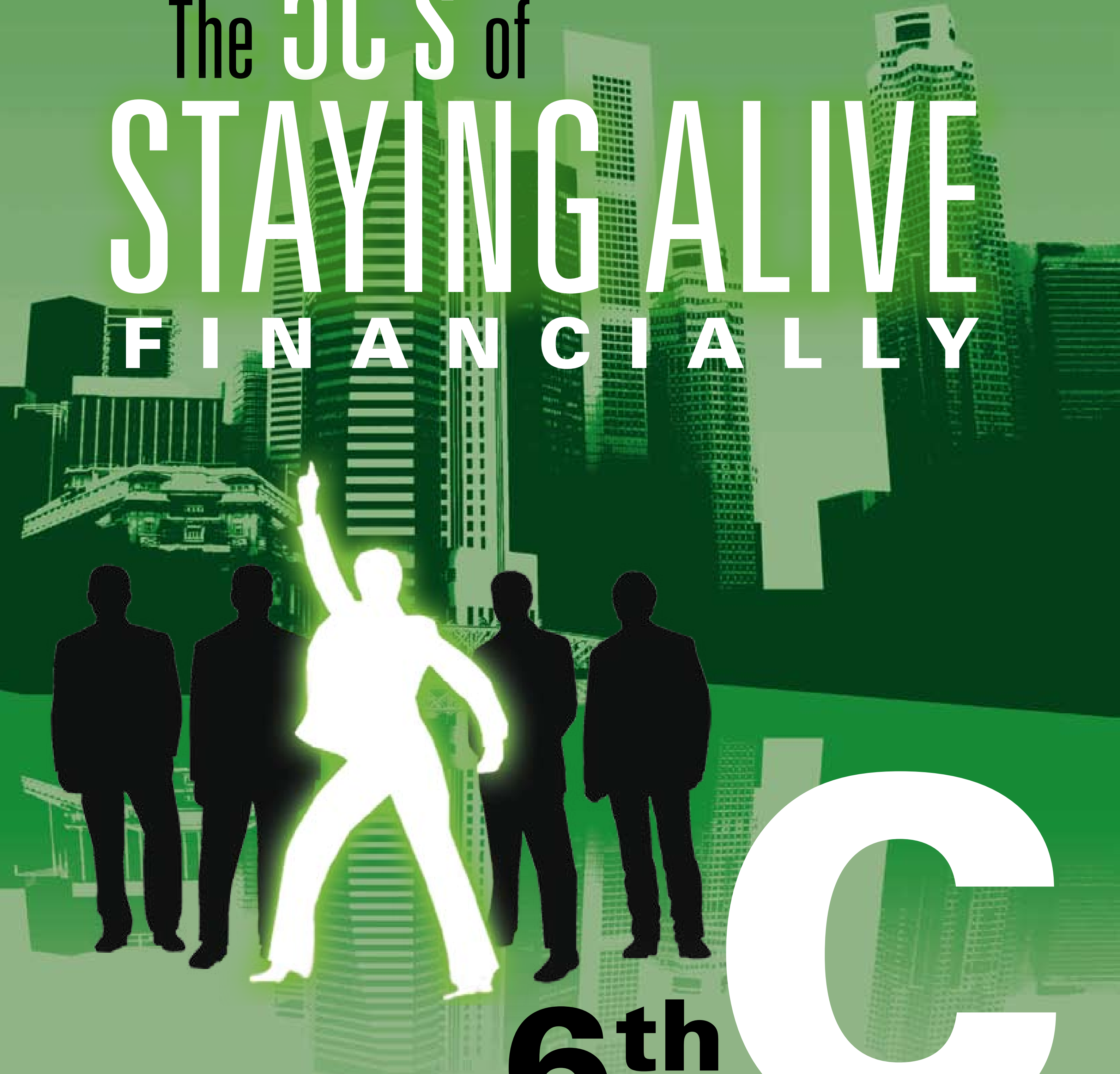
The 5C's of STAYING ALIVE FINANCIALLY



SINGAPORE'S 6th C

The 5Cs describe the typical Singaporean's dream – cash, credit card, car, condo and country club. While these add up to an attractive lifestyle, it is the 6th 'C', the CPF, which is proving to be the critical 'C', especially for those approaching 55.

by David Choo and Martin Lee

Even though the Central Provident Fund (CPF) is something all of us are familiar with, not everyone might be aware of all its components and how we can make use of them.

Starting with the most basic, your CPF is divided into three accounts: the Ordinary Account (OA), the Special Account (SA) and the Medisave Account (MA).

