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SPEECH BY MR S JAYAKUMAR, MINISTER FOR LABOUR AND SECOND MINISTER FOR LAW AND HOME AFFAIRS AT THE CPF BOARD'S ANNUAL DINNER AND DANCE ON SATURDAY, 22 SEPTEMBER 1984 AT 7.45 PM

THE EVOLUTION OF CPF: FROM A MERE OLD AGE PROVIDENT FUND TO AN INSTITUTION GIVING SINGAPOREANS A STAKE IN THE NATION'S FUTURE

This is the second time my wife and I have had the pleasure of attending your annual functions. The first was in December last year. The period between these two occasions has been, to put it mildly, very eventful where the CPF is concerned.

As we are celebrating 25 years of nation building, 1984 is a good year for us to take stock of CPF's growth and progress. This is necessary because, with all the controversy a few months ago over the withdrawal age issue, we may tend to forget the overall importance of CPF and its dynamic contribution to the individual's old age security as well as to the nation's economy.

Old Age And Retirement

It all began with the decision in the early fifties, to establish a provident fund scheme for the workers. In 1955, the CPF was established as a national compulsory savings scheme for workers so that they would have savings to rely on when they retired. Since CPF's inception, over 250,000 persons have withdrawn a total of $2.5 billion, mostly on grounds of reaching 55 years or upon death.

It has helped them to remain independent and maintain their dignity and pride in their twilight years.

The CPF has evolved to be more than an old age provident fund. Between 1955 and now, because of far-sighted policies of the Government, the CPF has been very flexible in adapting itself to play a dynamic role in the social and economic changes of Singapore.

- The CPF has been the main instrument by which Singapore overcame its housing problems and which enabled 341,000 families (mostly lower income groups) to own their own HDB homes.

- It enabled contributors to invest in SBS Shares.
- The CPF also catered to the middle income groups and to professionals by enabling the purchase of HUDC flats and by the Approved Residential Properties Scheme.
- The CPF also protected the families to retain the homes where the breadwinner died or was permanently disabled.
- CPF also is the instrument of enabling persons to meet their hospital expenses.

As the Prime Minister stated in his National Day Rally Speech, by giving each Singaporean a personal stake in a home and a CPF account, we have given every Singaporean a stake in our progress and prosperity. How did we reach this position today where CPF has transformed the nation as well as bettered the lives of Singaporeans? Let me briefly trace this evolution.

<u>Housing Requirements</u>

Before the sixties, Singapore suffered from severe housing shortage. Most Singaporeans lived in squatter huts and squalid slums where living conditions were very unhygienic and overcrowded. To improve living conditions, the Government embarked on its long term public housing programme to enable the masses to own decent homes easily. The CPF then moved in, in 1968, to play a major role in helping its members to own HDB flats using their CPF savings. The effect was phenomenal. In 1964, there were only 1,500 HDB home owners. This increased to 75,000 in 1974 and 340,000 by mid 1984. (An increase of more than 200 times in only 20 years). The HDB Housing Scheme was later extended in 1975, to enable middle-income members to buy HUDC properties. Such persons would otherwise encounter difficulties in acquiring their own homes because of the high cost of private properties. The Scheme was again extended in 1977 to allow members of the Singapore Armed Forces to use their CPF savings to buy flats built by the Ministry of Defence. To date, more than 480,000 CPF members have made use of the CPF Approved Housing Scheme and they have altogether withdrawn $5.8 billion under the Scheme to pay for their homes.

Besides having improved living conditions, these home owners also possess a valuable investment. Property values increase with time and add to the value of our savings when we retire. An HDB flat bought in the sixties for less than $8,000 is worth $40,000 now and will be much more in the future. Without the CPF, many Singaporeans would probably be still renting a flat instead of buying one. With our CPF savings, most of us can afford a home - at least a HDB 3-room flat.

With homes, our citizens have a stake in the well-being and future of the country. Thus CPF has been an instrumental factor in bringing about a sense of belonging, where citizens have real interests to safeguard.

