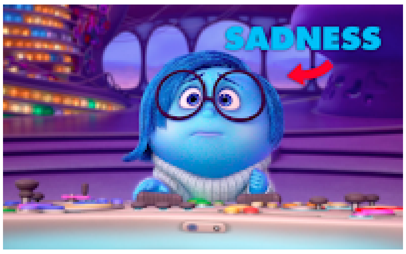
How We Can Get More from the Government in Our CPF

Description

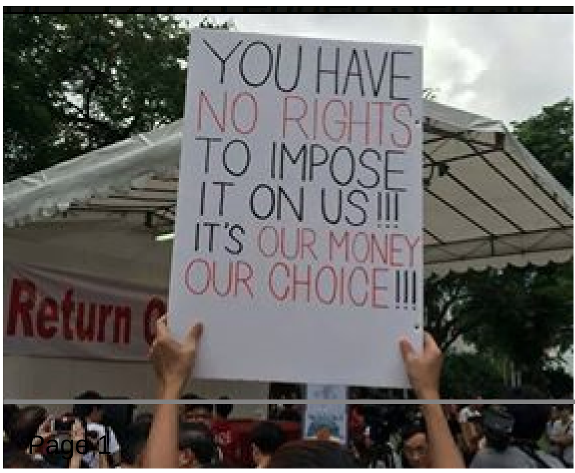
The issue of CPF was a popular one during elections season raised by many of the opposition parties, especially given how thorny the issue is.

Indeed, the CPF system is a painful one. As a fresh graduate earning on $2,500 not too long ago, it was depressing to only get slightly more than $1,800 each month for living expenses. (If you're thinking that should be $2,000 instead, you're right – I actually suspect now that the accounts were incorrect, but back then I wasn't financially savvy enough to flag out my employer for it. Oh well.)



So what were the different opposition parties saying about the CPF? I won't go into detail here, but if you're interested, [here's a really skeptical breakdown provided by MoneySmart](#) that I like.

With the exception of the Workers' Party, I personally think that the rest of the opposition parties got it wrong.



AK has got some really good pieces on CPF but there's one main article highlighting the facts that I think every Singaporean should know. I've combined his words (in blue) with some additional points of my own below. (Thanks AK!)

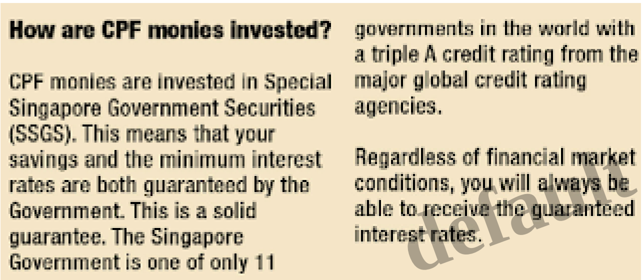
As written by Kelvin Tan (The Edge, June 2014):

1. It is not easy beating the Ordinary Account's guaranteed interest rate of 2.5%

"It may sound easy, but beating the OA's guaranteed annual interest rate of 2.5% is by no means an effortless task for CPF members who are looking to grow their savings under the CPFIS (CPF Investment Scheme).

Indeed, only 15% of CPF members who sold their CPFIS-OA investments for FY2013 ended September 30 made profits in excess of the OA interest rate of 2.5%.

42% of these CPFIS-OA investors actually incurred losses in FY2013?.



How are CPF monies invested?

CPF monies are invested in Special Singapore Government Securities (SSGS). This means that your savings and the minimum interest rates are both guaranteed by the Government. This is a solid guarantee. The Singapore Government is one of only 11 governments in the world with a triple A credit rating from the major global credit rating agencies.

Regardless of financial market conditions, you will always be able to receive the guaranteed interest rates.

2. Your Special Account funds are already earning decent returns of 4% – 5% annually.

"While it makes sense for savvy long-term investors to invest their excess OA money, some financial advisors advise their clients not to take any risks with their SA money which is already earning decent returns of 4% to 5% a year."

3. What can you do to maximize your CPF earnings?

If you're generally risk averse, you can consider transferring the funds in your OA to SA, where you can earn higher interest rates.