The Mainstay – Ordinary Account (OA)

The OA forms the bulk of your CPF savings. Money here can be used to buy a house, pay for full-time tertiary education in Singapore or CPF insurance like the Dependant's Protection Scheme (DPS) and Home Protection Scheme (HPS).

The monies inside the OA currently earn an interest rate of 2.5 percent p.a. If you want to enhance the returns, you can invest the money in your OA under the CPF Investment Scheme (CPFIS-OA).

Savings Grower – Special Account (SA)

The SA earns a higher interest than the OA. For 2009, the government has guaranteed a 4 percent p.a. for monies in this account. After 2009, it will be 1 percent above the 10-year government bond yield.

In addition, the first $60,000 in all your account balances (subject to a maximum of $20,000 from your OA) will also earn an additional 1 percent p.a. This interest will be credited to your SA.

Monies in the SA can be invested in a limited number of products under CPFIS-SA. Some of these are fixed deposits, Singapore Government bonds, bonds guaranteed by

Singapore Government, annuities, certain insurance products and selected unit trusts. In addition, if you are below 55, you can transfer money from your OA to SA. While you can do this transfer as often as you like, note that the total savings in your SA, inclusive of the amount withdrawn under the CPFIS-SA, should not exceed the prevailing CPF Minimum Sum. Note that this transfer is also irreversible.

Health Checker – Medisave Account (MA)

The MA is primarily for healthcare needs for you and your dependants, such as hospitalisation expenses and certain outpatient treatments such as renal dialysis, diabetes, CT scans, etc., subject to a withdrawal limit.

You can also use your Medisave savings to pay the premiums for MediShield or private medical insurance plans under the Private Medical Insurance Scheme (PMIS). These are essential catastrophic medical insurance schemes that protect you from huge hospitalisation bills.

Medisave can also be used to pay the premiums for ElderShield, an insurance scheme that provides insurance coverage against severe disability with long-term care monthly payouts. Currently, there is a Medisave Contribution Ceiling of $34,500 for the MA. Any excess of that amount will be transferred to the SA for members aged below 55, and to the Retirement Account (RA) for members 55 and above who do not meet the CPF Minimum Sum. For members 55 and above who have the full CPF Minimum Sum, the excess will be transferred to the OA.

Investing your CPF funds

While some people might prefer the guaranteed returns offered by the CPF Board, some others might prefer to invest their CPF funds in order to get better returns.

If you belong to the second category, bear in mind the first $20,000 in the OA and SA cannot be invested. You would also need to open a CPFIS-OA investment account with either DBS, UOB or OCBC.

And when planning to invest your CPF funds, first consider your age before deciding what to invest in. Generally speaking, the shorter the time frame you have, the less risks you should take.

At age 55

One month before you turn 55 or anytime afterwards, you may apply to CPF to withdraw your CPF money.

From 1 January 2009, members who reach 55 can only withdraw 40 percent of their CPF funds. This percentage decreases by 10% every year between 2010 to 2012.Then from 2013, you will need to set aside the CPF Minimum Sum before you can withdraw your money. Currently, this amount stands at $106,000 and will increase every year. This amount will be set aside through the transfer of your OA and SA into your RA. You can also pledge your property to make up half the Minimum Sum requirement. The first $5,000 can be withdrawn even if you cannot meet the Minimum Sum requirement.

Withdrawal requirements

When you withdraw your CPF savings at age 55, there is also a Medisave Minimum Sum that you need to retain in your MA. Currently, the amount is $29,500 and will be adjusted upwards every July.

The Medisave Required Amount is the amount you need to have in your MA when you set aside the CPF Minimum Sum. A transfer using funds from the OA or SA is required if this amount is not met. Currently, this amount stands at $14,000 and will rise by $2,500 every year until it reaches $25,000 in 2013.

Your investments under CPFIS-OA will be released to you provided you have set aside the required CPF Minimum Sum and Medisave Required Amount.Your investment account with the bank will also be closed.

Otherwise, your investments will remain inside your CPF investment account. Upon any liquidation of the investments subsequently, up to half the proceeds will be transferred to make up the shortfall in your RA when you make an application to withdraw your CPF savings.

Conclusion

The various schemes and options available to you under the CPF scheme can be mind boggling. It is important to stay abreast of all the changes so that you are able to make an informed decision of the options available to you when the time comes. If in doubt, check at the CPF office or visit its website www.cpf.gov.sg. SL

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