laws that will come into effect. As Lim Swee Say says – let's get moving. We can find jobs for older workers. Our economy created 180,000 jobs last year. In the first six months of this year, a further 114,000 jobs were created. Our economy can surely absorb 20,000 older workers. Gan Kim Yong will say more about our on-going efforts to achieve higher employment rates for older workers.

More Workfare for older workers

25. Another measure to help older workers work longer is Workfare. Currently, the maximum Workfare Income Supplement (WIS) is $100 a month ($1,200 a year). We will increase the WIS for older workers. For those aged above 55 to 60, the maximum payout will be increased by 50% to $150 a month ($1,800 a year). For those above 60, we will increase the maximum payment by 100% to $200 a month (or $2,400 a year). This means that for a worker earning $1,000 a month, the Government through Workfare will top up 20% of his wages. The self-employed above 55 years will similarly get higher WIS.

26. The changes will be implemented immediately. Those above 55 years will receive higher WIS payments in January 2008 for work already done in the first half of 2007. More than 50% of older workers are expected to get WIS. Higher WIS will cost $80m more and will bring the total cost of WIS to over $400m per year. If more older workers join the workforce, as I believe they will, the cost for WIS will be even higher.

II) Increase CPF Returns

27. Next, increasing CPF returns. I will first describe the changes, and then explain how they will benefit members. There will be two structural changes made to the CPF interest rates system – an extra interest of 1% and re-pegging of the rate on the Special, Medisave and Retirement Accounts (SMRA).

Extra interest tier

28. An extra 1% of interest will be paid on the first $60,000 of a member's combined balances, with up to $20,000 from the Ordinary Account (OA). This means that all $60,000 can come from the SMRA, or $40,000 can come from SMRA and $20,000 from the OA, or something in between. The extra interest from the OA will go into the member's SA/RA to improve his retirement savings.

New CPFIS restrictions

29. All OA monies can still be used for existing housing, CPF insurance, and education schemes. But in view of the extra interest being paid, the first $20,000 in both the OA and SA will no longer be allowed for use in the CPF Investment Scheme (or CPFIS). These restrictions on CPFIS will apply from 1 April 2008 because some time is needed for product providers and CPFB to make changes. Money already invested in CPFIS will not be affected. Even after these restrictions, $42 billion will still be available for use in CPFIS.

OA rate unchanged

30. The OA contains short-term money, like a savings account which members can withdraw on demand to invest in housing or other assets. This is the reason why the OA interest rate is lower than that for SMR accounts which contain "long-term" money. The OA rate formula remains unchanged and will still have a guaranteed floor at 2.5%. There is also no change to the HDB concessionary loan interest rate.

SMRA – long-term market rate

31. Money placed in the SMRA for the long-term ought to enjoy a higher rate of return than OA. We had previously announced in 2002 that we would re-peg the SMRA rate to an appropriate long-term bond yield. We will now do so together with the other CPF changes. The new peg for SMRA should be financially sound. It should be based on market returns for the same risk and duration that the SMRA monies stay in their accounts. It should be simple to understand and widely quoted. There should also be no currency risk.

32. The ideal peg would be a 30-year Singapore Government Security (SGS), because this is about the average time the members' SMRA monies stay in these accounts. "Long bonds" of such duration are issued by countries like Japan, the US and Europe. Singapore's longest duration bonds are the 15-year and the 20-year SGS, but these are not actively traded and therefore not suitable as a peg. The 10-year SGS (10Y SGS) is however, actively traded.

33. We have therefore decided to set the SMRA rate as the yield of the 10Y SGS plus 1%. Why plus 1%? Because this will adequately provide for the difference that we would expect between the interest on the 10 Y SGS, which we are using as a peg, and the 30-year Singapore Government Securities, if it existed.

34. The SMRA rate will be set quarterly, as before. A month before the next quarter, we will compute the new SMRA rate from the average daily yields of the 10Y SGS benchmark of the previous year.[4] The average 10Y SGS yield computed on this basis would now be[5] 3.0%. The SMRA rate would be 3.0% plus 1% or 4.0%. For members' information, had the new SMRA formula been in place since the first issue of 10Y SGS,[6] the SMRA rate would have averaged 4.5%.

35. Our new interest rates system will start on 1 Jan 2008. To help members adjust to the floating SMRA rate, we will keep the 4% floor for the SMRA rate for the first two years. The 4% floor will also apply to the extra interest tier, in the very unlikely event that the 10Y SGS rate falls below 2%. After two years, the 2.5% floor rate will apply for all accounts as prescribed under the CPF Act.

