

## **INTRODUCTION TO CPF LIFE**

### **1. What is CPF LIFE?**

CPF LIFE is a new scheme that will be launched in September 2009 to provide members with a lifelong income. Through this scheme, members will receive a monthly income for as long as they live, the amount depending on the cash savings they have in their Retirement Account (RA).

### **2. How does CPF LIFE work?**

Upon a member's enrolment into CPF LIFE, a portion of the cash savings in his Retirement Account (RA) will be set aside as the premium for an annuity. Combined with the remaining cash savings, the member will get a lifelong monthly income from his Draw Down Age (DDA).<sup>1</sup>

### **3. How do we know that Singaporeans are living longer?**

Data from the Singapore Department of Statistics show that the life expectancy has increased among Singaporeans over the years. The life expectancy at birth was 63 in 1960 but has increased to 80 today. Among those aged 65 in 2007, 66% can expect to be alive at age 80 and 48% at age 85. Life expectancy is expected to increase for future cohorts, as has occurred in other developed countries.

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<sup>1</sup> Age at which members start to withdraw their CPF savings in the form of monthly income.

Age in 2009	DDA
60 and above	62
58-59	63
56-57	64
55 and below	65

**4. Were members of the public consulted on CPF LIFE?**

Yes. The National Longevity Insurance Committee invited more than 120 stakeholders ranging from working adults, unionists, community and social sector leaders, disabled persons associations, insurance companies and industry associations, academics and the general public, to dialogue sessions. In addition, feedback and views of over 500 members of the public on the scheme received via e-mail, phone calls, forum page letters, media reports and grassroots dialogue sessions were also considered by the Committee. The views of experts on insurance and retirement products were also sought. In addition, the Singapore Actuarial Society representing 300 members submitted its written inputs. Their feedback was taken into consideration in the design of the final scheme.

**5. Why not fund CPF LIFE with Government reserves?**

The CPF system is fully funded and sustainable because it is based on the cardinal principles of self-reliance and self-provision – a member can only spend what he has saved. This principle must be maintained for CPF LIFE, so as not to weaken the CPF system. Funding CPF LIFE with Government reserves will not be sustainable.

**6. What is adverse selection?**

Adverse selection is a term commonly used by annuity providers to describe the situation where the private information of an individual's own health is only known to himself but not the annuity provider, so that the individuals who purchase the annuity are those most likely to need it. In this situation, providers may have to increase the premiums to take into account the possibility of adverse selection.

**7. What is risk pooling in the context of CPF LIFE?**

As with any other annuity product, CPF LIFE operates on the principle of risk-pooling. Interest earned on the refundable LIFE annuity premium is pooled and shared among the surviving participants. This allows some people to pay a smaller premium compared to the total income they can expect to get. LIFE annuity premiums would be calculated by professional actuaries to ensure fairness, and premiums would be adjusted based on an individual's age and gender.

## **ELIGIBILITY FOR CPF LIFE**

### **8. Who can join CPF LIFE? When can I join?**

If you are 55 years or older in 2009, you can join CPF LIFE from September 2009. Members who are between 52 and 54 years old can join CPF LIFE from 55.

For those 51 and below in 2009, you will be automatically included in the LIFE Balanced Plan if you have at least \$40,000 cash savings in your Retirement Account (RA) when you turn 55. Members who have less than \$40,000 can opt-in, if they wish to do so.

### **9. How do I join the LIFE scheme?**

Details will be announced closer to September 2009.

### **10. How do I decide how much of my cash savings in my Retirement Account (RA) to use to join CPF LIFE?**

When you choose to opt into LIFE, the entire amount of cash savings in your Retirement Account will be committed to the scheme. A portion of the cash savings will be set aside as annuity premium. Together with the remaining cash savings, you will get a lifelong monthly income from your Draw-down age (DDA).

### **11. Why is the cut-off for auto-inclusion set at \$40,000?**

The cut-off for auto-inclusion into CPF LIFE was selected to balance the level of monthly income and the percentage of active CPF members that will be automatically included. At \$40,000, about 70% of active members from the first cohort of CPF LIFE, who turn 55 in 2013, would be auto-included. More will be automatically included in future cohorts as balances grow over time. Those who have less than \$40,000 can opt into the scheme.

