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Hey and welcome to Let's Talk CPF, a podcast where we bring conversations on CPF to your ears. Brought to you by the CPF Board, this podcast will answer common questions, offer tips, and feature interviews with industry experts on CPF and financial planning. Thanks for listening and let's get straight into today's episode.

Phyllis 00:34

Retirement is something we all look forward to a need to plan for, especially with increased longevity. While I was doing research for this episode, I saw this statistic, one in two Singaporeans at age 65 may live beyond 85 years old, there might be a chance of us running out of savings if we do not plan properly. Working at CPF Board, I've definitely thought about retirement planning. And for me CPF LIFE is my foundation. I will be building on CPF LIFE with other assets and investments, just in case I need more in the future. But let's first address what is CPF LIFE, and why can this be a piece for my retirement plan? Hi, I'm Phyllis. I'm your host for this episode. And joining me is our expert from the Board's CPF LIFE team, Serene. Hi Serene!

Serene 01:22

Hi Phyllis!

Phyllis 01:24

Before we get into the details on CPF LIFE, can you share what's your retirement plan?

Serene 01:29

For my retirement plan, I've been making small and regular top ups to my CPF because I want to tap on the power of compounding interest.

Phyllis 01:45

Maybe let's start with the basics. What is CPF LIFE?

Serene 01:50

CPF LIFE stands for CPF Lifelong Income For the Elderly. It is the national longevity insurance annuity scheme.

Phyllis 01:58

That's a very long name, but the word annuity stood out to me. What does annuity mean?

Serene 02:04

An annuity is a longevity insurance product where you pay a premium and the insurer provides regular payments to you. In the case of CPF LIFE, the scheme provides monthly payouts from as early as 65 years old for as long as you live. Your Retirement Account savings, or RA in short, will be deducted as your CPF LIFE premium when you join CPF LIFE.

Phyllis 02:27

Yeah, that's one reason why it forms the foundation of my retirement plans where I can get monthly payouts for as long as I live and I can retire in peace. Having payouts for life is good, but how is the scheme sustainable if it is dispersing money even after members premiums are being used up?

Serene 02:44

CPF LIFE works through risk pooling. With risk pooling, the unused interest upon a members passing is pooled. This goes towards the monthly payouts of surviving CPF LIFE members and risk pooling enables members to continue receiving payouts even after their own premium and interest have been used up.

Phyllis 03:04

I've seen some comments online saying CPF LIFE members are losing out because of this. Is that true?

Serene 03:11

Don't worry, you're not losing out. While interest is pooled to form monthly payouts of members, the interest earned on your CPF LIFE premiums are still factored into your payouts. So having a higher RA balance when you join CPF LIFE would translate into higher payouts right from the start. And since nobody can predict how long they can live. CPF LIFE protects members from outliving their savings, and every member can tap on that pool interest to sustain their payouts.

Phyllis 03:40

So what happens when I pass on? Will my premiums be gone?

Serene 03:45

No, it won't. If you pass away after you have begun your payouts, the unused premium will be distributed to your nominees. If you pass away before your monthly payouts begin this means you have not joined CPF LIFE, your CPF savings will also be fully disbursed to your nominees. Again, we do not keep your CPF savings CPF LIFE premium or interest earned.

Phyllis 04:08

This seems like it could be a good investment.

Serene 04:12

CPF LIFE is a good scheme. But it is important to be clear that CPF LIFE is an insurance and not an investment product to maximise returns from. It insures you against the possibility of running out of your retirement savings in old age.

Phyllis 04:27

I see, thanks for clarifying. What's the process of joining CPF LIFE like? Do I have to set an alarm to remind me to log into the CPF website on my 65th birthday?

Serene 04:38

Well, you can. It's good to keep these key milestones in mind. The Board will still send you a notification to select your plan when you are nearing your 65th birthday. If you are a Singapore citizen or permanent resident born in 1958 and after with at least \$60,000 in your Retirement Account when you intend to start your payouts, you will be automatically included in CPF LIFE.

