CPF TRENDS

Extra Interest Earned on CPF Balances

Introduction

The payment of Extra Interest (EI) on CPF savings was first introduced in 2008 with the aim of enhancing returns on members' savings for retirement. Since then, an additional 1% interest per annum has been paid on the first $60,000 of a CPF member's combined balances[1], with up to $20,000 from the Ordinary Account (OA).

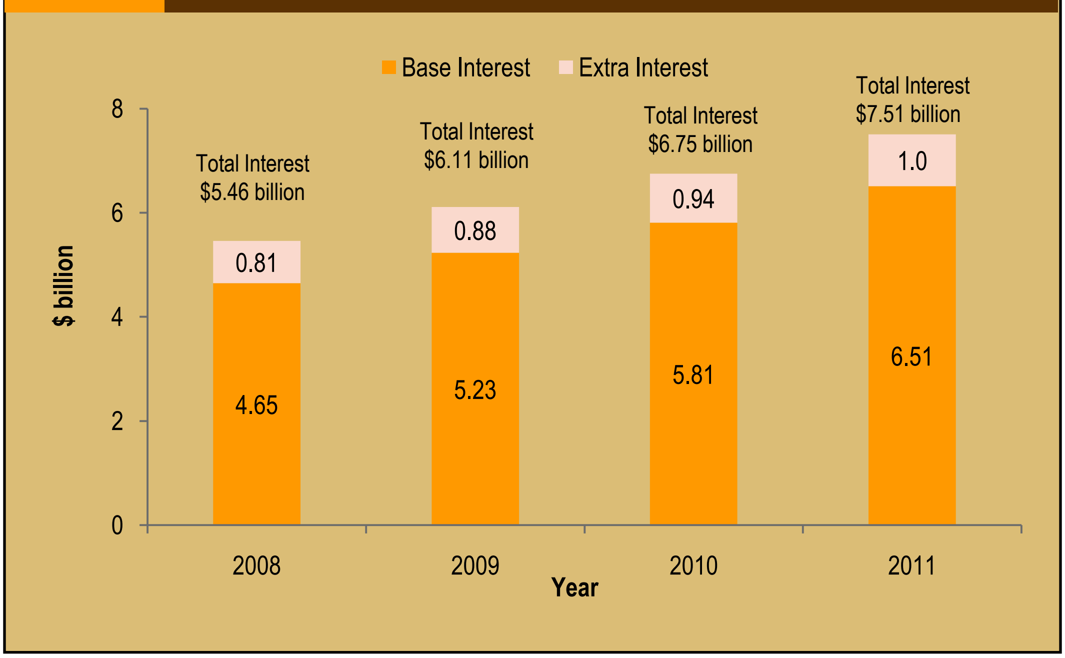
This article compares the amount of EI earned by CPF members over the last four years, from 2008 to 2011.

Base and extra interest earned by members

The extra interest earned by members increased by 7% annually between 2008 and 2011

The total amount of interest earned on CPF savings by members (comprising base[2] and extra interest) has increased from $5.46 billion in 2008 to $7.51 billion in 2011 (Chart 1), in tandem with the growth in total net balances from $151 billion to $208 billion over the same period. The base interest had increased at a faster average yearly rate of about 12%, compared to 7% for EI, primarily due to a cap on the amount of savings that can earn EI (i.e. the first $60,000 of a member's combined CPF balances) .

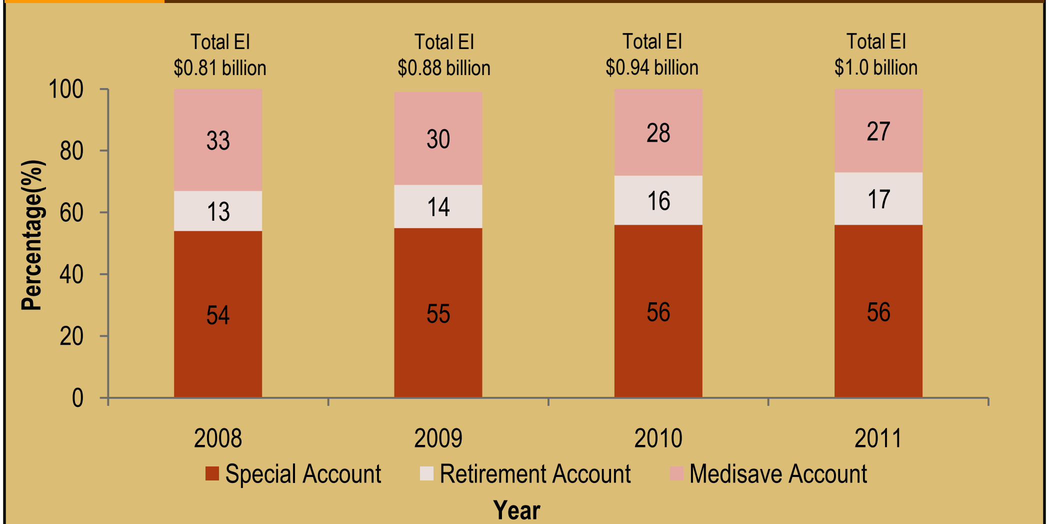
Chart 1 Base and extra interest earned by members



1. The sequence of accounts earning extra interest is Ordinary Account (OA), Retirement Account (RA), Special Account (SA) and Medisave Account (MA).
2. CPF savings currently earn a minimum risk-free interest rate of 2.5% guaranteed by the Government, with the balances in the SA, MA and RA currently earning a 4% interest rate.

EI is generally credited to the respective CPF account on which it is computed. However, to enhance members' retirement adequacy, the additional 1% interest earned on Ordinary Account balances is credited to the Special Account (SA) or Retirement Account (RA)[3]. The proportion of EI credited to the SA and RA has seen an increase over the years (Chart 2). On the other hand, the proportion of EI earned that is credited to the MA has dropped from 33% in 2001 to 27% in 2011. In 2011, of the $1.0 billion of EI earned by CPF members, 56% was credited to the SA, 17% to RA, and 27% to MA.

Chart 2 Breakdown of extra interest earned from 2008-2011



*Percentages may not add to 100% due to rounding.

Conclusion

There has been an upward trend in the amount of EI earned at the aggregate level since the introduction of EI in 2008. To take advantage of EI, members could make top-ups to their own or their immediate family members' CPF accounts under the Minimum Sum Topping-Up (MSTU) scheme, or by transferring unused OA monies beyond the first $20,000 to their SA. Doing so will help members to grow their CPF balances for retirement.

About *CPF Trends*

CPF Trends is a regular series of papers produced by the Management Information Department to disseminate analyses of statistical data and trends on CPF related issues. These papers are generally brief and aimed at a broad audience interested in CPF related issues.

3. For CPF members below 55 years old or fully exempted from the Minimum Sum Scheme (MSS), Withdrawal of CPF on Medical Grounds (MGS) or Reduced Minimum Sum (RMS), EI on OA balance will be credited to the Special Account (SA). Otherwise, EI on OA balance will be credited to the Retirement Account (RA).