

## Chapter 6: Alternative Private Annuity Options to CPF LIFE

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1. As part of its fourth Term of Reference, the Panel was also asked to study how to provide **more flexibility for members who wish to invest their CPF savings in private annuities when they retire as an alternative to CPF LIFE**. To inform its study, the Panel met with members from the insurance industry, some of whom had previously offered such products to CPF monies before CPF LIFE was introduced on a mandatory basis in 2013.

### **Background: An avenue already exists for private sector providers to offer their products to CPF monies, but none do so today**

2. The CPF Board currently allows private sector annuity providers to offer their annuity products to both OA and SA monies through the CPF Investment Scheme (CPFIS). These products can also be offered to RA monies through the CPF Board's Approved Annuity scheme if they meet certain criteria<sup>1</sup>; members can use their RA monies to purchase these approved annuities, instead of having their monies committed to CPF LIFE.
3. The Panel notes that there are no private sector annuity providers who offer their annuity products to CPF monies today. The Panel understands from its industry consultations that private sector annuity providers have opted not to offer such products primarily because CPF LIFE's payouts are higher for the same amount of savings committed into the annuity. Hence, the demand for private sector alternative annuities is likely to remain low.
4. There are several reasons why CPF LIFE payouts are higher for the same amount of savings committed:
  - i. Access to Special Singapore Government Securities (SSGS): The underlying assets of the CPF LIFE scheme are invested in SSGS, similar to other CPF monies. Private sector annuity products do not have access to these SSGS instruments, which provide stable risk-free returns higher than what is available in the market.
  - ii. More effective mortality risk pooling: As a mandatory scheme, CPF LIFE is able to pool the mortality risk from a larger portion of the population. Thus, it is less subject to the risk of adverse selection that private insurers face.
  - iii. Greater economies of scale: CPF LIFE has a larger base of annuity plan participants and is not profit-driven. Hence, the running costs of CPF LIFE can be kept lower than private sector annuity products.

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<sup>1</sup> The private sector annuity product must be consistent with some features of CPF LIFE. For example, the annuity payout must be for life, the payout must commence at the payout eligibility age, and the payouts must be level or increasing.

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*Observation: There is no need to actively encourage investments in private annuities in lieu of CPF LIFE, but there could be growing potential demand for private annuities to complement CPF LIFE.*

5. The Panel acknowledges that some private sector annuity products offer features that are not available through CPF LIFE today. For example, some private sector annuity products offer a joint annuity feature between husband and wife, while other annuity products offer a guaranteed payout component together with a variable “bonus” component. While these features may appeal to some members, the Panel affirms that **CPF LIFE continues to work well as the default annuity scheme to provide a stable, lifelong income stream that can help support a basic level of retirement expenses for the majority of CPF members.**
6. CPF members who have CPF savings in excess of the Basic or Full Retirement Sum<sup>2</sup> can withdraw their savings in cash from age 55 to purchase private annuity products if they wish to do so. Private sector annuity providers can also apply to CPF Board to offer their products to CPF monies through the existing avenues. The Panel’s view is that there is currently no need for the Government to provide further flexibility, beyond what is already available today, for CPF members who wish to invest in private annuities as an alternative to CPF LIFE.
7. Nonetheless, as CPF balances continue to increase for each successive cohort, the Panel also recognises that more CPF members may accumulate CPF savings in excess of their retirement sums. These members may desire higher lifelong payouts above even what the Enhanced Retirement Sum can provide through CPF LIFE. This can be a growing area of opportunity for private sector annuity providers, and the Panel encourages the industry to offer their products to such CPF members as a supplement to their CPF LIFE payouts.

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<sup>2</sup> Depending on whether the member owns a property.