

CONSULTATION PAPER ON THE PROPOSED PRIVATELY-MANAGED PENSION PLANS – ANALYSIS OF FEEDBACK RECEIVED AND CPF BOARD’S RESPONSE

INTRODUCTION

1. In January 2004, CPF Board issued a consultation paper on the proposed framework for privately-managed pension plans (PPPs). The Economic Review Committee recommended PPPs to provide a simple and low cost option for long-term investments and better returns on members’ CPF savings. The Board received feedback from 43 industry players, of which 16 requested confidentiality. CPF Board also received feedback from 45 individuals.

GENERAL

2. The industry generally supported the proposed introduction of PPPs. They agreed that CPF members could get higher returns over the long term if their savings were invested in well-diversified portfolios with some equity exposure. However, the industry experts also brought up several issues that should be addressed to ensure the success of PPPs.

3. As for the general public, many respondents welcomed the prospect of lower cost of investment and the possibility of higher long-term returns from investing in PPPs. Some, however, noted the losses made in unit trust investments and voiced their concerns over the negative consequences. Others felt that many members were not sophisticated enough to evaluate the merits of different investment options in achieving their long-term retirement objective.

SUMMARY OF MAIN FEEDBACK

4. Highlights on the issues of larger concern are listed below. The full list of respondents and their detailed feedback, excluding those who had requested confidentiality, are at Annex B1 and B2.

Achieving Low Cost

5. Some industry experts highlighted that distribution channels would be needed to reach out to members in order to achieve the necessary scale for lower costs. However, if little or no front-end loads were allowed, traditional distribution networks would have little incentive to promote PPPs, even if PPPs could be the best investment option for members to build retirement savings.

6. Some industry experts suggested stepping up educational efforts in financial planning through the workplace and at a national level, so as to mitigate the effects of a weaker distribution network. Others, however, conveyed that while a public education programme might raise the level of member awareness in financial planning, it might not encourage the majority to proactively invest on their own in a suitable instrument, either owing to inertia or the lack of sufficient knowledge.

Gathering a Large Asset Base

7. To encourage participation in PPPs and hence gather a large asset base, some industry experts suggested introducing PPPs as the default investment option. There were further suggestions that investment in PPPs be made compulsory as this would result in a large asset base and keep distribution costs low. If participation were mandatory, funds need not be diverted for brand building activities. Other suggestions include the investment of Government funds (i.e. 'seed money') in PPPs, at least in the early years, to achieve the needed scale. Some industry experts also suggested removing the guaranteed floor rates on the CPF Ordinary and Special Accounts, or capping the maximum CPF balances that could earn the guaranteed rates to encourage the flow of members' funds into PPPs.

8. On the other hand, some individuals called on the Government to introduce PPPs on a voluntary basis so that members themselves could decide whether to actively invest in PPPs or leave their CPF funds in their CPF accounts. There were also requests that the Government preserve the guaranteed rates of return on the Ordinary and Special Accounts.

Funding the Public Education Programmes

9. On funding the cost of education programmes, most respondents suggested that the cost be shared between the Government and PPP providers. Some also suggested that the Master Administrator (MA) contribute to the education programmes. Others, however, felt that the Government should wholly sponsor the investor education programmes, or at least bear the bulk of the cost, as requiring the PPP providers and MA to co-fund the education programmes would ultimately increase the cost to members. Some industry experts also highlighted the difficulties of implementing joint education programmes among the providers if there were no front-end loads.

Government to Play a Bigger Role

10. Some industry experts commented that the education campaign would be more effective if PPPs could leverage on the CPF brand name and CPF communications channels, as the Board's involvement would add credibility to the initiative.

11. Some respondents from both the public and industry felt that the Government should play a greater role - as members' retirement funds were

at stake. One suggestion was for the Government to guide this nation-wide initiative, and have the CPF Board more actively involved as an intermediary. This could also reduce the distribution and marketing costs of fund managers.

Master Administrator

12. Industry experts agreed that a single Master Administrator (MA) would lower the cost of administering the scheme. The cost could be lowered further if the MA were to also administer all investments under the existing CPF Investment Schemes. The respondents were, however, divided on whether the MA or its related company could be a PPP provider.

