About the Central Provident Fund

INTRODUCTION

Social Security Framework

Singapore's social security framework is founded on the principles of self-provision and self-reliance. The responsibility to provide for one's own retirement needs lies primarily with the individual, and with his family. This reduces reliance on the state and ensures fiscal sustainability for the long-term. For vulnerable individuals unable to provide for themselves despite best efforts and who have no other sources of income support, the Government administers financial assistance as well as other non-financial help measures.

The CPF has enabled every active member to save regularly to provide for his retirement needs

The Central Provident Fund (CPF) is the bedrock of Singapore's social security system. It is a defined contribution scheme with individualised accounts fully-funded by both workers and employers. The comprehensive savings system provides for three essential elements of financial security: retirement, home ownership and healthcare. The CPF has enabled every active member to save regularly to provide for his retirement needs. It has also enabled Singapore to become a nation of home owners, giving everyone a stake in the nation. The CPF healthcare savings and insurance schemes - Medisave and MediShield - are key components of the national healthcare system, facilitating the provision of high quality medical care to all Singaporeans.

CPF Board

The CPF Board was established on 1 July 1955 to provide financial security for workers in their retirement or when they are no longer able to work. Over the years, it has evolved into a comprehensive social security savings scheme, which not only takes care of CPF members' retirement needs, but also their housing, healthcare and family protection needs.

The CPF Board's mission is to enable Singaporeans to have a secure retirement

The CPF Board's mission is to enable Singaporeans to have a secure retirement, and its vision is to be a world-class social security organization enabling Singaporeans to have a secure retirement. It has a staff strength of about 1,600 people, organised under three main business groups, namely, the Services Group, the Infocommunication Technology Services Group and the Policy & Corporate Development Group.

Governance Structure of CPF Board

CPF Board is a statutory authority under the purview of the Minister for Manpower and is the trustee of the Central Provident Fund

The CPF Board is established by legislation as a statutory authority under the purview of the Minister for Manpower and is the trustee of the Central Provident Fund, into which all member contributions are made. The Board is headed by a Chairman appointed by the Minister, and includes representatives from the government, employer federations and trade unions. This composition facilitates active tripartite engagement so as to ensure that interests of all stakeholders are taken into account in carrying out the Board's duties. The Board is responsible for the custody of the CPF Fund and the administration of CPF schemes, including the collection of contributions and payment of benefits.

Separately, CPF Board also manages the administration of the Home Protection Insurance Scheme (HPS), a national mortgage term insurance scheme for public housing, as well as MediShield, the basic national catastrophic health insurance scheme.

Funding and Investment Activities of CPF Board

CPF members are not directly exposed to investment risks as the CPF Board invests their savings in special securities issued by the Government, which pay the Board the same interest rates that members receive. Insurance funds are managed separately and are invested in a diversified range of assets including equities and fixed income instruments.

Participation and Coverage

Participation in the CPF scheme is compulsory for all employed Singapore Citizens and Permanent Residents, and their employers

Participation in the CPF scheme is compulsory under law for all employed Singapore Citizens and Permanent Residents (including all in part-time, temporary and full-time employment), and their employers. For the self-employed, partial contribution (to their healthcare savings) is mandatory.

As of 31 December 2009, CPF membership stood at approximately 3.29 million, with 1.64 million making regular contributions. Over 90% of the resident workforce is covered by the CPF system.

Tax Incentives

Mandatory CPF contributions are tax-exempt, as are the returns on CPF balances (with the exception of Singapore dividends which are taxable at members' individual tax-rate). Withdrawals are also exempted from income tax. This favourable tax treatment is in recognition of Singaporeans setting aside savings for their retirement. Tax relief of up to $7,000 is also applicable for voluntary contributions made to the Special or Retirement Account.

