

An Introduction to the Central Provident Fund (CPF)

Singapore's Comprehensive Social Security System



Associate Professor
Ramin COOPER Maysami
School of Business
University of North Carolina
at Pembroke

E-mail:
ramin.maysami@uncp.edu

Central Provident Fund (CPF)

www.cpf.gov.sg

Number of Singaporeans 65 or older...

Now 263,500 2030 795,900

Supporting and caring for a rapidly aging population will be an increasing strain on Singapore's younger generations.

Today, 10 economically active persons are supporting one elderly.

By 2030, only 3.5 persons will be supporting one elderly! Therefore, it is important that Singaporeans plan early for a secure retirement.

The Central Provident Fund (CPF)

- The Central Provident Fund (CPF) is a comprehensive social security savings plan which has provided many working Singaporeans with a sense of security and confidence in their old age. The overall scope and benefits of the CPF encompass the following:
 - Retirement
 - Home Ownership
 - Asset Enhancement
 - Healthcare
 - Family Protection
 - Education

4

CPF Contributions

Working Singaporeans and their employers make monthly contributions to the CPF and these contributions go into three accounts:

Ordinary Account - the savings can be used to buy a home, pay for CPF insurance, investment and education.

5

CPF Contributions

Special Account - for old age, contingency purposes and investment in retirement-related financial products.

Medisave Account - the savings can be used for hospitalisation expenses and approved medical insurance.

6

Contribution Rates

Age	Employer Contribtn	Employee Contribtn	Total Contribtn	Credited to Ordinary Accnt	Credited to Special Accnt	Credited to Medisave Accnt
Below 35	13	20	33	22	5	6
35 - 45	13	20	33	20	6	7
46 - 50	13	20	33	18	7	8
51 - 55	11	19	30	15	7	8
56 - 60	6	12.5	18.5	10.5	0	8
61 - 65	3.5	7.5	11	2.5	0	8.5
Above 65	3.5	5	8.5	0	0	8.5

CPF savings earn interest

CPF members receive a market-related interest rate (based on the 12-month fixed deposit and month-end savings rates of the major local banks) on their CPF savings.

For funds that are placed for retirement and a longer period of time, like savings in the Special and Retirement Accounts, members would earn additional interest of 1.5 percentage points above the normal CPF interest rate.

CPF savings earn interest

Savings in the Ordinary Account earn a minimum interest rate of 2.5% per annum,

Savings in the Special and Medisave Accounts earn 4% per annum.

The primary goal of the CPF

- CPF is intended to provide the retiree with a retirement income to meet your basic needs in old age.
- Members are encouraged to supplement their retirement income with their personal savings.

CPF is for retirement!

- Members can withdraw the CPF savings when they turn 55, after setting aside CPF Minimum Sum.
- CPF Minimum Sum can be used to buy life annuity from a participating insurance company placed as a fixed deposit with a participating bank or left in your Retirement Account with the CPF Board.

CPF is for retirement!

- From age 62, they will receive monthly payments from CPF Minimum Sum to help meet basic needs in retirement.
- If a life annuity was purchased, they will receive the monthly income for life.
- If CPF Minimum Sum is left with a participating bank or with CPF Board, they will receive the monthly income until CPF Minimum Sum is exhausted.

CPF is for retirement!

- The CPF Minimum Sum is currently set at \$84,500 and will be raised gradually until it reaches \$120,000 in 2013 (in 2003 dollars).

Minimum Sum will increase

- 1 Jul 2005 88,000
- 1 Jul 2006 92,000
- 1 Jul 2007 96,000
- 1 Jul 2008 100,000
- 1 Jul 2009 104,000
- 1 Jul 2010 108,000
- 1 Jul 2011 112,000
- 1 Jul 2012 116,000
- 1 Jul 2013 120,000

CPF is for retirement!

