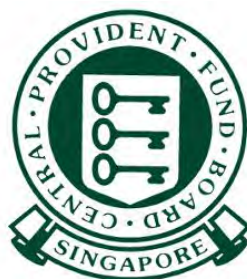


# Mandatory Public Annuity: Singapore's Experience



**Don Yeo**

*Deputy Chief Executive Officer  
(Policy and Corporate  
Development)*

Central Provident Fund Board  
Singapore

# The Central Provident Fund

**CPF:** Fully funded,  
defined contribution



**3.6 Million  
Members**



*Retirement*



*Home Ownership*



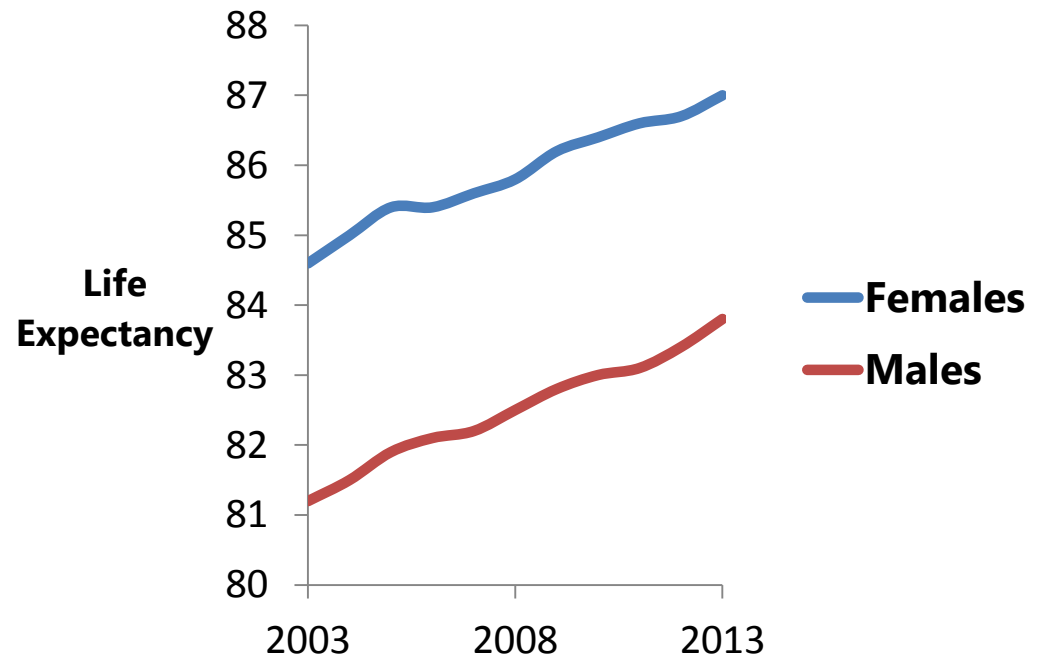
*Healthcare*

A photograph of two elderly men walking through a crowded public space, possibly a transit station. The man on the left is wearing a light blue long-sleeved shirt and glasses, holding a brown paper bag. The man on the right is wearing a white short-sleeved shirt with a floral pattern and is using a black cane. They are both looking forward with serious expressions. In the background, other people are visible, including a man with a backpack and a woman in a purple tank top. The scene is brightly lit, suggesting an outdoor or well-lit indoor environment.

**Why Mandate Annuities?**

# Increasing Life Expectancy

## Life Expectancy at age 65



Source: Singapore Department of Statistics

[http://www.singstat.gov.sg/docs/default-source/default-document-library/publications/publications\\_and\\_papers/population\\_and\\_population\\_structure/population2014.pdf](http://www.singstat.gov.sg/docs/default-source/default-document-library/publications/publications_and_papers/population_and_population_structure/population2014.pdf)

library/publications/publications\_and\_papers/population\_and\_population\_structure/population2014.pdf

# Low Rate of Voluntary Annuitisation

Before CPF LIFE was introduced, members' CPF savings were streamed out over 20 years in retirement

