Communicating Assurance in Retirement: Singapore’s experience

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Singapore’s rapidly aging population puts pressure on retirement savings

**Rising life expectancy**

At age 65, **1 in 2** expected to live beyond age **85**

**1 in 3** expected to live beyond age **90**

**Declining old-age support ratio (5.1)**

![Graph showing declining old-age support ratio from 1970 to 2017.]
The CPF: cornerstone of Singapore’s retirement system

Compulsory participation for all employed Singapore Citizens and Permanent Residents

Supports 3 basic needs in retirement

Employee

Employer

Fully-funded system, individual accounts

Home-For-Life

Healthcare-For-Life

Income-For-Life
Lifecycle support through the CPF

### Accumulation Phase
- **Employer’s contribution (17%)**
- **Employee’s contribution (20%)**
- **ORDINARY ACCOUNT**
  - Primarily for housing & retirement needs
- **SPECIAL ACCOUNT**
  - For retirement needs

### Decumulation Phase
- **RETIREMENT ACCOUNT**
  - Can be used to purchase CPF LIFE annuity
- **CPF LIFE**
  - Monthly payouts for life
  - Annuity Scheme

**For personal or immediate family’s medical expenses**
It is challenging to plan for retirement

- Cognitive biases make it difficult to assess options and make plans
- Difficult to commit to a long-term decision

**Hyperbolic Discounting:** Apathy and unrealistic expectations towards retirement

**Balancing Different Needs:** Short-term vs. long-term

**Complexity:** Need to understand and navigate complex system/choices
How can we engage people on retirement planning?

- Overcome behavioral biases
- Highlight tangible trade-offs/benefits
- Make it simple, Make it salient
Provide a range of Retirement Sums to help members aim for retirement income goals

**Retirement Sums**: Helps members estimate savings required to achieve their retirement income goal

**Trade-offs**: Payout from 65 vs. partial lump-sum withdrawals at 55 and 65

<table>
<thead>
<tr>
<th>Retirement Sum</th>
<th>Savings goals at age 55</th>
<th>Top-up/Retain</th>
<th>With housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Retirement Sum</td>
<td>S$85,500 (US$62,000)</td>
<td></td>
<td>S$766 (US$559)</td>
</tr>
<tr>
<td>Full Retirement Sum</td>
<td>S$171,000 (US$125,000)</td>
<td>S$1,404 (US$1,025)</td>
<td></td>
</tr>
<tr>
<td>Enhanced Retirement Sum</td>
<td>S$256,500 (US$187,000)</td>
<td></td>
<td>S$2,042 (US$1,490)</td>
</tr>
</tbody>
</table>

Monthly payout for life from age 65
CPF LIFE: salient and simple choices for annuity plans

**Nudging**: Use default option to nudge behaviour. Otherwise, members may choose at random or not choose at all.

**Distinct proposition**: Each plan comes with a distinct proposition to simplify decision making.

- **Standard Plan**: More for self [default]
- **Basic Plan**: More for loved ones
- **Escalating Plan**: More for future
Visualising the differences among the annuity plans

Payout

Bequest

Standard Plan  More for self

Basic Plan  More for loved ones

Escalating Plan  More for future

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Communicating uncertainty in payout projections

Payouts are actuarially fair

- Yearly review to take into account mortality experience, investment returns and actual expenses
- Small and gradual adjustments
- Ensures sustainability and avoid inter-generational transfers

Monthly payout for a Full Retirement Sum of S$171,000 (US$125,000) in 2018:

- **STANDARD PLAN**
  - S$1,336 - $1,473
  - (US$975 - $1,075)

- **BASIC PLAN**
  - $1,215 - $1,344
  - (US$887 - $981)

- **ESCALATING PLAN**
  - $1,048 - $1,167
  - (US$765 - $852)
## Applying behavioural cues in member engagement

<table>
<thead>
<tr>
<th>Behavioural Cue</th>
<th>Example</th>
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<tbody>
<tr>
<td>Messenger</td>
<td>Use of trusted/loved ones to convey intended messages</td>
</tr>
<tr>
<td>Incentives</td>
<td>Illustrate tangible benefits: “Every dollar in your Special Account will more than double in 20 years”</td>
</tr>
<tr>
<td>Norms</td>
<td>Show that fellow Singaporeans are talking about retirement planning by using real people and families</td>
</tr>
<tr>
<td>Framing</td>
<td>Position and draw relevance between retirement planning and CPF LIFE. Instilling the feeling of inclusiveness.</td>
</tr>
<tr>
<td>Affect</td>
<td>Emotive portrayal of real families talking about retirement planning. Shows that the process of retirement impacts everyone in the family.</td>
</tr>
</tbody>
</table>

*Source: CPF Board*
Providing assurance and nudges through Yearly Statement of Account

**Yearly Statement of Accounts**

**FINANCIAL TIP**

With every $1,000 you transfer now from your Ordinary Account (OA) to your Special Account (SA), you will earn an additional interest of:

$353 by age 65.

The transfer is subject to terms and conditions, and is irrevocable. *Interest earned is estimated based on current OA interest rate of 2.5% p.a. and SA interest rate of 4% p.a. and assuming the transfer is done in January 2018.*

**FINANCIAL TIP**

Build up your retirement savings by topping up your CPF account. With a $7,000 top-up to your Special Account, this amount will grow up to:

$10,000 in 10 years.

Enjoy tax relief if you make a cash top-up to yourself.

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**SUPPORTING YOUR GOLDEN YEARS**

**CPF LIFE**

You are on CPF LIFE BASIC PLAN

From age 65, you will receive an estimated monthly retirement payout of $462 - $491.

The monthly payout was estimated based on your CPF LIFE policy. We will inform you of your exact monthly payout nearer your payout eligibility age.

**GROW YOUR MONEY FASTER**

Top up your Retirement Account with cash or CPF savings. Savings in the Retirement Account currently earn up to 6% interest p.a.*

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*For more information, visit cpf.gov.sg

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Source: CPF Board

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Personalised 1-to-1 session to help members navigate their retirement options

- CPF members are invited to 1-to-1 personalized CPF retirement planning service at major milestones of age 55.
- Covers key decision that members need to make such as:
  - How much savings to retain or top-up in Retirement Account.
  - Housing monetization options to supplement retirement income.

Source: CPF Board
Communicating Assurance in Retirement

Overcome behavioural biases
- Information architecture – retirement goals and focusing on income stream
- Make decisions where and when it matters

Highlight tangible trade-offs/benefits
- Make well informed decisions

Make it simple, Make it salient
- Choice architecture – defaults, fewer choices with distinct proposition
Thank you!