Investment in SBS Shares

The next phase in the evolution of CPF was in 1978 when the SBS Shares Scheme was introduced to allow members to invest their CPF savings in the Singapore Bus Service (SBS). Besides receiving a guaranteed dividend yield from a secure investment, they can also enjoy concessionary fare on all SBS services. This certainly helps them to save on transportation costs.

Approved Residential Properties Scheme

In 1981, residential property prices had gone up substantially and were still rising. Many members in lower income group have owned their HDB flats and a significant number in the middle income group, their HUDC flats. What about the rest - the professionals and others who either did not qualify for HDB and HUDC flats or wanted something better. In that year therefore the CPF launched its Approved Residential Properties Scheme (ARPS) which allows any CPF member to use his savings to buy a private residential property. With this Scheme, the CPF evolved to the point where every CPF member could use the CPF savings to buy a home. The ARPS also served another purpose. It enables a member to invest his old age savings in a valuable asset which appreciates over time.

Home Protection Insurance Scheme

The introduction of the Home Protection Insurance Scheme in November 1981 was another example of the CPF's flexibility in adapting to the changing needs of its members. Having assisted its members to own homes, the CPF decided to take a further step to ensure that their families would retain their homes if tragedies such as death or permanent disablement befell the breadwinner. Indeed, since its inception in 1981, 699 claims amounting to $6.4 million have been paid under the HPIS. If not for the HPIS, hundreds of bereaved families who would otherwise have found it difficult to meet the payments, would not have had peace of mind and might have become homeless.

Medisave Scheme

The much discussed Medisave Scheme came into effect in April this year. Under the Scheme, CPF members can use their CPF savings to pay hospital bills. The Scheme forms part of the National Health Plan to introduce a viable total health care for Singaporeans. Putting it another way, every Singaporean should be in good health to be productive during his working life and to enjoy his well-earned retirement and CPF savings when the time comes.

Some typical examples:

So we have seen how the CPF has adapted itself to the changing social and economic needs of Singaporeans and the benefits each CPF member can derive from it.

I can give an impressive array of statistics to ilustrate my points, the number of depositors, the balances they have, the number who have purchased homes, etc.

Example of how a typical older citizen has benefited:

Instead of doing that, I have asked your management to go through the CPF records, pick out a typical CPF member in the lower income group and see what he has now after working for the last 29 years. They gave me the case of a clerk who was drawing a salary of $160 per month in 1955. There were not many blue collar workers then. This member is still a clerk today. He is now 50 years old. According to our records he already owns a 4-room HDB flat which cost him $24,000 in 1979, paid for with his CPF savings. He now has $80,000 in his CPF account of which $6,000 is in his Medisave Account. Given the present market value of his flat as $80,000, his total worth derived from CPF savings alone is therefore a substantial $160,000. If he continues to work for at least another five years, he would have added $50,000 more to his balance. His CPF savings should be more than sufficient to see him through the rest of his life comfortably.

Do not forget that the CPF contribution rate was very low in the early days. It started at 10 per cent increasing, more rapidly in recent years, to 50 per cent today.

Second Example of how a younger citizen will benefit:

If we take the example of a young man starting work in 1984, his eventual total worth from his CPF savings will be much higher. If he starts at age 22 with a salary of $600 per month and works for 33 years till his retirement at 55, he would have very much more than $100,000 in the CPF account. This excludes the portion of his CPF savings which has been withdrawn for the purchase of an HDB flat. Combining his CPF balance and the market value of his flat, his total worth in present day dollars would be over $200,000 when he retires.

For those who are better qualified through education or acquisition of skills, their net worth will be even significantly higher.