Gains from higher CPF

36. Let me now explain how members will benefit from the new interest rate structure. The OA formula remains unchanged but the first $20,000 in the OA will receive the extra 1% interest and will therefore receive at least 3.5%, because of the 2.5% guaranteed minimum. The new SMRA rate calculated now based on (10Y SGS yield plus 1%) would be 4%. Part or all of the SMRA balances will also receive an extra 1%, depending on how much a member has in the OA balances. For example, if he has $20K in his OA, the first $40,000 in the SMRA will earn 5%. If a member has less or no OA monies, up to the first $60,000 in the SMRA will earn 5%. This higher CPF interest will increase members' CPF savings significantly. Compared to the current system, a member with $60,000 in his combined accounts will get $7,200 more in 10 years and $17,900 more in 20 years in his CPF savings.

37. Under the new system, **all** CPF members will receive higher interest payments. In fact, 70% of all CPF members (or 55% of all active members) will receive the extra 1% on **all** their CPF monies. In the handouts to be distributed to MPs and the press, examples of members with different balances are provided to more clearly illustrate how each will gain under the new interest rate structure. With the new interest rate structure Government will pay at least $700 million more interest each year, which is about equal to the Government's annual grant to HDB.

Reasons for New Interest Rate System

38. People have asked why and how we have chosen this new interest rate system. In 2002, the Economic Review Committee had recommended that CPF monies be managed in private pension plans to achieve possible higher returns. We studied this proposal thoroughly. We held extensive discussions within Government and with industry experts. We looked at this problem from many angles but always came to the same unavoidable conclusion – to get higher returns, members must expose their CPF money to more market risks.

39. We decided that for now, it would be unwise to go the full investment route because the majority of members do not have large balances and it would be too risky for older members. We tried to devise many schemes to shield members from volatility yet delivering higher returns. But it was neither possible nor right. It would mean subsidising losses using other members' or tax payers' money. The recent financial

market turmoil serves as a timely reminder of the risks. Hence we should retain the risk-free framework but with a more appropriate SMRA peg.

40. Some have asked if this system is fair. Are rates of return set too low or too high? Why is the extra interest only 1% more? Why not apply extra interest on an amount greater than $60,000? The CPF system is not meant to be subsidised. Subsidies should be given in other ways and even then only to those who need them. We have put in place a long-term framework which provides a fair rate of return on CPF monies that compares well with any offer from private pension plans. Most importantly, our CPF system minimises the financial risk to members. The new system has to be justified to the President, that the Government can afford it, and that it will not draw on past reserves. Minister Tharman will say more on this.

41. The new interest rate system is more than fair since it is still essentially risk-free. The extra interest is structured so that it will benefit all, but those with small and middle-size balances will benefit more. The SMR rate will float with bond yields. This allows members to gain when interest rates move up, but ensures that what the member has accumulated in his accounts is totally protected and guaranteed. Even if the interest rates come down, the member will not lose any of his savings – in fact he will always earn at least 2.5% per year on his savings and the extra 1% for the first $60,000.

42. We have decided on this as the new long-term CPF interest rate structure, with previous long-term market trends to guide us. But no one can be certain how the financial markets will behave in the future, and in particular, what interest rates will be. We will therefore review the formula for CPF interest rates after 5 years, to fine tune it if necessary. However, we will keep this general structure that fulfils the objective of paying a good and fair interest to all CPF members for their retirement needs, while benefiting lower and lower-middle income members more.

43. For those with more than $60,000, who want to be exposed to greater risks for possible higher returns, we can consider options to help them invest their CPF monies in the future. But, it is better to settle the present major changes first so as to give certainty and higher returns to those with less savings.

III) Making Savings Last Life Expectancy

Later draw-down for longer payouts

44. Even with higher CPF interest and WIS, many members will run out of savings if we start the draw-down age (DDA) at 62. Simply because, 60% of members will live longer than 82. By then, most would not be able to work. It is better to work longer when you are younger and able to, and draw down later.

Changes to DDA for CPF Minimum Sum

Age at 31 Dec 2007	Draw down age	Year draw down starts
60	62	2009
59	62	2010
58	62	2011
57*	**63**	**2013**

56	63	2014
55*	**64**	**2016**
54	64	2017
53*	**65**	**2019**
52	65	2020
51	65	2021
50	65	2022

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

45. Those aged 57 or younger today will be affected by the later DDA. For those aged 50 to 57, who have a shorter runway to adjust, we will help them with one-off bonuses. **These bonuses will be paid into their RA to improve their retirement savings.** There are two types of bonuses — Deferment Bonuses and Voluntary Deferment Bonuses, or D- and V-bonuses for short.

