Mandating Life Annuities in Singapore

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Abstract

Singapore is one of the world's fastest ageing nations. To meet the challenges of a rapidly ageing population, the Singapore Government decided in 2007 on a series of reforms to the Central Provident Fund (CPF), the cornerstone of Singapore's social security system. The most significant reform entailed restructuring the decumulation phase of CPF retirement savings. Prior to the reform, retirement savings were drawn down over 20 years from a designated age, but increasing longevity meant that members faced increased risk of outliving their retirement savings. With the reform, members' savings would be converted into life annuities through a mandatory national scheme, providing pension income for life. Given that the Singapore system does not have a Pillar One state-funded pension system, this development is a significant one in helping CPF members manage their longevity risk.

In designing the national annuity scheme, the Singapore Government relied on the philosophy of self-reliance, but with the Government taking an active role in the co-sharing of risks. This approach is reflected in the way investment and longevity risks, inherent in an annuity scheme, are shared between CPF members enrolled under the scheme and the Government.

This paper will describe, in detail, the risk-sharing structure under the national annuity scheme as well as how the scheme is designed to keep costs low. The paper will also touch briefly on how broad-based participation in the annuity scheme could place the scheme in a good position to transfer longevity risk to the capital market should such an opportunity arise.