

Invest

Should you invest your CPF savings now?

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On April 1, a new rule on the minimum amount you must have in your CPF account before you can invest your investment monies kicks in. Lorna Tan looks at your options now

FROM April 1, those who contribute to the Central Provident Fund (CPF) will not be able to invest their retirement monies as freely as before.

This is because new rules have been imposed which require CPF members to set aside minimum amounts before they can invest their Ordinary Account and Special Account savings.

Under the new rules, a CPF member will not be allowed to invest the first \$20,000 of his savings in either the Ordinary or Special Account under the **CPF Investment Scheme**.

However, money that is invested before April 1 will not be affected.

The move is part of a reform to ensure that Singaporeans have a minimum balance in their CPF accounts to fund their golden years.

This is why an extra 1 per cent interest has been paid on the first \$60,000 of every member's combined CPF accounts, with up to \$20,000 from the Ordinary Account, since the start of this year.

For this year and the next, this means a guaranteed 3.5 per cent per annum for the first \$20,000 of savings in the CPF Ordinary Account and 5 per cent per annum for the remaining \$40,000 in the Special, Medisave and Retirement Accounts (SMRA).

Since Jan 1, the SMRA interest rate has been pegged to the 10-year Singapore Government Securities bond rate plus 1 per cent.

For the first two years, the Government has guaranteed that it will maintain the floor rate for the SMRA at 4 per cent. Thereafter, the 2.5 per cent floor rate will apply to all CPF accounts as prescribed under the CPF Act.

Of late, financial advisers have stepped up their efforts to persuade CPF members who hope to get higher returns to invest their CPF savings before the April 1 deadline.

For instance, both unit trust distributor Fundsupermart and wealth management firm [dollarDex](#) are offering funds with zero sales charges, while Phillip Securities is providing free fund switching promotions.

Should CPF members invest their CPF monies now?

Mr Ben Fok, the chief executive officer (CEO) of Grandtag Financial Consultancy, said that although leaving CPF monies untouched is the safest move, it is not necessarily the best.

First, there are several factors to consider, such as one's risk appetite and investment horizon.

Low risk appetite

WITH the stock markets in the doldrums, some experts will say that now is a good time to invest.

However, for 'very low risk' investors, leaving the money with the CPF Board is a decent option, said [dollarDex](#) CEO Chris Firth. This is because conservative investors can take comfort in knowing that there is a floor rate to their CPF savings with almost zero volatility.

In contrast, the annual volatility of returns for the MSCI World Index, MSCI's benchmark index of shares from 23 countries, could have gone as high as 16.3 per cent from 1988 to last year.

This means that the risk of getting a negative return within a calendar year is particularly high, noted Fundsupermart research manager Mah Ching Cheng.

Potentially higher returns

MS ANNE Tay, the vice-president of group wealth management at [OCBC Bank](#), said that investors should take into account the higher cost of investing the first \$60,000 of one's combined CPF accounts.

Technically, the current cost of using your funds in your CPF Ordinary Account is 3.5 per cent and for your CPF Special Account, 5 per cent. However, although the cost of funds has gone up, such rates are still not difficult to beat if one is prepared to take a longer-term view and is also able to take the investment risks, she said.

So, for those who expect to do better than the CPF interest rates, it makes sense to make their retirement savings work harder by investing now before the rule on the minimum amount kicks in.

Assuming an annualised return of 6 per cent over 20 years, Ms Tay worked out that investors who invest \$60,000 of their CPF savings can expect to reap \$192,400. When compared with leaving the savings with the CPF Board at the assumed rates of 3.5 per cent for \$20,000 in the Ordinary Account and 4 to 5 per cent for \$40,000 in the SMRA, investing the monies reaps an additional \$54,100.

When a higher return of 7 per cent is assumed over 20 years, the difference is a substantial gain of \$93,800.

A diversified portfolio

OF COURSE, there are investment risks, but financial experts say these can be mitigated if one has a longer- term investment view and a diversified portfolio.

Mr Fok cautioned that for CPF investments, one should always adopt a balanced risk-to-reward approach. This means not taking high risks by investing heavily into a particular sector or single country funds.

'As diversification can reduce risk, your portfolio should be well-diversified across asset classes, geography and sectors. If you don't have the expertise to monitor or rebalance it, then investing in a balanced fund (where the funds are invested in bonds and equities) is the best approach.'

For those who prefer to have a balanced portfolio, Ms Tay suggests allocating half their investments to equity and the remainder to bonds. She added that the equity portion can be split further between global equities and Asia ex-Japan equities such as in the AIGIF Acorns of Asia Balanced Fund, Aberdeen Pacific Equity Fund and First State Bridge Fund.

Mr Leong Sze Hian, the president of the Society of Financial Service Professionals, proposed that Ordinary Account savings be invested in a globally diversified portfolio of approximately 50 per cent equities, 10 per cent commodities and 40 per cent bonds. For Special Account funds, he suggests a globally diversified portfolio of about 60 per cent equities and 40 per cent bonds.

Special Account monies

WHILE Mr Fok is for investing Ordinary Account monies which attract an interest of 3.5 per cent with the CPF Board, he feels that the SMRA monies should be left untouched.

This is because the current SMRA interest is 5 per cent per annum for the first two years, which to him is a 'respectable risk-free rate'.

'I will not invest this money but will let it grow at the risk-free rate as this money will supplement your retirement income,' he said.

Current market instability

FOR investors wary of the current market instability but who want to participate in equity funds at a later stage, short-term money market instruments are an interim option.

These include fixed income and money market funds which are low-risk investments that are typically not affected by the volatility in global equity markets.

By investing their CPF monies prior to April 1, CPF members will not have to worry about the new restrictions as their investments will be considered invested and will thus be readily available for future investments.

Cater for emergency needs

ALTHOUGH it is good to constantly make one's monies work harder, the CPF Board cautions members not to overstretch themselves and invest every cent of their retirement funds.

It reminds investors that it is prudent for members to have some cash balance in the Ordinary Account for emergency needs so they can continue to fund housing instalments and their children's tertiary education, and maintain insurance cover.

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Not hard to better CPF rates

'Although the cost of funds has risen, such rates are still not difficult to beat if one is prepared to take a longer-term view and is also able to take the investment risks.' MS ANNE TAY, on the rate of returns you forgo when investing CPF funds: 3.5 per cent for monies in your Ordinary Account and 5 per cent for savings in your Special Account

Diversify to lower risk

'As diversification can reduce risk, your portfolio should be well-diversified... If you don't have the expertise to monitor or rebalance it, then investing in a balanced fund is the best approach.' MR BEN FOK, referring to funds that are invested in both bonds and equities Not hard to better CPF rates