Members who wanted lifelong payouts could opt to purchase private annuities, but take-up was very low

- Only 1.6% chose to do so in 2008

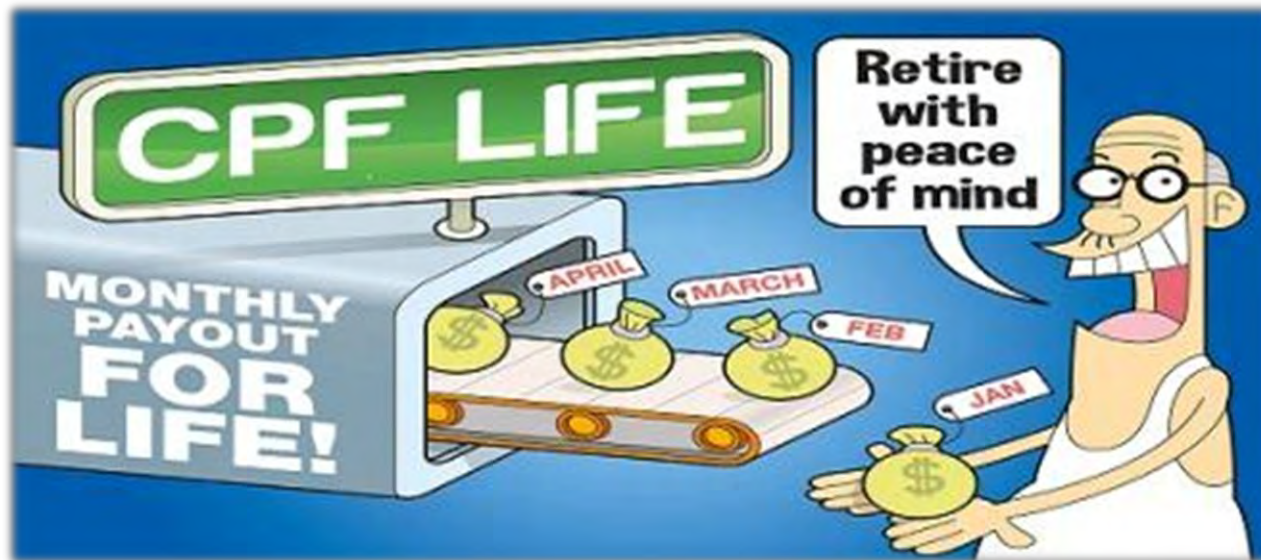


# **Overview of CPF LIFE**

# CPF LIFE

## Lifelong Income For The Elderly

- An annuity product purchased using members' CPF savings
- Provides lifelong payouts from age 65



# Key Principles and Features

## Basic and Affordable

- No minimum premium
- Refund provided upon death
- Stable income for life



## Fair and Sustainable

- Premiums/payouts actuarially determined & periodically reviewed
- Financially sustainable over long term







## Flexible

- Provision of options




# Introduction of CPF LIFE

- Commenced in 2009
- Older members, for whom CPF LIFE was not mandatory, were given a chance to opt-in to CPF LIFE
- 4 plans offered
  - Trade off between payout and bequest

Refundable Plans		
LIFE Plus Plan	LIFE Balanced Plan	LIFE Basic Plan
		
<ul style="list-style-type: none"><li>• Higher monthly payout</li><li>• Less bequest for my beneficiaries.</li></ul>	<ul style="list-style-type: none"><li>• Moderate level of monthly payout</li><li>• Moderate bequest for my beneficiaries.</li></ul>	<ul style="list-style-type: none"><li>• Lowest monthly payout</li><li>• Highest bequest for my beneficiaries.</li></ul>
Non-Refundable Plan		
LIFE Income Plan		
		
<ul style="list-style-type: none"><li>• Highest monthly payout</li><li>• No bequest for my beneficiaries.</li></ul>		


4 different plans to suit different retirement needs!