GOING FORWARD

13. CPF Board would like to thank the public and industry for their valuable feedback. The ability of members to get better returns on their investments over the longer term is a key concern to CPF Board. It is, therefore, important for the Board to adopt a prudent approach towards the introduction of an investment plan to give members enhanced returns on their savings.

14. The eventual investment framework has to provide a simple and low cost option for long-term investments and better returns on the funds of CPF members.

15. The Board conducted the consultation exercise to give the industry and public the opportunity to contribute their feedback towards the formulation of low-cost PPPs. The feedback has been very useful as it has enabled us to better understand the concerns of the industry and public, while confirming some of the Board's own findings in its studies leading up to the formulation of the proposed framework and over the recent months. Our findings as well as the feedback have reaffirmed the areas which require further detailed study.

16. As these are important and complex issues which affect members' retirement nest egg, CPF Board will re-examine the original proposed framework and study other pension funds to determine if more appropriate models would better serve the majority of CPF members' needs.

**Central Provident Fund Board
9 November 2004**

**LIST OF INDUSTRY RESPONDENTS
(excluding those who requested confidentiality)**

- 1 Allianz Dresdner Asset Management Singapore Ltd
- 2 American International Assurance Company Ltd
- 3 APS Asset Management Pte Ltd
- 4 Australian Administration Services
- 5 Barclays Global Investors SE Asia Ltd
- 6 Capital International
- 7 Citigroup Singapore Limited, Citibank N.A.
- 8 DBS Bank and DBS Asset Management
- 9 Deutsche Asset Management (Asia) Ltd
- 10 Fidelity Investments (Singapore) Ltd
- 11 First State Investments (Singapore)
- 12 FTSE
- 13 GFIA Pte Ltd
- 14 HSBC Insurance (Singapore) Pte Ltd and HSBC Asset Management (Singapore) Ltd
- 15 Investment Management Association of Singapore (IMAS)
- 16 Life Planning Associates Pte Ltd
- 17 Network for Electronic Transfers (Singapore) Pte Ltd (NETS)
- 18 NTUC Income Insurance Cooperative Ltd
- 19 Pacific Asset Management (Singapore) Pte Ltd
- 20 Phillip Capital Management (Singapore) Ltd
- 21 Phillip Securities Pte Ltd
- 22 Professional Investment Advisory Services Pte Ltd (PIAS)
- 23 Russell Investment Group
- 24 Schroder Investment Management (Singapore) Ltd
- 25 SG Asset Management (Singapore) Ltd
- 26 Singapore Post Ltd-Russell Investment Group Joint Submission
- 27 United Overseas Bank and UOB Asset Management

LIST OF INDIVIDUAL RESPONDENTS

- 1 Hendrick Ang
- 2 Mark Chan
- 3 Roy Chan
- 4 Chow Meng Pong
- 5 Peter Chua
- 6 Joseph Chua Boon Lim
- 7 Chuah Bee Bah
- 8 Alvin Fong
- 9 Fong Poh Ling
- 10 Angelina Foo
- 11 Gan Hong Lay
- 12 Hassan Bakar
- 13 Heng Chee Meng
- 14 Ho Kai Weng
- 15 Hon Shin-Ming
- 16 Koh Chwee Leng
- 17 Kwong Hui Hen
- 18 Martha Lee
- 19 Lee Khoon Leng
- 20 Lim Ai Hia
- 21 Loh Kin Poh
- 22 Mahfuz Wan Abdullah
- 23 Mohamed Firdaus Omar
- 24 Mohd Ali
- 25 Samuel Ngiam
- 26 Ong Pang Hee
- 27 Ong Zee Long
- 28 Phua Kok Loong
- 29 Poh Nee Huat
- 30 Quek Kong Chua
- 31 Sengodan Vasudevan
- 32 Song Kin San
- 33 Eugene Tan
- 34 Tan Ai Ker
- 35 Tan San Hoe
- 36 Tan Seng Boon
- 37 Norman Tang Meng Biao
- 38 Tee Choon Kiong
- 39 Teoh Ewe Saik
- 40 Perry Tong
- 41 Roy Varghese
- 42 Wong Chun Hueng
- 43 Yan Seng
- 44 Jeremy Yap Chong Hian
- 45 Yee Yik Wei