**12. How about those who cannot afford CPF LIFE (e.g. those with little or no CPF savings)?**

All members can participate in CPF LIFE, regardless of the amount of CPF savings they have. However, family members of older CPF members are encouraged to take advantage of the recent relaxation of Minimum Sum Topping-Up Scheme to top up the accounts of their family members so that they can get more LIFE income. Friends and employers can also top up the accounts of the CPF members. In addition, to help members with lower CPF savings, the Government will provide a one-off LIFE Bonus (“L-Bonus”) of up to \$4,000 for members in the first 5 cohorts who turn 55 from 2013. They are aged 47 to 51 at the beginning of 2009. The L-Bonus will also be extended to those aged above 51 this year who opt in.

Participants of the Lease Buyback Scheme will be automatically enrolled in CPF LIFE to provide them with a lifelong income.

**13. Why does CPF Board not take into account property pledge when considering a CPF member’s participation in CPF LIFE?**

CPF LIFE is an annuity scheme that depends on Retirement Account cash savings being pooled and then paid to members. Property pledges are not cash, but are promises by CPF members to repay into their Retirement Account the amounts represented by the pledges when their properties are sold. Therefore property pledges cannot be used as premium. It would also not be meaningful to treat the property pledge as part of the \$40,000 threshold when considering whether a CPF member is auto-included under CPF LIFE. If the member were to sell the property subsequently, the sales proceeds refunded to his Retirement Account can be used to purchase a LIFE plan.

**14. Why must CPF LIFE be compulsory for those with adequate balances?**

The CPF is premised on the principle of self-reliance and self-provision. Under the current CPF Minimum Sum (MS) scheme, CPF members receive a monthly income from their MS, upon reaching their Draw Down Age, for around 20 years. With life expectancy at 65 now at about 19 years, around half of all CPF members alive at age 65 will outlive their CPF savings. One way to ensure that members with long lives continue to have an income in old age is to stretch the MS payout duration over say 30 years, but even that would not cover the lifespan of all members. CPF LIFE ensures that CPF members have an income for life. It is necessary for the scheme to be mandatory for those with adequate balances to limit the impact of adverse selection and opt-outs.

**15. Why can't CPF members commit more than the prevailing Minimum Sum into CPF LIFE?**

Some CPF members may want a higher lifelong income and are willing to pay more for this. The National Longevity Insurance Committee had considered this but recommended that CPF Board should focus on operating CPF LIFE as an integral part of the Minimum Sum (MS) Scheme. The MS represents the basic retirement sum that the Government will help members to accumulate. Should members desire higher monthly income beyond what is provided by the prevailing MS, they could buy annuities from commercial providers.

**16. Is there a maximum entry age for CPF LIFE?**

We have decided to fix the maximum entry age at 80. This is because it is difficult to predict opt-in levels and average mortality rates at older ages. At the same time, older members are generally more certain of their health condition and expected lifespan. These two effects mean that the actual mortality of people joining at older ages could be significantly affected by adverse selection. As advised by CPF Board's actuarial consultant, fixing the maximum entry age at 80 would reduce the scheme's exposure to such effects.

However, to benefit all CPF members, when CPF LIFE is first launched in 2009, all members age 80 or above who wish to join CPF LIFE can opt in within one year from the start of the opt-in phase.

**17. What is the minimum CPF savings needed to join CPF LIFE?**

Members are not required to have a minimum balance in order to join LIFE. CPF members who are aged 51 or younger in 2009 will be automatically included if they have at least \$40,000 of CPF savings at age 55. All other members, including those above 51 this year, can opt in to CPF LIFE, regardless of their balances.

**18. Will pensioners, members with medical conditions or members having equivalent annuities be allowed to join CPF LIFE?**

Yes. These members, while exempted from CPF LIFE, can still choose to participate in the scheme.

**19. Can members under the Combined Minimum Sum Scheme (CMSS) participate in CPF LIFE?**

Couples can, as a concession, jointly set aside 1.5 times the CPF Minimum Sum under the Combined Minimum Sum Scheme. These members will be allowed to participate in CPF LIFE using the cash balance available in each of their individual Retirement Accounts at the point of enrolment into CPF LIFE. They are also allowed to make cash top-ups up to the prevailing Minimum Sum to increase their LIFE monthly income.

**20. Can CPF members buy a CPF LIFE plan for their family members and vice versa?**

Yes. This can be done by topping up the Retirement Account of the person who wishes to purchase the CPF LIFE plan. Tax relief may be available for top-ups made in cash.