Nomination

CPF members can nominate specific beneficiaries for their CPF savings. If the member has no valid nomination at the time of his demise, his CPF savings will be transferred to the Public Trustee and distributed in accordance with intestacy laws. These savings exclude cash and investments held under the CPF Investment Scheme, as well as properties bought with CPF savings, which will form part of the member's estate and distributed in accordance with prevailing laws.

SAVINGS ACCUMULATION

Contribution Rates

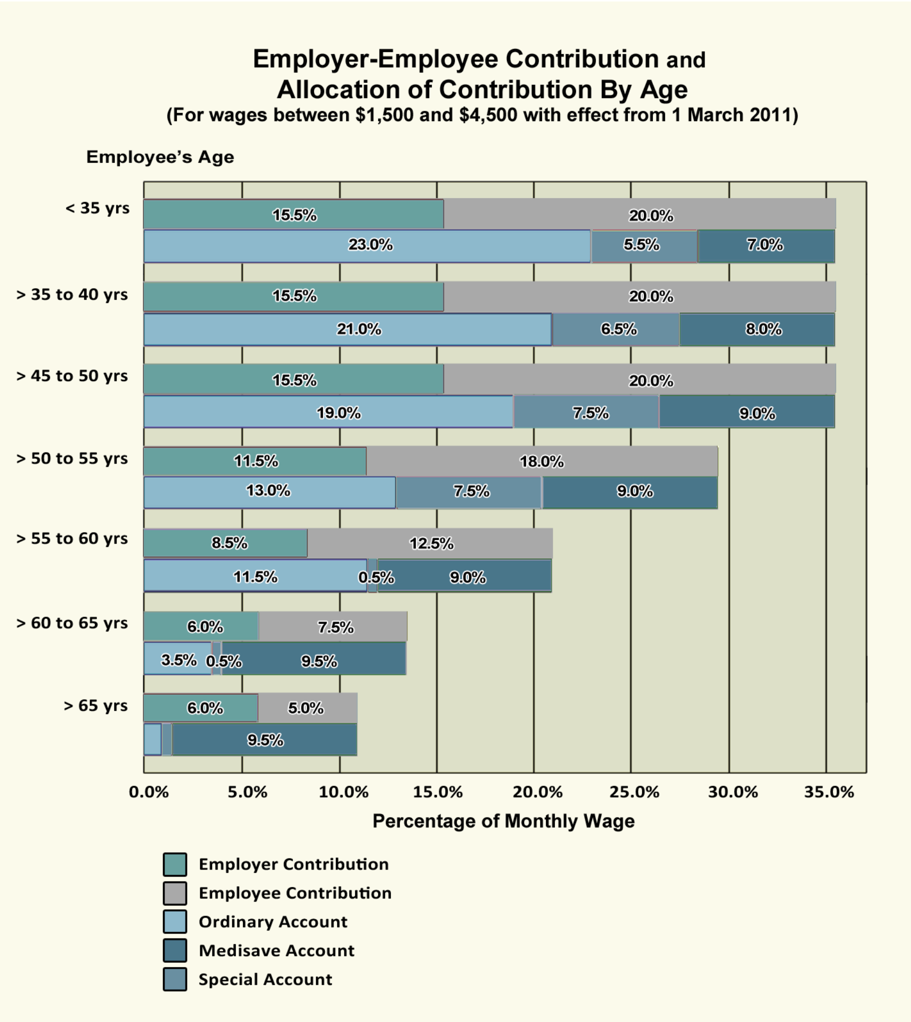
From 1 March 2011, members below age 50 contribute 20% of monthly wages to their individual CPF accounts and their employers contribute 15.5%, making a total of 35.5%. Contribution rates are lower for members above age 50 and for those earning below $1,500 a month. The maximum monthly wage for CPF contribution purposes is currently set at $4,500.

