wealth personal finance & investment

Do your maths first before you commit

CPF changes from January mean less available for withdrawals, servicing loans

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YOU'RE in your mid-40s now, your kids are entering university and you've just bought a new condominium in the heart of town. You're paying for the condo and the school fees through your CPF funds, but you figure that in about 10 years' time, you'll be able to withdraw the remaining savings and retire comfortably. If that is the scenario you're envisaging for your 50s, think again.

UPCOMING CPF changes – that come into effect on Jan 1 – may set you to review your priorities and jolt you back to reality.

From next month, the amount that you can withdraw from your accounts or use for buying property will be cut further. On their own, the changes seem minuscule. But when you combine these with recent CPF policy changes – such as the lowering of CPF contribution rates for older workers – the issue becomes more significant.

Here's a look at how the changes will hit you and your pocket.

1) MEDISAVE REQUIRED AMOUNT
NOW: People who turn 55 currently have to set aside $8,300 as the required amount in their Medisave accounts, before they can withdraw their CPF funds. This is on top of the minimum sum of $94,600 that is required in your Ordinary and Special accounts. If you don't meet the required amount in your Medisave accounts, you may have to top it up by transferring funds from your Ordinary/Special Account balances.

JAN 1: The required amount in your Medisave will be raised to $11,500. It will increase by $2,500 each year until it reaches $25,000 in 2013.

BEWARE: What this means is that you may have less money available for withdrawal when you turn 55. The impact of this rule change should also be seen in the context of decreasing CPF contribution rates as you grow older.

"On a standalone basis, the impact of this (Medisave required amount) policy on the cash withdrawal sum will be minimal, given its gradual implementation and incremental sum of $2,500 per year," said Mr Gilbert Koh, an independent financial adviser with First Principal Financial.

But this policy, together with the other changes, such as increasing CPF Minimum Sum to be set aside and reducing percentage of withdrawals, will have a "greater impact" on the cash withdrawal sum at retirement.

Also, from January 2013, when only the Special and Ordinary Account balances can be withdrawn after setting aside both the CPF Minimum Sum and Medisave Minimum Sum, he said.

TODAY FILE PHOTO
HOME LOAN: With the reduction in the amount that a homeowner can use from CPF savings to pay a mortgage, it is possible that in future loan instalments may have to be paid entirely in cash.

Those who had made their financial plans before the latest policy changes were announced could be "slightly disadvantaged", said Mr Leong Sze Hian, president of the Society of Financial Service Professionals.

"The plans may not have taken into account the lowering of the salary ceilings or change in contribution rate for older workers. There is a likelihood that members in their late 40s may face a cashflow problem, particularly if they were using funds from their Ordinary Account to fund their housing purchase."

Members who were looking to invest or use their CPF funds to help pay for their children's education may be affected by the new policy change, he added.

THE GOOD NEWS: With more money going into one's Medisave account at age 55, one thing is for sure: There is greater peace of mind when it comes to funding future hospitalisation stays.

"Faced with a greying population and longer mortality rate, the ability of CPF members to meet hospitalisation costs is a real concern. Given that health usually does not improve with age, the probability of being hospitalised due to accident or illness can be expected to be higher as we age. Furthermore, hospitalisation costs can be a big financial drain to an individual who is not adequately insured," Mr Koh said.

2) HOUSING WITHDRAWAL LIMIT
NOW: If you have bought a private property or a HDB flat with a bank loan, you are subject to a cap on the CPF savings you can use to pay off the mortgage.

This cap, called the CPF withdrawal limit, is currently set at 132 per cent of the so-called valuation limit, which is the lower of the valuation or purchase price. For instance, if your home is bought at $650,000 but is currently valued at $600,000, the valuation limit is $600,000. You can fund up to 132 per cent of this amount using your CPF funds. Once you hit it, you have to cough out cash for your monthly instalments.

JAN 1: The cap will be reduced to 126 per cent, and thereafter, by another 6 percentage points to 120 per cent in 2008.

BEWARE: What this means is that at some point in the future, you can expect to pay cash for your entire mortgage instalment. This is especially true in the light of rising interest rates, said Mr Leong.

"Depending on the rising interest rates over the loan tenure, the difference between the original property purchase price and valuation, this point may be reached earlier by some CPF members."

However, he believes that the change will likely affect the "sandwiched class" more, as this group of people is likely to have used up their two-times HDB subsidised loans, or taken a bank loan when they upgraded, Mr Leong said.

THE GOOD NEWS: Existing homeowners can breathe a sigh of relief, as the revision only affects properties purchased from Jan 1, 2007 onwards, said Mr Koh.

The housing withdrawal limit at the time you buy the house will "apply throughout the loan repayment period and the limit will not change even if the same property were to be refinanced subsequently", he added.

If you intend to buy a property next year using a bank loan, work out your sums carefully.

"They should talk to their financial advisers before committing to a mortgage loan," Mr Koh said.

"Not only will the revised housing withdrawal limit affect how much they can utilise their CPF towards the property, they should also adopt a longer term view by taking into account lower CPF Ordinary Account contribution rates and reduced CPF salary ceiling of $4,500."

If you are approaching your 50s for instance, you should know that the CPF Ordinary Account contribution rate drops from 22 per cent to 12 per cent for those aged 50 to 55 years and 10.5 per cent for those between 55 and 60 years old.

"The last thing you want is to unknowingly hit the limit and not have adequate cash reserves to service your property loan," Mr Koh said.

More information is available at *http://mycpf.cpf.gov.sg/*.

What's new

CPF changes that will come into effect on Jan 1:

MEDISAVE:
The required amount in this account — once you turn 55 and want to withdraw your CPF funds — will be increased to $11,500, from $8,300 now.

HOUSING WITHDRAWAL LIMIT:
The CPF withdrawal limit will be reduced from 132 per cent of the property's valuation limit, to 126 per cent.

... BUT MORE OPTIONS AVAILABLE FOR INVESTMENTS UNDER CPFIS
Citizens and permanent residents can now invest mandatory retirement savings in short-term government paper and instruments linked to the price of gold, the Central Provident Fund (CPF) Board said on Friday.

From Jan 1, CPF members will have the option to invest in Singapore Government Treasury Bills (T-Bills) or an exchange traded fund (ETF) that tracks the spot price of gold, the CPF Board said in a statement.

Those who want to invest in T-Bills from their Ordinary Account (OA) or Special Account (SA) savings can approach the bond dealers included under the CPF Investment Scheme (CPFIS).

CPF currently offers a return of 2.5 per cent for OA and 4 per cent for SA.

In 2006, three-month Treasury Bills bought at auction had an average yield of about 3 per cent.

In addition, the CPF Board will include Gold ETFs as a new product under the existing investment category of gold. The Gold ETFs will be subject to the existing investment limit for gold of 10 per cent.

In its statement, the CPF Board also said that fixed deposits under CPFIS-SA will be distributed to the estate of the deceased, instead of the CPF nominee(s) upon the passing of the member from Jan 1, 2007.

This treatment, it said, is similar to the other investments under the CPFIS.
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