# Auto-inclusion Begins From 2013


- From 2013, members aged 55 with USD 30,000 in retirement savings are auto-included
  - Reduces adverse selection
  - Reaps economies of scale
- Members with less than USD 30,000 can opt-in

**LIFE Standard Plan**



- For those who prefer higher monthly payouts
- Lower bequests

**LIFE Basic Plan**



- For those who prefer higher bequests
- Lower monthly payouts

- Number of plans offered reduced to two

# Upcoming Enhancements

CPF Advisory Panel appointed in Sep 2014 to study possible enhancements to the CPF system

## Enhancements relating to CPF LIFE



Allowing members to defer their payout start age



Moving plan choice closer to retirement



Extra interest on first \$30k of retirement savings



Increasing top-up limit to allow for higher payouts



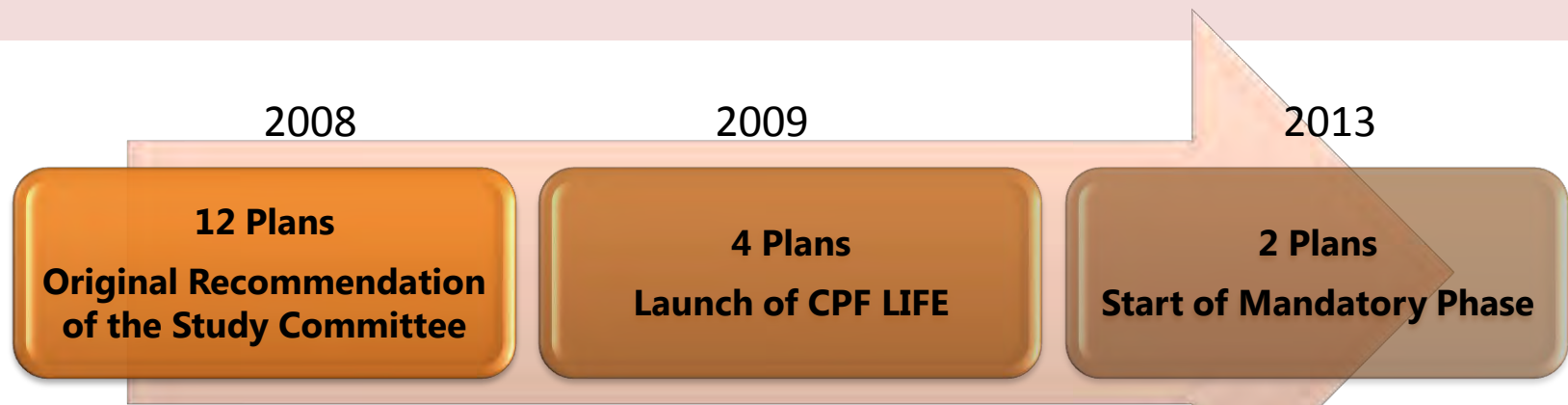
Facilitating top-ups to spouses' accounts



## Key Issues

- **Providing Choice – Flexibility vs Simplicity**
- **Managing Risks**
- **Role of the Private Sector**

# Balancing Flexibility and Simplicity



“The original 12 plans gave members a choice, but at the same time, made it more difficult for members to decide on an appropriate plan.”

-Mr Gan Kim Yong, Acting Minister for Manpower, 2007



Lesson: Too much choice may not always be desirable

“...we also received feedback during this opt-in phase that members had to put significant effort into understanding and choosing from among the four plans.”

-Mr Tharman Shanmugaratnam, DPM and Minister for Manpower, 2012



# Presentation of Choices

Plan	% of Savings Annuitised	Monthly Payout (US\$ 75k at 55)	Bequest at 75 (US\$ 75k at 55)
LIFE Standard Plan	100%	US\$ 645	US\$ 9,100
LIFE Basic Plan	Approx. 10%	US\$ 580	USD\$ 92,000

\*Assuming interest rate of 4%. Actual payouts might vary.