Many financially savvy folks who know how to take advantage of the CPF system for their own benefit are already contributing cash to top up their SA to the Minimum Sum, which also allows them to enjoy tax reliefs of up to $7,000 per calendar year.

“Singaporeans should look at their CPF SA like the bond portion of their overall portfolio… In their retiring years, they should look at their CPF Life as their annuity investment, giving them a monthly amount for life.

Singaporeans who generally have little in their CPF accounts should start saving more, do early retirement planning and invest prudently with a long-term view to growing their nest eggs rather than demand higher interest rates on their CPF savings.”

“As for Singaporeans who have highlighted that other countries such as Malaysia and India pay higher interests in similar pension schemes, my view is that they forget our Singapore dollar is rated AAA and has appreciated against the currencies of many other countries”, said William Cai, a GYC financial advisor.

AK’s question was:

“Will you rather make Singapore dollars and receive 4% per annum in risk-free rates, or be making Ringgit or Rupees and receive 6% instead?”

4. Budget Babe’s recommendations on CPF

Why do a lot of people favour the opposition’s calls for #ReturnOurCPF, especially for a lump sum withdrawal at age 55?

My guess is grounded in basic human psychology – given a choice between immediate benefits and delayed gratification, most people tend to choose the former.

But if you’re willing to deal with the short-term pain, you are going to be heavily rewarded later on.

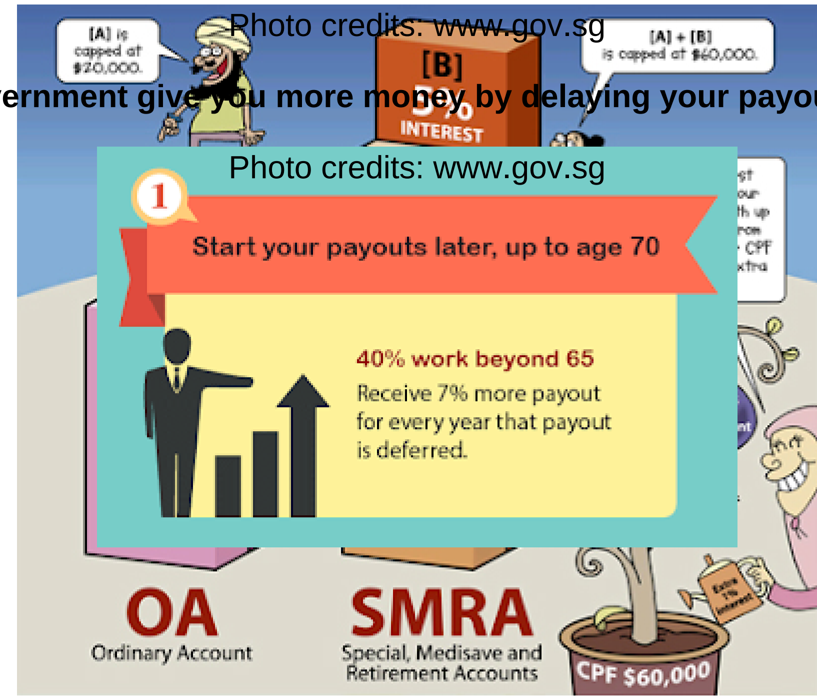
Step 1: Earn more money from the government by maximizing your SA.
Contributing $500 in cash every month is a good start.

The interest rates for our SA is the highest among all our CPF accounts. If we start channeling more money into our SA early enough, we will soon see the magic of compounding setting in.

How many investments give you a guaranteed interest rate of 4% – 5%, RISK-FREE?

