Why I Won’t Be Using My CPF To Pay For My House

Description

For those of you who attended my sharing at the CPF Talk on 22 Oct, I mentioned that I have no intention to use my CPF to pay for my new house.

Naturally, this raised quite a few eyebrows, because 8 in 10 Singaporeans pay for their house using their CPF Ordinary Account (OA) savings.

But you heard me right.

What I feel my CPF is for

Now, before you go bat crazy on me, please hear me out first.

In my view, my CPF forms my “untouchable” pot of retirement gold. It is my social security net when I am old and too tired to work for an income.

When viewed as part of my entire financial portfolio, the CPF component contributes to the “bond” aspect – low risk with reasonably high interest rates.

With an interest rate of up to 3.5% per annum on my Ordinary Account savings, and up to 5% per annum on my Special Account and Medisave savings*, I get to enjoy interest that no high-yield bank account can offer. You can jump through as many hoops as you can on those accounts, but you’re unlikely to even come close to 3.5% interest on your bank savings.

**Inclusive of an extra 1% interest paid on the first $60,000 of a member’s combined balances, of which up to $20,000 comes from your Ordinary Account (OA). Members aged 55 and above will also receive an additional 1% extra interest on the first $30,000 of their combined balances, with up to $20,000 from your OA.*

If I were to use my CPF OA to pay for my home today, I am basically borrowing from my retirement funds for today’s expenses. That potentially leaves me with lesser money for my future.

In fact, if I do use my CPF OA, I will then owe my retirement fund that capital (the amount I had withdrawn to pay for my house i.e. principal sum) AND accrued interest.

Accrued interest is the interest my CPF savings would have earned if I did not withdraw it.

You can love or hate the CPF accrued interest (I’m with the former), but its function remains the same: to grow your CPF monies for your retirement. If you withdraw from it today, you have to make sure you are more diligent in saving up for your retirement beyond what you currently have in your CPF.

In short, the more CPF monies you use for your house today, the less you leave for your retirement.

Why I feel using cash to pay is better

Some Singaporeans, especially young married couples fresh out of university, may have no choice but to turn to their CPF in order to finance their monthly mortgage because cash isn’t an option at hand.

My husband and I aren’t cash-rich, but we’ve been diligently cutting our discretionary expenses and saving over the past two years to ensure we’ll have enough money to pay for our home…without needing to dip into our CPF reserves.

You see, if I were to leave my CPF-OA untouched, my money can grow by 2.5% every year. Compound this over 40 years and that accumulates into a tidy sum.

Who should use CPF instead of cash then?

However, some prefer to have more liquidity (i.e. cash) on hand for emergencies. If so, using CPF instead of cash to finance their house would be a better option.

The caveat, however, is that you have to be disciplined and set aside your own retirement fund.

Should I refinance or pay off my home loan using CPF-OA now?

If you already have an outstanding home loan, a common question most Singaporeans ask themselves is whether they should quickly clear off their housing debt using their CPF-OA (and celebrate being debt-free) OR refinance their home loan instead.

What's the difference, and which is the smarter choice?

I personally would prefer to opt for refinancing, because all I would need to do is to find a bank loan^ with an interest rate lower than 2.5% (which is the CPF-OA's interest rate).

In other words, you could either:
- Pay the bank 1.85% interest while earning 2.5% in your CPF-OA, or
- Pay (your own) CPF 2.5% interest

	Option 1 **Refinance with bank loan**	**Option 2** **Pay off full outstanding sum using CPF OA**
Interest paid in first year	$250,000 x 1.85% = $4,625	$250,000 x 2.5% = $6,250 (This is the accrued interest that your CPF savings would have earned for your retirement.)
Interest gain or accrued in CPF in first year	$250,000 x 2.5% = $6,250	$0
Nett loss / gain	+ $1,625	**– $6,250**

The bottom line is, as long as you can get a bank loan where the interest rate is **less** than the CPF-OA interest rate, it makes more sense to refinance and pay your bank loan using cash instead. There are plenty of such loans available, and if you need to understand more on how home loans work, I've previously written about it here.

Furthermore, your nett gain of 0.65% is then compounded over time (2.5% minus 1.85%).

^ Just note that bank loans are subject to market fluctuations. On the other hand, HDB loans will always be pegged at 0.10% above the prevailing CPF Ordinary Account (OA) interest rate.

Conclusion

There is nothing wrong with using CPF to pay for your house, because for some it's the only option. But in my opinion, with careful planning, cash is still the smarter option.

This is also because I personally see my CPF as my retirement fund, something to grow instead of withdraw from.

But if you still choose to use your CPF, just remember that you have to pay the principal sum and accrued interest back to yourself. It is for your own retirement after all.

If you want to understand how your home can help with your retirement, here's an interesting video by CPF that explains more:

Disclaimer: This post is written in collaboration with CPF Board. All opinions are of my own.

Category

1. CPF
2. Property