- From 1 January 2004, if the CPF Minimum Sum requirement is met, members will also need to set aside a Medisave Required Amount in the Medisave Account when you withdraw your CPF.
- If one has less than the Medisave Required Amount in his/her Medisave Account, he/she can use Special and/or Ordinary Accounts, in excess of the CPF Minimum Sum to set aside the Medisave Required Amount.

CPF is for retirement!

- This includes the first withdrawal upon reaching 55 and all subsequent withdrawals.
- The Medisave Required Amount is set at \$2,500 in 2004 and will increase by \$2,500 (adjusted for inflation) each year until it reaches \$25,000 (in 2003 dollars) on 1 January 2013.

CPF is for retirement!

- One can also withdraw CPF savings if he/she leaves Singapore and West Malaysia permanently or become permanently incapacitated.

Composition of Minimum Sum

- A member may set aside the CPF Minimum Sum fully in cash or pledge his property up to 50% of the Minimum Sum.
- The cash portion ensures CPF members of a monthly income in retirement.

Composition of Minimum Sum

- If a member sets aside the CPF Minimum Sum of \$84,500 fully in cash, he will receive a monthly payment of \$668 from 62 until his CPF Minimum Sum is exhausted.
- If the amount set aside is less than his Minimum Sum, the CPF Board will pledge his property (if any) to make up the shortfall.

What if a member passes away before he has used up his CPF Minimum Sum?

- The remaining Annuity payment, Fixed deposit placement; or CPF Minimum Sum will be paid out in a lump sum to his beneficiaries if the member had made a valid CPF nomination.
- If there is no valid CPF nomination, the deceased's remaining annuity payment, fixed deposit placement or the CPF Minimum Sum will be transferred to the Public Trustee for distribution in accordance with the written law.

If property has been pledged, what happens when it is sold or transferred?

- Members will be required to refund the pledged amount plus accrued interest if property is sold or transferred.

Minimum Sum Plus Scheme (MSPS)

- To further encourage Singaporeans to save for retirement, the MSPS was introduced in January 2001.
- Under this scheme, members can buy life annuities, beyond their Minimum Sum, with their withdrawable CPF savings from 55. Income from these annuities is accorded tax exemption.

Medisave

***MEDISAVE** is the national savings scheme which helps individuals put aside part of their income in their Medisave Accounts to meet their personal or immediate family's hospitalizations expenses, especially after retirement.*

Medisave

- Employees contribute 6% - 8.5% of monthly wages to Medisave Account depending on age group as shown below:
 - 35 & below 6%
 - Above 35 to 45 7%
 - Above 45 to 60 8%
 - Above 60 8.5%.

Medisave contributions by the self-employed

If one is self-employed and earn more than \$6,000 a year, Medisave contributions payable is based on yearly "net trade income".

The rates of contribution, according to the age of self-employed persons, are as follow:

35 years and below	6%
Above 35-45 years	7%
Above 45 years	8%

Medisave Contribution Limits

- One needs to contribute to Medisave Account up to the prevailing Medisave Contribution Ceiling.
-
- The prevailing Medisave Contribution Ceiling is \$30,500.
-
- Any Medisave contribution in excess of the prevailing Medisave Contribution Ceiling will be transferred to the Ordinary Account.

Medisave Contribution Limits

- The Medisave Contribution Ceiling is adjusted each year on 1 July to ensure Singaporeans have sufficient savings to meet their hospitalization expenses.

Withdrawal of Medisave at Retirement

- As members are likely to need Medisave for healthcare needs during retirement, they would need to retain the Medisave Minimum Sum in Medisave Account when they withdraw your CPF savings.

If a member has more than the Medisave Minimum Sum, he/she can withdraw the excess amount.

- The prevailing Medisave Minimum Sum is \$25,500.

Medisave for those working beyond 55

As long as one still works, he/she will need to contribute to Medisave up to the Medisave Contribution Ceiling.

What hospital charges does Medisave cover?