Member communications focus on trade-off between payouts and bequest

**LIFE Standard Plan**



- Higher monthly payout
- Meet the needs of most members on LIFE

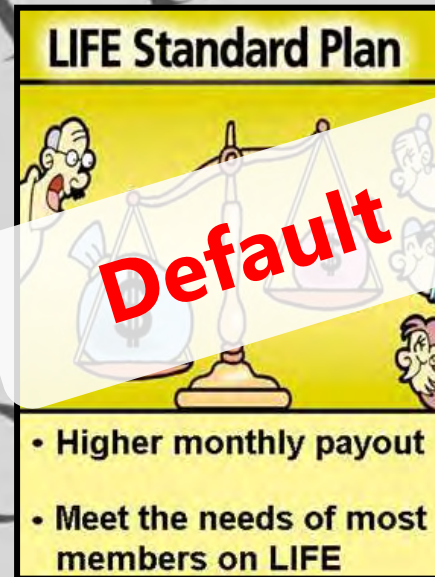
**LIFE Basic Plan**



- Lower monthly payout
- For those who prefer higher bequests

# Use of Defaults Necessary...

- Significant number of auto-included members may not indicate choice of plan
- Default should be able to meet the needs of the majority
  - Prioritised retirement income provision ahead of bequest accumulation

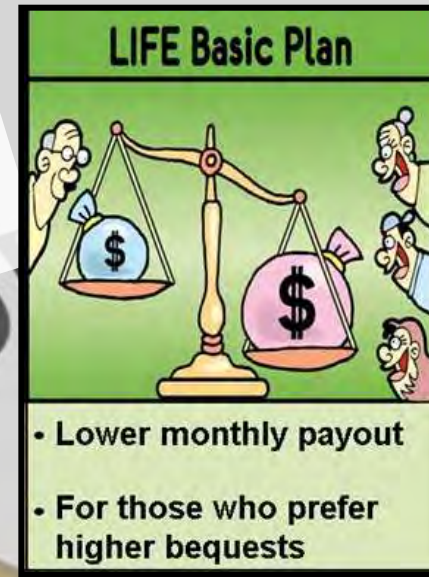


**LIFE Standard Plan**

**Default**

- Higher monthly payout
- Meet the needs of most members on LIFE

The illustration shows a balance scale with a blue bag of money on the left pan and a pink bag on the right pan. The left pan is lower, indicating it is heavier. A white banner with the word 'Default' in red is placed over the scale. The background is yellow and features cartoon characters.