Table of D- and V-Bonuses for eligible members

Age at 31 Dec 2007	Draw-Down Age (DDA)	D-Bonus for later DDA (Max: 5% on balances up to $30,000)	V-Bonus to 65 years (Max: 2% on balances 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

D-Bonus

46. All those aged 50 to 57 this year will receive D-Bonuses, because they will start their DDA later. The D-Bonus will be in the form of a bonus interest, based on members' balances in their RA, capped at $30,000. This means that 86% of all members will get the bonus interest on the full amount in their RA.

47. Older members will receive larger D-Bonuses. Those aged 54 to 57 will receive 5% on their RA sums. In other words, if they have at least $30,000 in their RA, they will receive the maximum D-Bonus of $1,500. Those aged 52 and 53 will receive 4% on RA balances, up to a maximum of $1,200, while those aged 50 and 51 will receive 3% on RA balances, up to a maximum of $900.

48. For those above 55, they will receive their D-Bonuses on 1 May 2008. For the rest, they will receive it when they turn 55. The deferment bonuses will cost Government up to $650 million.

V-Bonus

49. We want also to encourage members to voluntarily defer their drawdown, even if they are allowed to start drawing down from their RA before 65. The later the drawdown, the more interest is collected which results in many more years of payouts. A voluntary deferment bonus, or V-Bonus, will be given for each year of voluntary deferment up to age 65. Members aged 54 to 63 this year who have not started their draw-down are eligible. The V-Bonus is set at 2% interest on members' RA balances, capped at $30,000. A member therefore can get up to $600 for each year deferred, i.e. if he defers draw-down for 3 years, he can receive up to $1,800. The V-bonuses will cost Government up to $570 million.

50. The D- and V-Bonuses will also be given to those who have bought or who will buy annuities, since they have provided for their full life expectancy.

Total Gains

51. What is the impact of all these changes on Singaporeans? This is the most important question – will it make a difference? Working longer, more Workfare, higher CPF interest and deferment bonuses will improve retirement savings substantially for all Singaporeans. Let me put together the total gains from all these changes. I will choose a low-wage worker, whom indeed these changes are aimed at, although all CPF members will gain.

52. Take a 57 year-old worker who today earns $1,200 a month and would have typically $21,000 in his RA now. Under the current rules, if he works till age 62, he would have about $36,000 in his RA. This is not a large sum and may not last his retirement period.

53. But with the changes – higher WIS and CPF interest and deferment bonuses - if he is re-employed even at a lower pay of say $1,000, working one more year and drawing down one year later at age 63 will enable him to accumulate $11,000 more in his CPF savings. He gains 30% more RA savings, which means 3 more years of payout, for just one more year of work and deferment.

54. If the same worker works till age 65 and also draws down his CPF at age 65, he will have $60,000 in CPF savings. This is $24,000 more than at age 62 under the old system. In other words, he increases his RA balance by more than 60% with three more years of work! This is a terrific rate of return for any investment.

55. The measures proposed will significantly improve the retirement sums of older workers, even for those in their 50s now. The gains for younger members will be even more. MPs should advise their constituents to continue to work and delay draw-down for as long as they can, while topping up their RA. If they do so, they can benefit fully from all these changes and it will make a big difference to their retirement savings.

Total Cost to Government

56. Many have asked what Government's role is in improving the retirement adequacy for Singaporeans. How is Government helping in these reforms? Government is committed to helping Singaporeans and the total cost of the entire package of CPF reforms and measures for secure retirement is substantial. WIS, in total, will cost over $400 million each year. Higher CPF interest will cost $700 million in the first year, and more in subsequent years as balances grow. WIS and higher CPF interests are long term commitments

which will cost more than $1.1 billion each year. This is equivalent to members receiving half a Progress Package every year. In addition, the one-off package of D- and V- bonuses will cost more than $1.2 billion. It is right and fair that each person makes provision for his own retirement needs, but we are not asking them to do this alone. Government will be expending considerable resources every year to help Singaporeans to work longer and improve their retirement savings.