Employees contribute to CPF as long as they earn more than $500 a month

Employers contribute to CPF for employees earning more than $50 a month

Employees contribute to CPF as long as they earn more than $500 a month. Employee contributions vary from 0% to the full contribution rate (20%), depending on the employee's age and level of income. Employers contribute to CPF for employees earning more than $50 a month. The full employer contribution rate of 15.5% is payable for all employees below age 35. For employees above age 35, the employer's contribution varies from 0% to the full contribution rate, depending on the level of employees' income.

Subject to an annual limit, members can also voluntarily contribute to their CPF accounts over and above their mandatory contribution to build up their retirement savings.



Members' Accounts

Members' CPF contributions are credited to three accounts, with age-dependent allocation rates to each of these accounts

As at 31 December 2009, members' net balances in their CPF accounts totalled S$166.8 billion, while members' regrossed balances totalled S$339.6 billion. Members' CPF contributions are credited to three accounts, with age-dependent allocation rates to each of these accounts.

Ordinary Account (OA)

OA savings can be used for housing purchase, investment and other approved purposes. A higher OA contribution at the start of the individual's working life allows CPF members to purchase their first home earlier.

Special Account (SA)

SA savings are dedicated for retirement and can be used for investment in retirement-related financial products.

Medisave Account (MA)

MA savings help members meet their own or their immediate family's hospitalisation expenses. The percentage credited into MA increases with age as individuals' need for medical care increases significantly as they age.

Returns

CPF savings earn a minimum guaranteed return of 2.5% p.a.

CPF savings earn a minimum guaranteed return of 2.5% p.a. OA savings earn a market related interest rate based on the 12-month deposit and month-end savings rates of the major local banks. The interest rate is revised every three months and as legislated in the CPF Act, is subject to a minimum guaranteed floor rate of 2.5%.

SA and MA savings earn a return pegged to a long-term bond rate (4% p.a. currently). An extra 1%p.a. interest is paid on the first S$60,000 of a member's combined CPF balances, which translates into returns of up to 5%p.a..

CPF Investment Scheme (CPFIS)

CPF members with higher risk appetites can choose to invest their CPF OA and SA savings in excess of a certain threshold in approved products under the CPFIS to earn higher returns. The amount available for investment can be placed in fixed deposits, or used to purchase government related bonds, insurance as well as unit trusts and Exchange Traded Funds.

For investment using OA savings, up to 35% can be invested in shares, property funds and corporate bonds and up to 10% can be used to buy gold through approved agent banks. Profits made from investments under the CPFIS cannot be withdrawn as the purpose of investing is to grow savings for retirement.

SAVINGS DECUMULATION

Retirement Income

The Retirement Account (RA) is opened for members when they reach the age of 55

Withdrawals at Age 55

A fourth account, the Retirement Account (RA) is opened for members when they reach the age of 55. Members may withdraw a lump sum from their CPF savings when they turn 55, but must first set aside the CPF Minimum Sum (currently $123,000) in their RA and the Medisave Minimum Sum (currently $34,500) in their MA.

CPF Minimum Sum Scheme

Members will receive monthly payouts from the cash portion of the MS starting from the draw-down age of 62

The CPF Minimum Sum (MS) set aside in the RA is for the purpose of providing members a steady income stream post-retirement. Up to 50% of the MS can be set aside in the form of property pledge. Members will receive monthly payouts from the cash portion of the MS starting from the draw-down age of 62 until the entire sum is fully consumed. Members who set aside the full Minimum Sum can expect to receive payouts for about 20 years.

CPF LIFE: A New Scheme

CPF LIFE was introduced in September 2009. The scheme provides CPF members with an income for life

To address the challenges of increasing life expectancy and an ageing population, a new life annuity scheme termed ‘CPF LIFE’ (i.e. Lifelong Income Scheme For The Elderly) was introduced in September 2009. The scheme provides CPF members with an income for life, an improvement over the existing arrangement where payouts would cease after about 20 years.