Benefits to the Nation

Let's now take a look at the other aspect of the CPF - its contribution to nation building. Money saved in the CPF cannot remain idle. It has to be invested to generate income. CPF therefore invests the savings in Singapore

Government bonds. These are very safe investments which earn for the CPF a steady income and provide a real growth of members' savings with time. What does the Government do with the money? If it practices what other profligate parties preach, CPF depositors would have something to fear. However, unlike them, this government does not use the money to finance consumption expenditures such as subsidies for health, public transport, water or electricity. Otherwise we would not have the large amount of reserves, more than $20 billion. Instead the money is used to finance investment in public infrastructure such as roads, airports, industrial estates, telecommunication facilities, water reservoirs, power stations, schools and other educational institutions. Some of the money are loaned to new and desirable commercial and industrial enterprises that create jobs and enhance our economic development such as shipyards, banks and airline. Some are also invested in profitable assets overseas. All these investments help to expand our economic base and enable us to generate more income for the nation as a whole and thus creates even more wealth. This means more economic growth which in turn generates more jobs and higher wages for Singaporeans.

Because of the CPF institution, Singapore has one of the highest savings rate in the world. We therefore do not need to borrow from international banks or other foreign countries. On the other hand we have managed to build up a reasonable reserve. We are thus spared from the debt burdens faced by many developing countries today. We are also free from the strings attached to foreign aid programmes that would have restricted the ways we conduct our political and trade relations with the rest of the world.

CPF savings have also been channelled to the construction of public housing and provision of cheap housing loans at 6½ per cent through the HDB to buyers of

HDB flats. If Government has to borrow overseas to finance these loans, the interest cost would be higher and we would have to pay much more for our flats.

The Withdrawal Age Question:

I started my speech by mentioning that the past year was indeed an eventful one, with CPF in the news and in the thick of controversy. This was because of the Report of the Committee on the Problems of the Aged and, in particular, the recommendation to postpone the age of withdrawal.

At the close of the Parliamentary Debate on that Report, you will recall that I stated that the problem was not one for which there was an easy solution. I said that the Government would carefully study the matter before it took a decision. I myself outlined a possible approach, whereby a certain minimum sum could be retained at 55 years and which would be subject to staggered withdrawals. All sums in excess of that amount could be withdrawn at the age of 55. However I also said that all other workable alternatives including the suggestions proposed by MPs during the debate would also be carefully studied.

It has been barely a few months after the Parliamentary Debate. Some have asked why the Government has not announced its decision on the CPF withdrawal question. They have asked "When will the decision be taken, why is there a delay?" Some have even suggested a sinister explanation, that is, the Government is deliberately lying low because of the elections and that immediately after the elections, we will suddenly act to implement a change to the withdrawal age.

This, of course, is absurd. It is not the style of this Government. Otherwise we would not have even raised the matter for discussion this year.

Then why is it that no quick decisions are forthcoming? The reason, as I said in my speech in Parliament, is that this is not a simple issue. It is a complicated exercise. All proposals and implications must be carefully studied. There is a host of questions to be examined. For example:

(a) If any modification is made for the withdrawal age, should it apply to all or should distinctions be made between different groups; for instance, between persons who own their flats and those who don't?

(b) Should a distinction be made between persons who stop working at 55 and those who continue to work after 55?

(c) Should there be a graduated scale of withdrawals depending on how close persons are to the age of 55 at the point of time if and when, any change is implemented? (Since they would have had less time to make adjustments and would have greater difficulties due to any modification of the withdrawal age than persons who are in the 30's or 40's).

These are but only a few examples to illustrate some of the many questions and implications which will have to be carefully considered. Only after careful study will the Government make a decision. Because of the complexities, I expect it will take at least two years more before any decision can be decided on. All workable alternatives, including suggestions made by MPs, will be carefully studied.

And when the Government approaches this question, it will be guided by the overriding consideration I stated in Parliament, namely, that the fundamental objective of CPF is to ensure financial security for old age. Any change that is made to the withdrawal age has to be consistent with this basic objective.

Let us recall that the Medisave Scheme took many months of discussion before a final decision was taken. The CPF withdrawal age issue is no less important. It deserves careful consideration and if this requires time, let us take time. We should not rush any decision on this important issue.

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