- Medisave covers the following hospitalizations expenses:

- daily ward charges;
- doctors' fees;
- surgical operations, including the use of operating theatres; and
- in-patient charges for medical treatment, investigations, medicines, rehabilitative services, medical supplies, implants, and prostheses introduced during surgery.

Medisave Coverage

- Medisave covers up to:

- \$300 per day for daily hospital charges.
This includes a maximum of \$50 for
doctor's daily attendance fees; and

Home Ownership Scheme

Easy home-ownership under the Public Housing Scheme (PHS) is one of the major benefits enjoyed by CPF members. Introduced in 1968, the scheme has proven very popular and has enabled many members to become proud home-owners.

Members using their CPF savings to service their housing loans from HDB/banks are also covered by the CPF Board's Home Protection Scheme (HPS).

Buying a flat from the HDB

Members can use up to 100% of CPF Ordinary Account savings to pay the initial 20% deposit as well as the balance of the purchase price.

If existing CPF balance is not enough for full payment of the purchase price, members may take up a housing loan from HDB and use all the monthly contributions to Ordinary Account for the installment payment of the loan.

For a Resale Flat Bought in the Open Market

- Members may use all the CPF savings in Ordinary Account plus the housing loan from HDB to pay up to the Valuation Limit (VL). The VL refers to the market value of the flat at the time of purchase or the purchase price, whichever is lower.
- HDB may grant you a loan of up to 80% of the VL.
- The HDB loan is subject to credit assessment by HDB.
- Also, HDB requires members to exhaust all CPF Ordinary Account savings before granting a loan.³⁴

Using CPF savings to pay the down payment for an HDB flat financed by a bank loan

With effect from 1 Jan 2004, new buyers would have to pay Y% down payment by cash.

The balance of the down payment (20% - Y) can be paid using CPF.

Joint Home Ownership

Immediate family members (e.g. parents, spouse, children and siblings) who are co-owners can jointly use their Ordinary Account savings to pay for their HDB flat.

Upgrading and Repairs

Members can use the savings in Ordinary Account to pay the upgrading costs incurred for HDB flat under the HDB Main Upgrading Program only.

CPF savings cannot be used for renovation, or improvement or repair work to the flat.

Selling the Home

Upon the sale, members need to refund, the amount withdrawn for the purchase of the flat, to the CPF account.

This includes the interest one would have earned, had the savings not been taken out.

Shortfall are not required for “topping up” with own cash if the sales proceeds are insufficient to refund the amount withdrawn for the purchase after deducting the outstanding housing loan and resale levy (if applicable).

Residential Properties Scheme

The Residential Properties Scheme allows CPF members to use their CPF savings to buy private residential properties in Singapore for home ownership or investment

Residential Properties Scheme

If not an undischarged bankrupt, members may withdraw your CPF savings to:

- make direct payment to the property developer or vendor to buy a residential property
- repay a housing loan to buy the residential property
- repay a housing loan taken to buy land and construct a house on the land

What type of property?

Members can buy residential properties in Singapore that are built on freehold or leasehold land with a remaining lease of at least 60 years.

Residential Properties Scheme

Members can use Ordinary Account savings, and the future monthly CPF contributions in this account to buy a property and/ or to pay the monthly installments of the housing loan up to **100%** of the Valuation Limit.

This Valuation Limit is the lower of the purchase price or the value of the property at the time of purchase.

The Down payment

For properties bought on or after 1 September 2002, members may use CPF to pay the second 10% down payment at the time of signing the Sale and Purchase Agreement.

The first 10% down payment, however, has to be paid in cash.

CPF Investment Scheme

The CPF Investment Scheme (CPFIS) comprises the

- CPF Investment Scheme-Ordinary Account (CPFIS-OA) and
- CPF Investment Scheme-Special Account (CPFIS-SA).

The schemes give CPF members more options in investing their CPF savings, while meeting the long-term objective of financial security in old age.