Photo credits: www.gov.sg

Step 2: Make the government give you more money by delaying your payouts

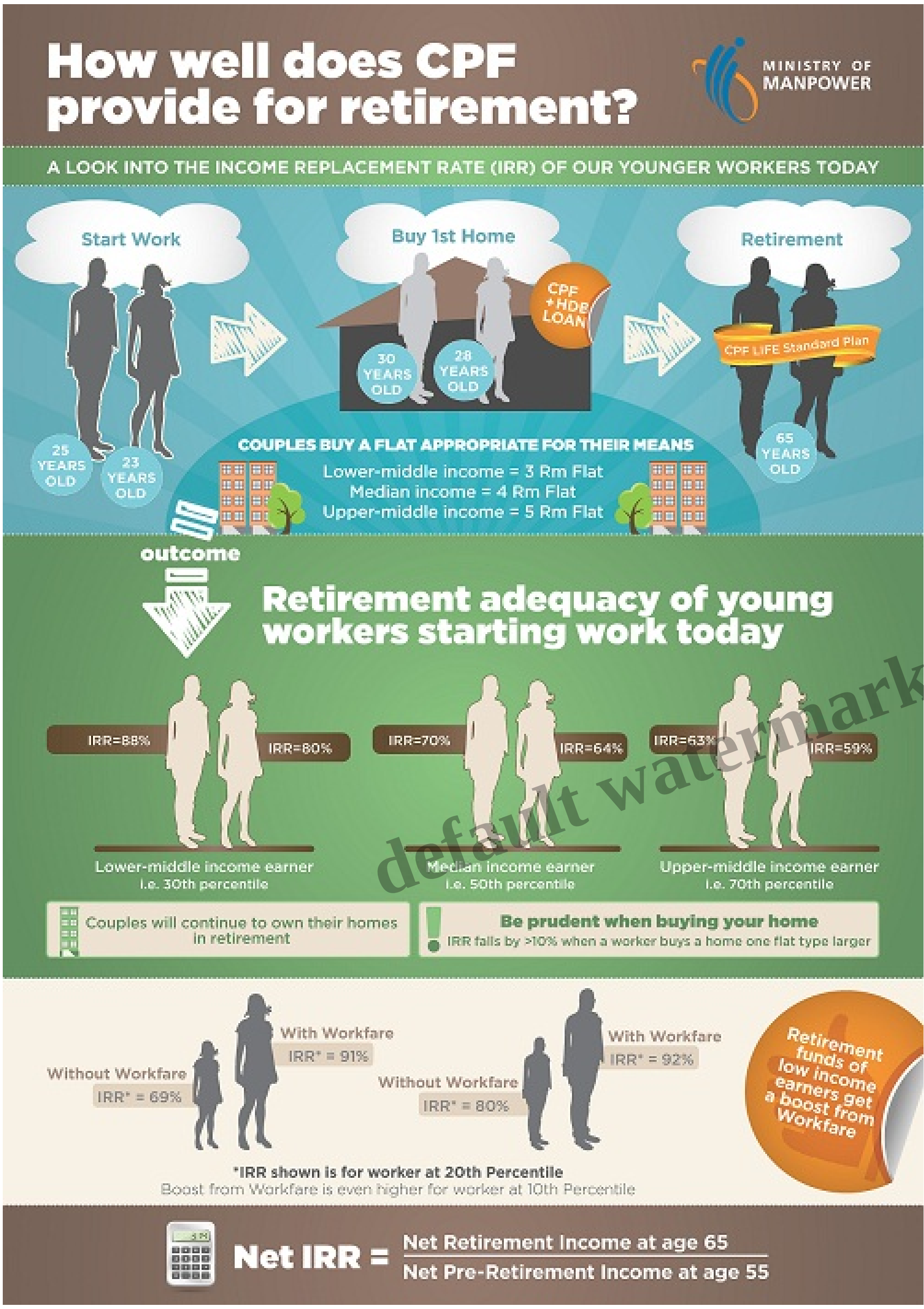


Step 3: Secure your post-retirement payouts by making sure you do NOT buy a house beyond your means.

It is very tempting to buy a 5-room HDB, but can you afford it?

Many young Singaporeans get a 5-room flat for their first purchase without realizing that they're losing out on almost $40,000 worth of grants. Even if you downgrade later, you would have already unknowingly chosen to forgo your eligibility for further grants.

If you and your spouse earn less than $5,000 combined a month, you might want to consider buying a 3-room HDB flat for a start first. Aside from all the grants available to help you offset your purchase, you can also always upgrade later on if you like.



If you know how to make full use of the CPF system, you'll be the one benefitting when you hit age 55 or later. Unfortunately, most Singaporeans don't know these, and will rather focus on crying #ReturnOurCPF instead.

I won't join in, because I rather get free money from the government in this way

With love,
Budget Babe

Category

1. CPF