How to invest your CPF wisely

"CPF savings are only meant for basic retirement needs" and "CPF savings alone may not be enough for retirement". These phrases come directly from the Central Provident Fund Board's official website.

Despite knowing this, some CPF members are still content to rely almost solely on their CPF savings for retirement, leaving their funds idle to earn guaranteed returns of 2.5 per cent or 4 per cent per year.

In comparison to prevailing deposit rates, these risk-free returns may seem very attractive. However, there are many ways to enhance the returns on your CPF savings, provided you invest them wisely.

At the end of March this year, CPF members had invested nearly $29 billion of their Ordinary Account (OA) and Special Account (SA) savings in various financial products. However, a sizeable $75 billion, which could be used for investments, remained unutilised.

Many may have turned risk-averse after reading reports of how CPF members had done poorly with their investments over the last few years. Part of the reason for this lies in poor investment decisions.

While some CPF-linked products may have done poorly, there are others which have been able to beat the guaranteed returns.

Take unit trusts for example. Six out of 10 CPF-linked unit trusts managed to beat the OA's guaranteed return of 2.5 per cent in the one-year period to March 31 this year.

The longer-term picture is even better. In late February this year, the Investment Management Association of Singapore cited figures which showed that over the past seven to 10 years, nearly 75 per cent of all unit trusts had outperformed the CPF Board's guaranteed returns. For this period, the average annualised return on equity and bond funds was said to be 6 per cent.

This goes back to the basics of investing that we have talked about previously. When investing your CPF in unit trusts, be prepared to take a medium- to long-term horizon. Also, diversify your bets and be sure to invest in line with your risk appetite.

You should also pick unit trusts carefully. If you bet on the wrong horse, you could lose money. It is important to assess the soundness of the unit trust manager's investment process and its track record in being able to consistently beat the guaranteed returns offered by the CPF Board.

But for average investors this may be difficult to do. One way out is to seek help from independent consultants like Mercer, which rates funds on its website *(www.mercerfundwatch.com)* and offers its qualitative assessments.

Remember that the difference between investing your CPF wisely and otherwise can be quite significant.

Take the example of a 35-year-old man with $50,000 in his idle OA savings. If he does nothing with this balance and earns 2.5 per cent per annum, it will grow to $81,930 in 20 years' time. If he invests the funds for a compounded return of 6 per cent per annum, it will grow to $160,357. The difference in this case is nearly $80,000!

In the final of our 13-part advertorial series next week, we focus on a topic that's close to the hearts of many parents — planning for their children's higher education.

Most Singaporeans clueless about retirement planning

But survey shows that majority have good money management habits

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WHILE most Singaporeans save and monitor their spending, 76 per cent are ill equipped in their retirement planning.

According to a recent survey by the Monetary Authority of Singapore (MAS), only 24 per cent of 2,023 Singaporeans polled have actually calculated how much they would need when they retire.

And out of those who have made calculations, only 30 per cent are aware of the ideal situation — that they need two-thirds or more of what they have earned to have a comfortable retirement.

Only 28 per cent had an idea of how much CPF funds they would have when they reached 55 years of age, while 42 per cent held the misconception that their CPF savings at retirement will provide them with a monthly income equivalent to their last drawn monthly salary.

This is clearly one area of improvement, said MAS of the survey results. It conducted its first National Financial Literacy Survey in March among Singaporeans aged between 18 to 60 years old.

The survey showed that the majority of Singaporeans save, monitor their spending, and are generally responsible in the use of credit. Most consider personal savings and CPF savings to be their most important source of retirement funds.

Why then did the retirement planning findings fall short of expectations?

A key reason: Singaporeans are more concerned with current needs, said Mr Wee Tiong Howe, chairman of IPP Financial Advisers.

"If your career gets disrupted between 40 to 45, that affects your savings and retirement plan. You'll be on survival mode rather than be concerned about retirement planning," he said.

Another reason why many Singaporeans do not plan is because they may not be aware of the intricacies and complexities involved, which can be made simple with the help of a good financial planner, said Mr Wee, who is also the founding president of the Singapore Society of Financial Services Professionals. As a guide, people should try to save as much as 30 to 40 per cent of their annual salary for a comfortable retirement.

"If you have ten times of your annual income saved, it can last you for 25 years, if rate-of-return equals to inflation," he explained.

"If you save only 20 to 30 per cent of your annual income, you must (target to) have 5 to 10-per-cent rate of return for your money."

Like all other forms of personal finance, retirement planning should be done at an early age.

"A person who is about 30 years old may think that retirement is still far away, but one needs to start early — to learn how to manage one's cash-flow, understand wealth management and the power of compounding interest," said Mr Wee.

Temasek still keen on Taiwan bank: source

TAIPEI — Temasek Holdings's offer for a 22-per-cent stake in Taiwan's Chang Hwa Commercial Bank stands if the sale of the stake to Taishin Financial Holdings falls through, a source familiar with the transaction said yesterday,

"Temasek is seeking to reaffirm its bid for Chang Hwa," the source, who declined to be named, said.

On July 22, Chang Hwa accepted Taishin Financial's offer of NT$26.12 ($1.35) per share for the 1.4 billion shares being sold by Chang Hwa, Taiwan's sixth-largest bank assets. Taishin's bid was valued at NT$36.6 billion.

However, Temasek, Singapore's state-owned investment company, submitted another proposal for the 22-per-cent stake before Chang Hwa's board meeting last Friday, the source said.

In the proposal, Temasek offered to pay NT$21.5 a share. The terms were the same as an earlier offer. When contacted, Temasek spokeswoman Eva Ho declined comment.

However, the chances that Taishin's winning bid will be undone seem slim. The government has also said it will seek to sell its 17-per-cent stake to Taishin Financial and will only sell the shares in the open market if Taishin turns it down. — *Dow Jones*