Warning

- Members are advised to exercise prudence when they invest their CPF savings under the CPF Investment Scheme.
- No one can guarantee that investments will always be profitable or that investment products included under CPFIS will always earn profit.
- CPF members have to decide for themselves how to invest their savings and what risks to accept.

Warning

- If members are not confident of investing on their own or do not wish to risk their savings, they can always keep their money with the CPF Board and earn the guaranteed risk-free interest.

CPF Investment Scheme-Ordinary Account (CPFIS-OA)

- Full Ordinary Account savings can be invested in:
 - Fixed Deposits
 - Singapore Government Bonds
 - Statutory Board Bonds
 - Bonds Guaranteed by Singapore Government
 - Annuities
 - Endowment Insurance Policies
 - Investment-linked Insurance Products
 - Unit Trusts
 - Exchange Traded Funds
 - Fund Management Accounts

CPF Investment Scheme-Ordinary Account (CPFIS-OA)

- Full Ordinary Account savings can be invested in:
 - Shares
 - Property Funds (or real estate investment trusts)
 - Corporate Bonds
- Up to 10% of investible savings can be invested in:
 - Gold

CPF Investment Scheme-Special Account (CPFIS-SA).

- Full Special Account savings can be invested in:
 - Fixed Deposits
 - Singapore Government Bonds
 - Statutory Board Bonds
 - Bonds Guaranteed by Singapore Government
 - Annuities
 - Endowment Insurance Policies
 - Selected Investment-Linked Insurance Products
 - Selected Unit Trusts
 - Selected Exchange Traded Funds

Can savings from the Ordinary Account and Special Account be combined to buy a product?

- No.
- However, members can transfer funds from your Ordinary Account to your Special Account to invest under CPFIS-SA.
- Such transfers are irreversible.
- The total savings in the Special Account including the amount withdrawn under CPFIS-SA cannot exceed the prevailing Minimum Sum after the transfer.

Applying to use CPF savings under the scheme

- Ordinary Account
 - Members should open a CPF Investment Account with one of the CPFIS agent banks (DBS Bank, OCBC Bank, UOB Bank)
 - agent banks will liaise with the Board and the various product providers to settle purchase and sale of investment, and keep track of investment holdings and transactions in your CPF Investment Account.

Applying to use CPF savings under the scheme

- Special Account
 - CPF Board will liaise with the various product providers to settle purchase and sale of investment, and keep track of investment holdings and transactions.

The Role of Agent Banks

- The agent banks are appointed to maintain members' CPF Investment Accounts under the CPFIS-OA as they have an extensive network of branches and facilities to support the investment and settlement of shares and bonds listed on the Singapore Exchange.
- The agent banks' electronic banking services such as ATMs are easily accessible and allow members to conveniently apply for shares or bonds during an IPO.
- The banks are also able to handle the complex processing of corporate actions such as bonus and rights issues, dividend payments and schemes of arrangement under the CPFIS-OA.

Transferring Funds between Agent Banks

- Members may transfer CPF Investment Account from one agent bank to another.
- They need NOT sell investments, except for investment in gold.
- All investments and cash balances will be transferred along with CPF Investment Account.

Where to buy to products?

- Fixed Deposits: Deposit Banks
- Singapore Government Bonds Bond Dealers
- Statutory Board Bonds: Bond Dealers or Brokers
- Bonds Guaranteed by Singapore Government Brokers
- Annuities, Endowment Insurance Policies, Investment-Linked Insurance Products Insurance Companies
- Unit Trusts and Fund Management Accounts Fund Management Companies
- Shares, Property Funds, Corporate Bonds, Exchange Traded Funds Brokers
- Gold Agent Banks

Topping-up CPF Investment Account under CPFIS-OA with cash

- Cash top-ups are NOT allowed, except in the case of taking up entitlements or conversion of entitlements.
- Members may top-up your CPF Investment Account through your agent bank if you have insufficient CPF savings to subscribe for the entitlements or conversion.
- However, such cash top-ups are not withdrawable, even if applications are unsuccessful.