**CPF LIFE PLANS**

**21. Why are there only 4 plans offered to members instead of the 12 recommended in NLIC report?**

MOM and CPF Board have received feedback that the wide range of choices is confusing. Moreover, the difference in monthly payouts between the 12 options is small. Hence, it was decided that the choices would be simplified to 4 LIFE plans.

**22. Can I choose how much to leave behind for my beneficiaries if I enter CPF LIFE?**

Yes you can. The 4 plans that are offered to members have different income amounts and different bequest amounts. For example, the LIFE Plus Plan will provide the highest monthly income among the refundable plans and least bequest amounts, whereas the LIFE Basic Plan provides the highest bequest amounts but lowest monthly income. For those members who wish to receive the highest monthly income, they can choose the LIFE Income Plan. However, there are no amounts for bequest in this plan.<sup>2</sup>

**23. Why is the LIFE Balanced Plan the default plan?**

The LIFE Balanced Plan provides a balance between what the member would receive each month for life and how much would be left to his beneficiaries. Members can choose the LIFE Plus Plan for higher income but less bequest amount. They can choose the LIFE Basic Plan for lower income to leave more for their beneficiaries. For those members who wish to receive the highest monthly income, they can choose the LIFE Income Plan. However, there are no amounts for bequest in this plan.<sup>3</sup> Members may compare income amounts under each of the plans using the CPF LIFE Payout Estimator on the CPF website. They could also have an idea of the potential amount of moneys that would be left behind for their beneficiaries across the different plans.

**24. Will I be at a disadvantage if I choose a non-refundable plan over a refundable plan since my beneficiaries will not be getting any of my moneys?**

Your choice of LIFE plan should depend on your retirement needs. Hence, if you prefer to leave money to your beneficiaries, you should not choose a non-refundable plan. Under the non-refundable plan, your beneficiaries would receive nothing when you pass away.

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<sup>2</sup> For the LIFE Income Plan, a small amount may still be left behind for the members' beneficiaries when the members pass away due to the 1% extra interest credited for the year.

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**25. What is bequest amount?**

For a member who has bought a refund plan and subsequently passes away, his beneficiaries would receive a bequest amount, made up of the balance left in the member's Retirement Account and any unused annuity premium. The unused portion of the premium is the annuity premium less the LIFE monthly income that member has received thus far.

For example, if the member's LIFE annuity premium is \$25,000 and he has started drawing down on his annuity plan, \$350 every month for a total of 10 months, the unused portion of the premium is \$21,500.

If you have not made a nomination, the moneys will be distributed to your family members according to intestacy law.

**26. What plans are available to members?**

It would depend on the age at which the member joins the scheme, as shown in the two tables below.

**Plans available to members (Within the first year of the scheme, 2010)**

<b>Age</b>	<b>No. of available plans</b>	<b>Names of available plans</b>
55 to 80	4	LIFE Balanced Plan LIFE Basic Plan LIFE Plus Plan LIFE Income Plan
Above 80 to 90	3	LIFE Basic Plan LIFE Plus Plan LIFE Income Plan
Above 90	2	LIFE Plus Plan LIFE Income Plan

**Plans available to members (After the first year of the scheme, from 2011)**

<b>Age</b>	<b>No. of available plans</b>	<b>Names of available plans</b>
55 to 80	4	LIFE Balanced Plan LIFE Basic Plan LIFE Plus Plan LIFE Income Plan
Above 80	0*	

\* All members age 55 and above will be allowed to join the scheme within the first year of the launch, so that they can enjoy the benefits of CPF LIFE. From 2011, a maximum entry age of 80 would be set.

- 27. Once a member has committed to a particular plan for his first policy, why can't the member switch to other plans? Similarly, why can't a member choose another plan which is different from his first policy, for subsequent policies?**

To reduce the potential impact of adverse selection and keep premiums affordable, members would be limited to their initial choice of plan. Members would also find it difficult to keep track of multiple LIFE policies with different features.

- 28. How do I choose the most suitable LIFE plan for myself?**

The LIFE plans differ in the level of LIFE income and the bequest amount that would be left to your beneficiaries.

If you wish to have a balance between what you will receive for life and the bequest amount left to your beneficiaries, you may wish to choose the default CPF LIFE plan – the LIFE Balanced Plan. However, if you have specific needs, you may choose from other plans with these features:

The LIFE Plus Plan provides a higher income than the Balanced Plan, but leaves less for your beneficiaries.