IV) Living Longer Than Expected

Longevity Insurance

57. In addition to these two changes, we also need to improve the CPF system so that members will not run out of their CPF savings in their extreme old age. Some say they will not be so fortunate to live so long. There are indeed those with serious illnesses who have been certified by doctors to have severely shortened life-spans. CPF rules already allow these members with limited life-spans to withdraw their CPF early, and they need not be included in the longevity insurance scheme. But most of us cannot predict when our time will be up. We have to go by actuarial data which tell us that that many Singaporeans will live beyond 85, to 90, and even to 100 or older. Any one of us could be in that group. The CPF scheme should therefore ensure that members make provision to support themselves so that their CPF savings will not run out prematurely. The way to do this is through longevity insurance.

How does longevity insurance work?

58. Longevity insurance is the cheapest way to ensure that the member does not run out of savings prematurely. He will receive an income for as long as he lives. Many of us buy insurance to provide for our dependants, in case we die prematurely. It is money spent and gone if nothing untoward happens. We pay for this insurance willingly just in case something does happen and to have peace of mind.

59. But buying insurance for ourselves in case we live longer than expected is new to many Singaporeans. Let me briefly explain how it works. When you buy a longevity insurance, which is a deferred annuity, you will receive a monthly income from a pre-determined age, at the “tail-end”, and for as long as you live. To simplify this issue, let us assume that the start age of the deferred annuity at 85 (although it could start at any age). For this scheme, members pay a premium to buy longevity insurance at age 55. The premiums from all participating members are combined into a common pool. This pool of money is invested and grows year by year, and pays an income to all those who are alive after age 85, for as long as they live. Because the risks are shared, some will get more than what they put into the scheme, if they live longer. Correspondingly, those who don't live as long will get less than the premium they paid. If you want your dependants to get some money back when you die, this is possible but the upfront premiums will obviously be higher. There are many variations possible, just like other insurance policies.

A National Longevity Insurance Scheme

60. It is right to require CPF members to make financial provision for the eventuality that they live longer than expected. By then, they certainly will not be able to work and may have no family members to depend on. This is the basic goal in devising a national longevity insurance scheme. We will therefore

require CPF members to take up some form of annuity, or longevity insurance scheme, using a small part of their RA. But most of the CPF balance in their RA will still be available to be drawn-down from the DDA.

61. Our main objective is to put into place a national scheme that provides basic longevity protection for CPF members, starting with those who are age 50 years and below now. Some members of the public have written to the press to support this idea and suggested that it should be modelled after the MediShield concept.[7] This is indeed our thinking. Like MediShield, the CPF Board can administer the basic tier of longevity insurance. For members who want more than the basic protection, they can buy additional insurance, or riders, which can be provided by commercial insurance providers.

62. The National Longevity Insurance Scheme as a risk-pooling scheme will be fair to all. Premiums will be adjusted according to risks. Women generally live longer than men, other things being equal. This explains why commercial insurance providers charge higher premiums for women buying longevity insurance. Actual premiums will be correctly calculated by professional actuaries. There should therefore be no reason to fear that the scheme is loaded against anyone, or any group.

63. The extra interest that members will get in the new CPF system will be more than enough to pay for this longevity insurance. We have already given the example that a member with $60,000 in his CPF savings will get $7,200 more in 10 years and $17,900 more in 20 years.

64. The National Longevity Insurance Scheme will strengthen our CPF system as it takes care of extreme longevity. However, we also recognise that CPF members will have different needs. We have received many suggestions from members of the public on various options that are more suited for their needs. Some younger members want to participate in annuity schemes, because it is cheaper to come in early. Some who are older also want to be included, because they have no dependants and their savings are for themselves only. Others have dependants who can take care of them, or have other savings apart from the CPF. They want the balance of their RA will go to their dependants when they pass away. They are prepared to stretch out their RA to last longer, say 30 years instead of 20, by drawing less every month. This way they reduce the need for longevity insurance.

65. We should be flexible in accommodating the different circumstances of CPF members, and offer different ways to provide for their full life expectancy. He can do this either by buying longevity insurance or by stretching out his RA money to last longer and so reduce the need for longevity insurance. So long as he has provided for his old age, and will not run out of savings prematurely, we should be satisfied.

66. How can we design a National Longevity Insurance Scheme to ensure that CPF members are adequately provided for financially, for the rest of their life, and do not outlive their CPF savings? How can we accommodate the different needs and circumstances of members? I propose to form a committee to study this problem, and to take in public and professional views. The committee will then recommend the best way to provide basic, affordable and flexible longevity protection for all CPF members. The recommended plans should provide various options to members to protect themselves. It should also allow members to opt-in to this scheme early, when it is less expensive to do so.

