

GLOBAL PENSION INDEX

Ranking of CPF flawed: Expert

NUS don says Mercer
report fails to consider
unique features of system

Prof Chia is
part of the
committee
that
introduced
CPF Life.

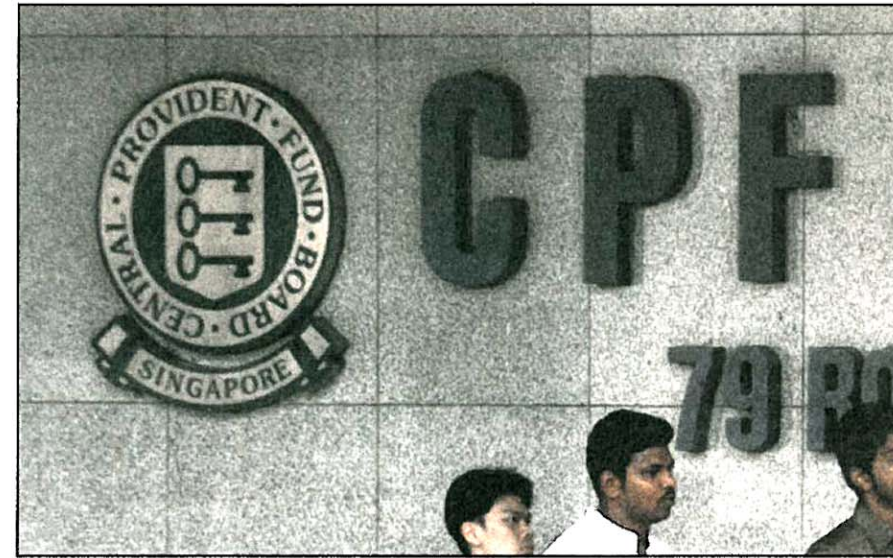
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NG SOR LUAN

AN EXPERT on the Central Provident Fund (CPF) system has criticised a recent global report of pension plans that rated Singapore poorly in some key areas.

National University of Singapore (NUS) Associate Professor Chia Ngee Choon has raised her concerns with *The Straits Times* over a report released by consultancy firm Mercer last month. She pointed out it failed to take into account some unique but significant features of Singapore's system that would have altered the country's relatively low ranking.

The inaugural Melbourne Mercer Global Pension Index was based on a survey of 11 nations. The index has sub-indexes, including one on the adequacy of the retirement income or how much income is available to a retiree.

It pointed out that Singapore's net income replacement rate is "particularly low" due to



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the nature of the CPF and the members' ability to access funds for a number of purposes.

Commentators have noted in the past that a lot of CPF savings are tied up by housing and health-care costs, for example.

The adequacy sub-index has the highest weighting in the overall index, so a poor score here can badly affect the overall ranking.

The Netherlands was first with an overall score of 76.1 out of 100, followed by Australia, Sweden and Canada. Singapore was eighth with 57. Ranked among the lowest were Japan (41.5), China (48) and Germany (48.2).

Singapore achieved low scores of 51.7 and 49.1 for adequacy and integrity, respectively.

Prof Chia, who is a member of the National Longevity Insurance Committee which introduced the CPF Life annuity scheme, said Mercer did not consider special features of the system here. It appears they overlooked the fact that the CPF is designed to meet housing and health-care needs, she noted.

Although a large proportion of a retiree's funds is tied up in home ownership and health costs, these items add to his security.

She added that the Government provides various avenues for Singaporeans to unlock the value of homes through subletting, downgrading and the lease buyback scheme.

She suggested the inaccuracies in the report could also have stemmed from the fact that Singapore relies almost exclusively on a mandatory system where the individual fully funds his own retirement. This is different from other countries, where the government may promise a guaranteed sum, making any comparisons controversial and difficult.

On the integrity sub-index, Prof Chia

pointed out Mercer's indicators to measure the soundness of Singapore's system were targeted mainly at private pension schemes such as the Supplementary Retirement Scheme. But this has only a small share here.

She suggested that indicators irrelevant to Singapore's system should have been marked "not applicable" and the overall score re-scaled if the report is evaluating the integrity of the overall pension system here.

Responding to her comments, Mr Ben Facer, Mercer's retirement, risk and finance leader for Asean, said they are "entirely valid".

For such future reports, Mercer plans to include more countries and other aspects of retirement security. "The key is to have components where information is publicly available so that it is objective, and have features that are easily comparable," said Mr Facer.

When contacted, the Ministry of Manpower (MOM) said the CPF Board would respond to Mercer.

Mr Chan Beng Seng, director of income security policy at MOM, said: "CPF Board will be writing to Mercer to clarify the methodology and assumptions used in the report. Prof Chia's reaction to the Mercer report is balanced and demonstrates a good understanding of the CPF system in Singapore."

He added that recent developments in the CPF system, such as raising the draw-down age, the new interest rate framework and the introduction of CPF Life, would further enhance the effectiveness of the CPF in meeting the retirement needs of its members.

"MOM and CPF Board will continue to benchmark itself to global practices," he said.