Purchasing a regular premium insurance policy under CPFIS

With effect from 1 January 2001, CPF savings cannot be used for new regular premium insurance policies.

Only Single Premium or Recurring Single Premium insurance policy is allowed under CPFIS-OA and CPFIS-SA.

Liquidation of Investment

- **CPFIS-OA**

- When members sell their investments, the sale proceeds will be credited into their CPF Investment Account.
- The monies will remain in the CPF Investment Account unless they instruct your agent bank to effect the refund into your CPF Ordinary Account.

Liquidation of Investment

- **CPFIS-SA**

- When members sell their investments, the sale proceeds will be credited into the CPF Special Account.

Investment Profits and Losses

Profits made from investments under the CPFIS-OA or CPFIS-SA are NOT withdrawable as the purpose of investing is to grow your savings for retirement.

However, the profits can be used for other CPF schemes, subject to the terms and conditions of these schemes.

Tax Treatment of Gains

- Investment profits and interest earned from investments are not taxable under CPFIS.
- In addition, income received from CPFIS annuities that are paid directly to members as cash will not be taxable.
- However, dividends received from direct investment in stocks are taxable at member's individual tax rate if the company is under the Full Imputation Tax System.

How about losses?

- Members need NOT make good their loss any longer

Withdrawals at 55

Investments will be released to the member when he/she withdraws CPF savings at age 55, AFTER setting aside the Required CPF Minimum Sum and Medisave Required Amount.

Withdrawals at 55

However, if a member is unable to set aside the Required CPF Minimum Sum and Medisave Required Amount, investments will NOT be released.

Upon liquidation of investments, the proceeds will be credited to the CPF Investment Account for CPFIS-OA or Special Account for CPFIS-SA.

Up to half of all new contributions (including your proceeds from sale of investments) will be transferred to top-up the shortfall in your Retirement and/or Medisave Accounts when the member makes an application to withdraw your CPF savings.

Estate Issues

CPFIS investments, except for fixed deposits under CPFIS-SA, are not covered by CPF Nomination.

When a member passes away, the investments (e.g. shares, unit trusts, bonds) and cash balance in the Investment Account will form part of the deceased's estate, and will be distributed accordingly to the beneficiaries of the estate.

Insurance policies also generally form part of the deceased's estate.

In the case of NTUC Income, a member has the choice to make a nomination of beneficiaries to receive the insurance money.

Final note on the CPFIS....

- ***“The public must learn to make investment decisions for themselves, and take responsibility for the outcomes, good or bad.***
- ***Just because a stock is listed on the SES, and CPF savings can be used to buy SES stocks, does not mean that all SES stocks are good investments, much less that the SES or the Government has endorsed the stocks.”***

*Deputy Prime Minister (now the
Prime Minister)
LEE Hsien Loong
4 November 1997
SESDAQ's 10th Anniversary Dinner*

Dependants' Protection Scheme

- The Dependants' Protection Scheme (DPS) is an optional term-life Insurance Scheme which covers members for an insured sum of \$44,000 up to age 60.
- The Scheme is aimed at providing CPF members and their families with some money to tide them over the first few years should the insured members become physically/mentally incapacitated or die.
- The claim will be paid to the insured member if he becomes physically/mentally incapacitated, or to his CPF nominee(s) upon his death.

Premiums

The premium payable depends on age at last birthday.

Premiums are payable once a year, based on age group and are regardless of sex.

34 and Below	\$ 36
35-39	\$ 48
40-44	\$ 84
45-49	\$144
50-54	\$228
55-59	\$360

Premiums

- The premium will be paid from CPF Ordinary Account and/or Special Account.
- If a member does not have enough CPF savings to pay the premium for the maximum cover of \$44,000, he/she can either pay the difference in cash or be insured for a lower amount.