Phyllis 05:02

And that sounds like me. I still have a long runway to 65. Must I decide now, or can I wait till I'm 65? And even then, must I start my payouts at 65?

Serene 05:13

We have options so members have some flexibility. While we do invite members to select their plan at 65, they can choose not to do so. They can inform us of their plan and start our payouts anytime from ages 65 to 70. But if they do not choose a plan by 70, they will automatically be placed on the Standard Plan and payouts will start at 70.

Phyllis 05:37

What about those who are not automatically included?

Serene 05:40

If they are not automatically included in CPF LIFE, they will receive monthly payouts till age 90, or until their savings run out, whichever is earlier. But if members wish to have lifelong payouts, they can still opt to join CPF LIFE anytime from age 65, to one month before they turn 80.

Phyllis 05:58

Is CPF LIFE compulsory?

Serene 06:00

CPF LIFE is compulsory, but you can still opt out if you have a private annuity that offers the same or higher monthly payouts than CPF LIFE.

Phyllis 06:10

On selecting plans, is there a best plan? I know that CPF LIFE has three plans, Escalating Standard and Basic Plan. But I'm not quite sure what the details and differences are for each plan.

Serene 06:24

There are three plans, but there's no one best plan. Or rather, the best plan is the one that supports your ideal retirement style.

Phyllis 06:32

It is good to think about what our retirement goals are before selecting our plans. But could you share a bit more about the three plans?

Serene 06:41

Sure. The Escalating Plan has a monthly payouts that start lower initially, but grow by 2% a year for life. This generally helps you maintain your desired retirement lifestyle, even as the prices of items increase over the years.

Phyllis 06:56

So this means if I start with a monthly payout of \$1,000 when I turned 65, and with an increase of 2% each year, my payout will reach around \$1500 when I'm 85. Is that correct?

Serene 07:10

Yes, and this will increase every year as long as you live. Next, we have the Standard Plan. It offers steady monthly payouts over the years. If keeping a fixed budget is what you prefer, the Standard Plan may be more suitable.

Phyllis 07:25

But what does keeping a fixed budget mean? Does that mean that if I budget \$1,200 a month initially, I'll have to keep to this.

Serene 07:34

Yes, you probably have to as Standard Plan payouts are stable. For example, when you join CPF LIFE and your monthly payout is calculated to be \$1,200, you will receive \$1,200 monthly for life unless you make future top ups. So this plan does not protect you against inflation. You may have to buy less when things get more expensive in the future. Then, we have the Basic Plan which offers monthly payouts that start low and fall progressively when your CPF balances fall below \$60,000. This means you have to lower your lifestyle and buy even lesser in the future. Regardless of which plan you choose, your CPF LIFE premium earns interest at a rate of up to 6% per year. The interest is factored into your monthly payouts from the start.

Phyllis 08:25

So Serene, before we go, do you have any tips on how I can get higher payouts with CPF LIFE?

Serene 08:31

You can tap on the power of compounding interests and consider doing any of these - one, make a CPF transfer from your Ordinary Account (OA) to your Retirement Account (RA), as the RA offers a higher interest rate than OA. Secondly, make a cash top up to your RA. And lastly, defer starting your payout to age 70. For every year you defer, payouts will increase by up to 7%. This means if you choose to defer until age 70, payouts were increase by up to 35%. You can use the CPF planner at www.cpf.gov.sg/cpfplanner to simulate a CPF transfer or a cash top up to see how your payouts can increase.

Phyllis 09:16

Thanks, Serene, for sharing on CPF LIFE. Our retirement plans might change along the way as our needs and aspirations change. But one thing is for sure, with CPF LIFE, we are guaranteed one income stream in our golden years. So if you're curious and not sure where to start, check out our CPF planner to kickstart your retirement planning. With that, I'm Phyllis and you've been listening to Let's Talk CPF.

CPF Board 09:46

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