67. I have asked Prof Lim Pin to chair this committee, supported by other able and knowledgeable persons, including those from academia, the grassroots and the NGOs. Unions will also be represented. Prof Lim is

the Chairman of the National Wage Council and Bioethics Committee. He is experienced in handling complex issues. When I asked him if he would be willing to chair this Committee, he joked that he was old enough. Prof Lim Pin is not old but gold (good and old) - experienced and still actively contributing and working. He understands the needs of the elderly and is the right man for this job. The committee's Report should be ready within 6 months.

Conclusion

68. In my opening remarks, I asked that we keep in focus the ultimate goal of these CPF changes: it is to put in place a better and sustainable CPF system. A strong and fully-funded CPF system has been a major pillar of our nation's economic prosperity and social progress over the years. Through CPF savings, nearly 90% of Singaporeans are able to own their homes – one of the highest home- ownership rates in the world. Because of Medisave, MediShield and Medifund, no Singaporean is denied good basic medical care. Homes and CPF savings together provide retirement security for the majority in their old age – even for low income households. These would be major accomplishments for any country.

69. The changes we are making will strengthen the CPF system further. Longevity insurance is the missing critical piece that we now are putting into place. It plugs a gap in our CPF system and will give security for the many Singaporeans who are expected to live very long.

70. The CPF system has helped Singapore achieve social and economic security and equity because it is based on individual savings, not taxes. This is a critical principle underpinning our CPF system and explains it strength. Each person saves for his own needs, including for his own future needs in old age. We must adhere to this principle.

71. But even with these comprehensive changes, not all problems will be solved. The disabled and poor or those who meet unexpected misfortune will continue to need assistance. But if able Singaporeans have made provision for their own needs, then Government can provide more resources to help those who deserve it most.

72. We have never shied away from problems that can affect our nation's future – no matter how big or difficult. Singapore is one of the very few countries tackling this problem head-on, with eyes wide-open and the public engaged. The problem of retirement adequacy is a looming challenge for many countries. Most know that they are ill-prepared for their ageing populations. But not all have been able to act to avoid the impending crisis.

73. Some countries have debated a long time, but have not moved. Reform commissions, one after another – such as those in France, Ireland, and the United States spell out the changes that must be made. The Irish commission failed to agree on a conclusion.[8] China admits that it needs to move faster as the problem is growing.[9] In Italy, pension reform has been a major stumbling block for successive governments even after 20 years of deliberations.[10]

74. Another group of countries postpone the solution to the next generation. In the case of the United Kingdom, their state pension age is already at 65 for men (and between 60 and 65 for women). They have

moved earlier than Singapore. The UK now intends to move the new pension age to 68 for both men and women but only by 2046[11] – nearly 40 years in the future!

75. Singapore cannot afford to wait another 40 years to tackle this problem. We should not pass these problems of an ageing population to the next generation, which will only get worse. Far better to make adjustments now, while we are able and have time on our side. If we wait and are ill-prepared, then the consequences for Singaporeans when they are old and dependent will be more painful.

76. We should work together, move decisively now, and turn these reforms to our advantage. With higher CPF interest, all CPF members will be better off, especially the lower and middle income groups. Everyone will have more savings for retirement. Working longer, later draw-down, deferment bonuses, and longevity protection will ensure that as many as possible will have savings for as long as they live.

77. These changes will strengthen our CPF system. It will improve retirement security and help Singaporeans face the future with greater confidence.

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[1]UN Population Division's "World Population Prospects: The 2006 Revision". The median age of Singapore's population is projected to be 54 years by 2050, behind Macau (56), Japan (55) and Korea (55).
[2]UN Population Division's "World Population Prospects: The 2006 Revision".
[3]Department of Statistics' projections.
[4]The 1-month period is necessary for administrative purposes.
[5]For the year ending 31 Aug 2007.
[6]The 10Y SGS was first issued in 1998. The new SMRA formula requires 12 months of 10YSGS price data and therefore can only be calculated a year after the first 10Y SGS issue, from 1999.
[7]Letter to Today: Voices – Tony Ng Lye Hock , Sept 12 TODAY
[8]Source: "Pension reforms – Early birds and laggards", OECD, 7 June 2007.
[9]China's coverage rate among urban workers is less than 50% and the rural population remains outside the national pension system. Source: "Pension reform in China: Progress and Prospects", OECD, 2007
10 Guide to Europe's pension woes
11 The Pension Service