Education Scheme

- *The Education Scheme helps pay for members' children's or own local education at approved institutions.*
- The scheme covers all approved full-time undergraduate courses leading and approved full-time diploma courses
- Part-time courses, postgraduate courses and overseas education are not included in the scheme

Education Scheme

- Overseas education is not covered
- Local education at approved institutions is heavily subsidized. Students should thus be able to repay the CPF savings used.
- On the other hand, overseas education is very costly. If the student is unable to repay the CPF savings used, it would have serious consequences on the parents' or his own retirement savings.

The education entitlement....

- Members can use up to 40% of accumulated Ordinary Account savings, or the remaining balance in the Ordinary Account after setting aside any amounts reserved for housing or other schemes (if any), whichever is the lower, and subject to the amount of tuition fees payable.
- This is made up of the balance in your Ordinary Account plus Ordinary Account savings already withdrawn for education and investments (the amount used for housing is excluded).

Whose CPF Savings?

- A student can use his own CPF savings, his spouse's and his parents' (including step-parents') CPF savings.
- The Board will only consider the use of sibling's or relative's CPF savings on a case-by-case basis.
- For such cases, the student is required to write in stating his reasons for his request as well as submit documentary evidence such as birth certificates to establish the relationship of the CPF member and the student, together with his application form.

....Repayment

- Repayment starts one year after the student graduates or one year after he leaves the course, whichever is earlier.
- The student has to repay the full amount of CPF savings withdrawn and the interest which is computed from the time the savings are withdrawn.
- The amount repaid will be credited to the CPF account of the member whose savings have been used.
- The repayment can be made in one lump sum or in monthly installments over a maximum period of 12 years.
- For outstanding amounts of up to \$10,000, the minimum repayment per month is \$100.

Home Protection Scheme

- *The Home Protection Scheme (HPS) is a mortgage reducing insurance which protects CPF members and their families against losing their homes should members become physically/mentally incapacitated or pass away before their housing loans are paid up.*

Home Protection Scheme

- Members who are using their CPF savings to pay their monthly housing installments on their HDB flats have to be insured under HPS.
- However, this is subject to members' eligibility for coverage based on their health.
- HPS insures members up to 65 years of age.
- If a member is not using CPF savings towards the monthly housing installments, HPS is optional to.

Home Protection Scheme

- The premium is calculated based on the following factors:
 - outstanding housing loan
 - loan repayment period
 - type of loan (concessionary or market rate)
 - sex and age of the member
 - (Premiums are generally higher for loans of larger amounts or longer repayment periods. The premiums would be lower for younger persons and females.)
- **The premium will be deducted automatically from members' CPF Ordinary Account annually.**

Claim settlement

- The Board will liaise directly with HDB or the approved mortgagee to settle the outstanding housing loan up to the insured sum.
- Members or the joint owners will be informed once the claim payment has been made.

Exclusions

- No claim will be paid by the Board if :
 - members were not in good health or were mentally/physically incapacitated before the commencement of their covers.
 - members provided false or misleading information in their application for HPS cover.
 - members committed self-inflicted injury or suicide within the first policy year of the HPS cover.
 - the death or incapacity of members arose from wars or any warlike operations or participation in any riot.
 - members committed a criminal offence punishable by death within the first policy year of HPS cover.

MediShield and MediShield Plus

- MediShield is a catastrophic medical insurance scheme that will help member and dependents meet the costs of treatment for serious illnesses or prolonged hospitalizations.

MediShield and MediShield Plus

- MediShield pays up to \$150 a day which will help cover a large portion of the daily hospitalisation expenses in Class C or B2 wards.
- Those who want a higher coverage can apply for MediShield Plus - Plan A or Plan B.
- MediShield Plus pays more - up to \$625 a day under Plan A and \$375 a day under Plan B - but costs more.
- MediShield Plus Plan A and Plan B should meet a significant portion of your hospitalisation expenses in Class A or B1 wards respectively.