The LIFE Basic Plan gives a lower income than the Balanced Plan, but leaves more for your beneficiaries

The LIFE Income Plan gives the highest income, but does not leave anything for your beneficiaries.

Your choice of LIFE plan depends largely on your own retirement needs. You can use the CPF LIFE Payout Estimator to assess which plan is more suitable for you.

### **CPF LIFE MONTHLY INCOME**

- 29. When can I expect my LIFE income to start?**

This depends on your age and when you sign up for the scheme. If you sign up before your DDA, your monthly income under CPF LIFE starts when you reach your DDA. However, if you are above DDA when you sign up for CPF LIFE, you may start getting your LIFE income the month after you sign up and the policy is issued to you.

The first CPF LIFE payout will start in January 2010 if you are above DDA and sign up by December 2009.

**30. What is the monthly income that I would receive under the CPF LIFE?**

The monthly income that you would receive under CPF LIFE would depend on the amount of savings you have in your RA and the LIFE plan that you choose. The monthly income may be adjusted depending on the actual interest rate and mortality experience of the scheme. This is to ensure that the scheme is adequately funded and sustainable over the long term.

**31. Is there any difference in the monthly income under CPF LIFE for males and females?**

For the same amount of savings in RA and LIFE plan, the monthly income for a female member will be lower than that of a male member who joins the scheme at the same age. This is because females are likely to live longer.

**32. Why is CPF LIFE scheme able to provide a comparable payout with MS scheme, but for life?**

This is possible because of the extra 1% interest the CPF Board pays on the first \$60,000 of a member's CPF balances, and the benefit of risk pooling in the CPF LIFE Scheme.

**33. Why are the payouts not inflation-indexed?**

The National Longevity Insurance Committee discussed this proposal extensively and decided against inflation-indexed incomes. Inflation-indexation would mean higher premiums or significantly lower incomes in the initial period. In addition, as the benefit of inflation indexation will only manifest in higher income in the later years, many members of the public were also concerned that they would not live long enough to receive the later payouts.

**34. Why will the payouts fluctuate? How much and how frequently does it change?**

The National Longevity Insurance Committee had recommended a CPF LIFE scheme which will be fiscally sustainable over the long term. Hence, LIFE premiums and payouts will need to be updated regularly to account for the actual investment returns and mortality experience. This is to ensure that CPF LIFE remains adequately funded and sustainable over the long term. Members will be informed of the change in payouts by mail. The illustrative monthly income ranges are shown below.

**Table 1: Attributes of CPF LIFE Plans and Indicative Monthly Income (Mainstream Member, Aged 55 in 2013)**

<b>LIFE Plan (Refundable Premium)</b>	<b>Monthly Income</b>	<b>Attributes</b>
<b>LIFE Balanced Plan</b>	<b>\$570 - \$620</b>	<b>Moderate income and bequest amount (Default option)</b>
LIFE Basic Plan	\$530 - \$580	Lower income; Higher bequest amount
LIFE Plus Plan	\$600 - \$660	Higher income; Lower bequest amount

  

<b>LIFE Plan (Non-refundable Premium)</b>	<b>Monthly Income</b>	<b>Attributes</b>
LIFE Income Plan	\$640 - \$700	Highest income; No bequest amount

Assumptions: Male member entering CPF LIFE at age 55 in 2013 with half the 2013 MS, estimated to be \$67,000. LIFE monies will earn an SMRA-linked interest rate with an additional 1% on the first \$60,000 of all CPF monies. Interest rate varies between 3.75% and 4.25%. Monthly income figures are rounded off to nearest \$10.

**35. Why not have guaranteed minimum payouts?**

For the scheme to be sustainable over the long term, premiums and payouts must be adjusted periodically to reflect actual mortality experience and investment returns. As such, payouts are not guaranteed. What is guaranteed is the CPF interest paid by the Singapore Government which will not fall below the floor rates of 3.5% if the member has less than \$60,000 or 2.5% for amounts above that. Beyond this, the payouts will be paid based on actual interest rates and mortality experience. This ensures that CPF LIFE remains adequately funded and sustainable over the long term.

**36. How are premiums and level of income under CPF LIFE calculated?**

Premiums and level of income are determined by an independent actuarial consultant and reviewed periodically to reflect actual mortality experience and interest rates.