The plans differ in the level of the monthly payout and the amount of bequest

A member may enter CPF LIFE from age 55 onwards, using his RA savings to pay the premium for one of four plans - the LIFE Basic, Balanced, Plus and Income plans. The plans differ in the level of the monthly payout and the amount of bequest that the member wants to leave for his beneficiaries. The member will receive a lifelong monthly income from the draw-down age which is currently 62 but will be progressively increased to 65. To ensure the long-term sustainability of the scheme, payouts may be adjusted to reflect actual investment and mortality experience.

However, recognising that monthly payouts should not fluctuate significantly, CPF LIFE monies[1] are invested in special Government bonds which have coupon rates fixed for a longer period than that for SA and MA monies. CPF LIFE monies will earn the weighted average interest rate of the entire portfolio of long-term bonds, providing stability to monthly payouts.

Members turning 55 from 2013 onwards will be automatically included in the CPF LIFE scheme. To encourage Singapore citizens born before 1963 to join CPF LIFE voluntarily, the government has provided a bonus incentive of up to $4,000.

[1] Retirement Account monies are also invested in the same special Government bonds as the CPF LIFE monies.

BENEFITS

CPF savings may be withdrawn before age 55 under various approved schemes for asset-enhancement and to support various social objectives

CPF savings may be withdrawn before age 55 under various approved schemes for asset-enhancement and to support various social objectives, such as education, home ownership, and family protection. The withdrawal of CPF savings is allowed provided members meet certain requirements to safeguard their retirement funds.

Housing

Under the Public Housing Scheme (PHS) and Residential Properties Scheme (RPS), members may buy public housing or private property using their OA savings. Withdrawal limits are set to ensure that members' ability to save for retirement is not compromised. Upon the sale of the property, members are required to refund to CPF the principal amount withdrawn as well as the interest that could have been earned if the monies were not withdrawn.

Healthcare

Members may use their MA savings towards the payment for hospitalisation expenses and certain outpatient treatments for themselves or their dependants. MA savings may also be used for payment of premiums of approved medical insurance schemes such as MediShield and ElderShield.

Insurance

CPF savings can be used to pay the premiums of four insurance schemes

CPF savings can be used to pay the premiums of four insurance schemes:

a. The Dependants' Protection Scheme (DPS) is a term insurance that helps members and their family to tide over the initial years should the insured member pass away or become permanently incapacitated.

b. The Home Protection Insurance Scheme (HPS) is a mortgage-reducing term assurance that protects CPF members who have used their CPF savings to buy an HDB flat. Their family will not lose their home should the insured member pass away or become permanently incapacitated.

c. MediShield is a catastrophic medical insurance scheme that helps members and their dependants meet the costs of treatment for serious illnesses or prolonged hospitalisation within Singapore.

d. ElderShield is a severe disability insurance scheme that provides insurance coverage for older CPF members who require long-term care.

Education

The CPF Education Scheme is a loan scheme to allow members to use their OA savings to support themselves or their children through full-time basic tertiary education at approved local institutions. Under the scheme, the money withdrawn has to be repaid with interest, upon the conclusion of the course.

WORKFARE

Workfare Income Supplement (WIS) Scheme

The WIS scheme is part of the Government's comprehensive Workfare policy which encourages older low-wage Singaporeans to work and undergo training to improve their employability. Administered by the CPF Board as one of its statutory functions, the scheme helps older low-wage workers who are vulnerable to wage stagnation. It rewards workers who are gainfully employed by supplementing the workers' incomes and building up their CPF savings.

To qualify for WIS, the recipient is required to work for a minimum period of 3 months over a 6-month period. The maximum WIS a year is $2,800 for employees and $1,867 for the self employed. The scheme is open to all Singapore citizens aged 35 and above with monthly income not more than $1,700, and live in a property with housing annual value not more than $11,000.

Since 2007, the Government has given out more than $300 million in WIS each year to over 300,000 recipients.

CPF BOARD ORGANISATION CHART