

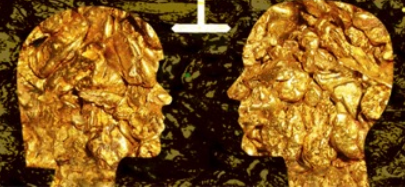
**Biennial Convention 2009**

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# **Singapore Central Provident Fund (CPF) Longevity Insurance Product**

**Eric McNamara and Paul Swinhoe**

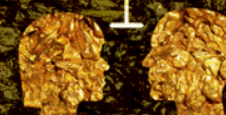
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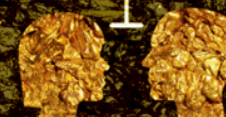
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Singaporeans are living longer and risk outliving their savings. With CPF LIFE, you'll get monthly income for life!

CPF LIFE is for Singaporeans now aged 50 and below with \$40,000 in their CPF accounts at age 55. Choose your preferred LIFE plan starting 2013. For refundable plans, unused premiums will be paid to your beneficiaries.

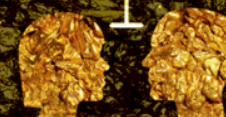




## Agenda

- CPF current scheme
- LIFE – Lifelong Income for Elderly
- Actuarial issues
- Applicability to Australia





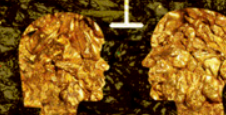
## CPF Current Scheme

- Compulsory contributions
- Create Retirement Account (RA) at age 55
- Draw level income from 65
- Income runs out after 20 years
- Balance of RA paid on earlier death
- No Government pension



## CPF Current Scheme

- Annual interest credits to RA
  - Based on 10 year Government bond yield + 1%pa
  - Minimum 2.5% pa
  - Bonus 1%pa interest on first \$60,000



## CPF LIFE

### THE BETTER PLAN

Under the current Minimum Sum scheme, if you are 50 this year, you will receive a monthly income from age 65 for only 20 years.

With CPF LIFE, you will receive a similar if not higher monthly income for as long as you live. CPF LIFE gives you greater peace of mind in your golden years.

You are automatically covered by CPF LIFE if you

- ☒ Are 50 years or younger in 2008
- AND
- ☒ Have at least \$40,000 in your Minimum Sum when you turn 55



**Mr Tan** ■ 50 years old now ■ \$67,000 cash in Minimum Sum at age 55

**Current Minimum Sum Scheme**



AGE 65

85

Monthly income of \$600\* for only 20 years.



\*Payout amount is computed based on 4% interest.

**CPF LIFE**



Monthly income of \$610\*\* for as long as he lives!



\*\* Under the Standard Plan (Refund 80), or R80, for males. Payment amount calculation includes the extra 1% interest that you will receive on the first \$60,000 of your CPF savings. Amount is indicative and will vary depending on actual CPF interest rates & mortality experience.



## LIFE – Lifelong Income for Elderly

- Must buy deferred annuity (DA) at age 55
  - Single premium, income for life
  - Payouts commence age 65, 80 or 90
  - Death benefit of return of premium less income payments made
- Balance of RA paid out from 65 until DA starts
- Target same income from RA and DA
  - Rebalance with second policy at retirement



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# CPF LIFE

INCOME FOR LIFE FROM 65



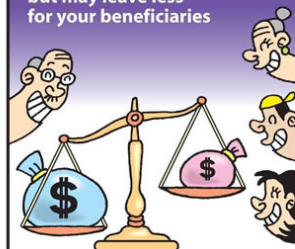
**With CPF LIFE, you will get a monthly income from age 65 for as long as you live.**

From 2013, you will be placed automatically on the Standard Plan if you: ☒ Are 50 years old or younger in 2008 **AND** ☒ Have at least \$40,000 in your Minimum Sum at age 55

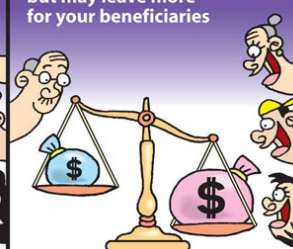
**The Standard Plan** provides a balance between what you will receive for life and how much would be left to your beneficiaries. Any unused Minimum Sum will be paid to your beneficiaries.

If you have specific needs, you may choose from other plans with these features:

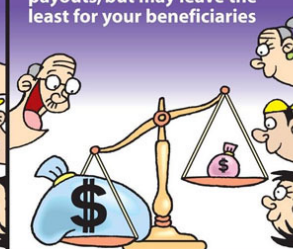
Higher payouts than Standard Plan payouts, but may leave less for your beneficiaries



Lower payouts than Standard Plan payouts, but may leave more for your beneficiaries

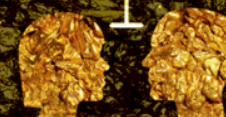


Non-refundable plans generally give even higher payouts, but may leave the least for your beneficiaries



**No action needed now!**





## LIFE – Lifelong Income for Elderly

- DA policy
  - Same investment
  - Pooled mortality risk (accumulated benefits recycled from deaths to survivors)
  - No investment or mortality risk to CPF
  - Annual review of forecast / actual income



## Actuarial issues

- Asset
  - Better than risk free
  - No equity exposure
- Mortality
  - Fairness of sharing
  - Death benefit protects the unhealthy
- Interest assumption drives payouts
  - Changing assumption → volatility



## Applicability to Australia

- Something is needed
  - Many will outlive their Allocated Pension
  - Age Pension is a low standard of living
  - Minimum AP drawdown is volatile → challenge for advisers
  - Equity investments have been extremely volatile recently and this has highlighted the weaknesses of relying on equity returns to finance longevity risks
  - Life annuities are considered too expensive





## Applicability to Australia

### *CPF LIFE as the solution?*

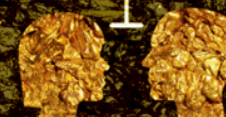
- The scheme provides a guaranteed income in retirement although the exact amount is not known
- The product is relatively inexpensive as there is no cost of guarantees for CPF to finance. As the scheme is compulsory there is a guaranteed large membership with economies of scale for expenses.
- The backing assets have a minimum guaranteed rate of return so therefore there is reduced investment risk to CPF or the member



## Applicability to Australia

BUT!!

- Compulsory annuitisation would be politically impossible in Australia
- Backing assets of CPF not available for the issuers of longevity products in Australia
- However, worth more thought for Australia, as LIFE will help to solve much of the longevity retirement income issue for Singapore



## Applicability to Australia

AND!!

- Voluntary pooling is only attractive to healthy
- More risky assets possible for Australians as can fall back on Age Pension
- There are other options on the table.....





## Applicability to Australia

So the alternatives are.....

- Life annuity – expensive
- Equity release – does not hedge longevity risk
- Variable annuities – complicated, distribution issues in Australia?
- Other investments – income from an investment property?



## Time for discussion

- Can LIFE come to Australia?
- What other options are there?
- What are the limitations of the options?
- Where to next for the product providers?