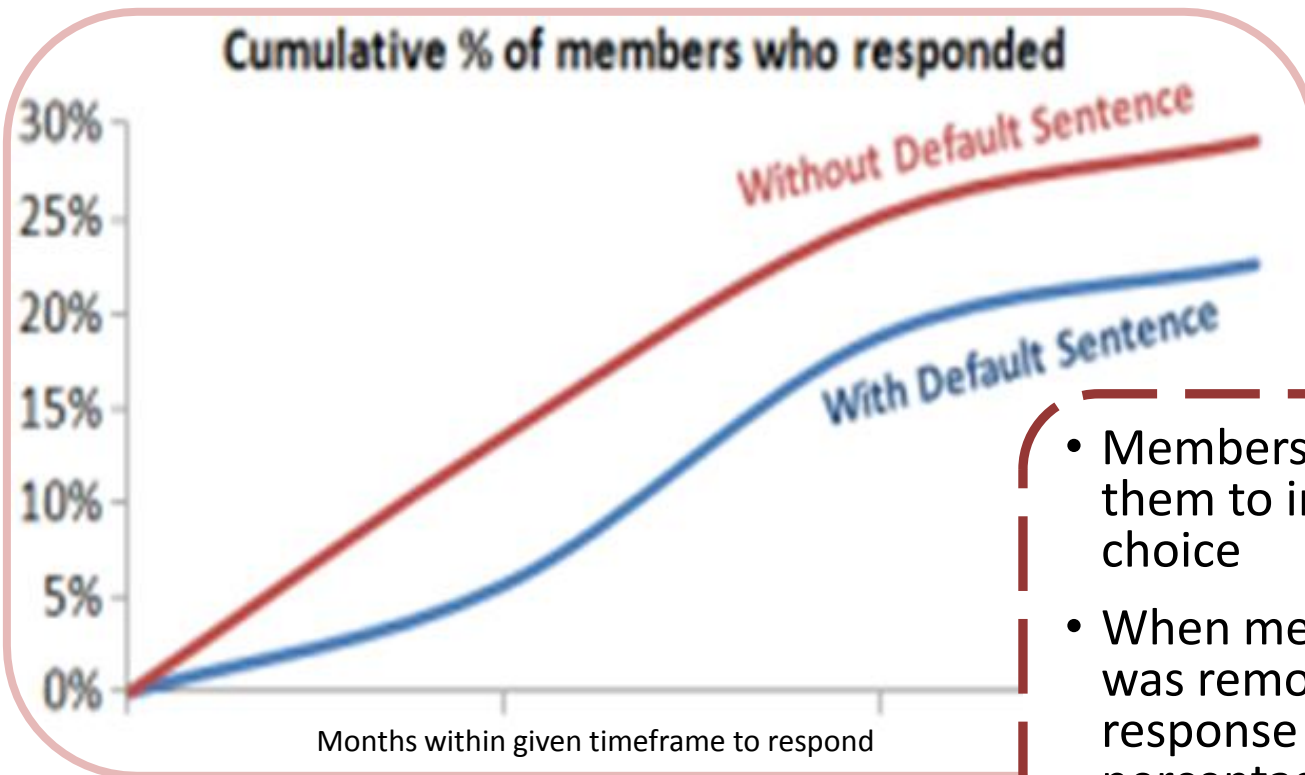
**LIFE Basic Plan**

- Lower monthly payout
- For those who prefer higher bequests

The illustration shows a balance scale with a blue bag of money on the left pan and a pink bag on the right pan. The right pan is lower, indicating it is heavier. The background is green and features cartoon characters.

# But Active Choice Still Encouraged

It's in members' best interest to assess their needs and decide for themselves their desired feature 



- Members receive a letter for them to indicate their plan choice
- When mention of the default was removed from the letter, response rate increased by 7 percentage points

A close-up, low-angle shot of a person's feet walking on a red carpet. The person is wearing light-colored trousers and black, polished leather dress shoes. The carpet is a vibrant red, and the background is a bright, slightly blurred white. The overall composition is clean and professional, suggesting a formal or high-stakes event.

## **Key Issues**

- **Providing Choice – Flexibility vs Simplicity**
- **Managing Risks**
- **Role of the Private Sector**

# Investment Risks

- CPF monies invested in special government bonds
  - Risk-free, given Singapore Govt's AAA-rating
  - Bonds pay a fixed coupon pegged to long term government bond yields
  - Currently earning floor rate of 4%
- Payouts are computed based on weighted average of yields
- Investment risks are shared between members and with government



**Stable Payouts**

# Mortality Risks

## Idiosyncratic

- Mitigated via risk-pooling
- Minimal anti-selection

## Systematic

- Payouts not guaranteed but designed to be stable
- Payouts are adjusted annually to reflect actual investment returns and mortality

Mortality risks are borne by members collectively

# Inflation Risks

Currently, monthly payments are not adjusted for inflation

Some degree of inflation protection by design

- Interest rates likely to rise in an inflationary environment
- LIFE payouts will be adjusted upwards

CPF Advisory Panel currently studying how to provide options for those who prefer payouts that rise with time

Inflation risks are borne by members individually but mitigated by hedges within the system



## **Key Issues**

- **Providing Choice – Flexibility vs Simplicity**
- **Managing Risks**
- **Role of the Private Sector**

