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THE SINGAPORE CENTRAL PROVIDENT FUND

By Ken Buffin

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Singapore became an independent nation in 1965 following a six-year period as a self-governing parliamentary democracy within the British Commonwealth and a prior 13-year period as a British colony following World War Two. It has a population of 4.84 million, maintains a stable government and has experienced economic growth and a high standard of living, with a current gross domestic product of S$257 billion and per capita income of S$53,000. Lee Kuan Yew served as prime minister of Singapore from its independence in 1965 until 1990. Under his leadership, Singapore developed its economic and social programs and institutions to become one of the "Asian Tiger" economies and to merit the classification as one of the world's leading "high-income economies" by the World Bank and as an "advanced economy" by the International Monetary Fund. Singapore also ranks among the world's top nations according to the *Economist Intelligence Unit*'s "Quality of Life Index" with ratings above those for Canada, France, Germany, Japan, the United Kingdom and the United States. This Quality of Life Index is based on a composite measure of nine factors: material wellbeing, health, political stability and security, family life, community life, climate and geography, job security, political freedom, and gender equality. Singapore is a major port in the South-East Asia region and its economy is diversified with major activities in financial services, high technology, manufacturing, communications, petroleum refining, and oil drilling equipment.

A prominent feature of Singapore's social and economic development is the Central Provident Fund (CPF). The CPF is supported jointly by employees, employers and the Singapore government; it operates as a national savings and investment fund for the population providing a broad range of social and economic security benefits. The CPF operates four types of individual accounts; an ordinary account to finance the purchase of a house, education, approved investments, and CPF insurance coverage; a second account is principally for old-age provisions; a third Medisave account is to pay for hospital treatment, medical benefits, and supplemental medical insurance; and a fourth retirement account that operates from age 55 provides income support from age 60 to 65. The CPF has assets of S$164 billion that is mostly invested in special issues of Singapore government securities. These securities are floating rate bonds issued specifically to meet obligations of the CPF including interest payments. They do not have quoted market values and are not traded in the market. Under an arrangement with the Singapore government, the carrying amounts recorded in the CPF financial statements do not vary significantly from the expected proceeds on maturity. Interest rates on these special issue bonds are pegged to the rates at which the CPF Board pays interest to the members of CPF. Contributions to the CPF are based on monthly salaries up to a limit of S$4500; employees under age 55 contribute 20 percent of salary and employers contribute 14.5 percent of salary; employees over age 55 contribute at lower rates. Members receive a market-related interest rate (based on the 12-month fixed deposit and month-end savings rates of the major local banks) on their ordinary account savings. The interest rate for savings in the Medisave and the retirement accounts is pegged to the 12-month average yield of the 10-year Singapore Government Securities plus an additional interest rate of 1 percent. The first S$60,000 in a CPF member's combined accounts, including up to S$20,000 from the ordinary account, will also earn an extra 1 percent interest. The Central Provident Fund Board guarantees a minimum interest rate of 2.5 percent per year. Interest is computed monthly and compounded and credited annually.

The Singapore Central Provident Fund is widely regarded as a successful model for achieving social cohesion and a strong sense of national identity by involving government, employers and employees in a cooperative partnership for mandatory savings and investment to achieve the primary lifetime goals of home ownership, medical care and retirement provision. The large investment fund and flow of contributions have been directed to economic and social development in Singapore assisting the nation to become among the world's most affluent in a relatively short period. The economic strategy that is followed by the nation is successful in providing it with steady real growth. Singapore's recovery from the effects of the recent global financial and economic crisis has been aided by a sound economic strategy, a highly skilled workforce, excellent infrastructure and the role of government-linked corporations that regulate a major part of the services industries. In recent years the Singapore government has invested heavily in diversifying the economy, leading to growth in the pharmaceutical industry, biotechnology, medical technology, financial services, retail, leisure and tourism.

Note: All amounts are quoted in Singapore dollars. At current exchange rates, one Singapore dollar is equivalent to 0.71 US dollars, 0.45 UK pounds, 0.49 euros, and 65.42 yen.

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