# Impact on the Private Sector

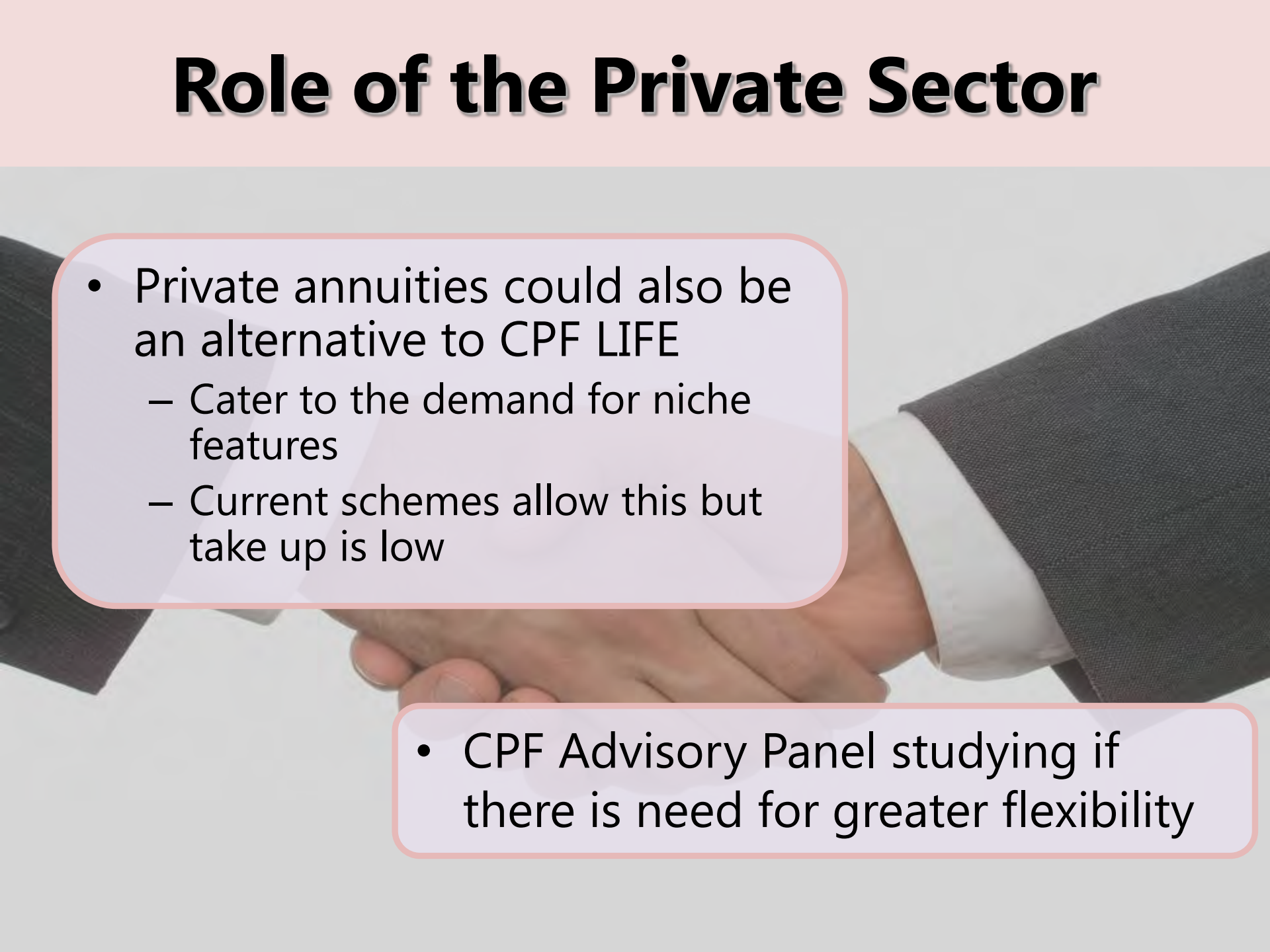
- Private annuities find it difficult to compete with CPF LIFE
  - Subject to high regulatory capital charges
  - Lack access to special government bonds
  - Have to account for adverse selection

- The private sector today caters to those who wish to annuitise savings outside CPF



Tokio Marine Life

# Role of the Private Sector

- 
- Private annuities could also be an alternative to CPF LIFE
    - Cater to the demand for niche features
    - Current schemes allow this but take up is low
  - CPF Advisory Panel studying if there is need for greater flexibility

# Conclusion

CPF LIFE provides greater certainty in the retirement of Singaporeans

CPF adopts unique ways of dealing with the issues associated with mandatory public annuities

CPF LIFE continues to evolve to better serve Singaporeans in their retirement