CPF Trends

What do CPF members do with the cash withdrawals from their CPF after age 55?

Upon turning 55 years old, CPF members have the option of withdrawing part of their CPF savings in a lump sum.[1] Using data from the Retirement and Health Study (RHS), we study the behaviour of CPF members who made withdrawals in the past to see what the funds were used for.

What is the Retirement and Health Study?

The RHS is a longitudinal survey of Singapore residents' retirement and healthcare needs and how they change over time. Face-to-face interviews with the same individuals (aged 45 to 85 in 2014) are conducted once every two years.

In the RHS, respondents are asked if they had made cash withdrawals from their CPF after turning 55 years old. If so, they are asked about the withdrawn amounts, and the main purpose or usage of the cash withdrawals. In the analysis that follows, we study the data reported by a population-representative sample of around 7,200 respondents aged 55 to 70.[2]

Around four in 10 did not make withdrawals

About four in 10 CPF members did not make cash withdrawals after turning 55 years old

About four in 10 CPF members aged 55 to 70 reported that they did not make any cash withdrawals after turning 55 years old, even though they had the option of doing so [Figure 1]. These individuals might have deferred withdrawals from their CPF savings as they did not need the money at that point and preferred to leave the funds in their CPF accounts to earn generally higher CPF interest rates (compared to bank savings deposit rates).[3]

[1] When a CPF member turns 55 years old, a Retirement Account (RA) will be created. Savings from his/her Special and Ordinary Accounts, up to the Full Retirement Sum (FRS), will be transferred to the RA to form his/her retirement sum, to provide a monthly income in old age. The remaining savings in Special and Ordinary Accounts can be withdrawn any time after he/she turns 55 years old, subject to the applicable withdrawal rules. The CPF member may also apply to withdraw his/her RA savings (excluding top-up monies, any government grants received and interest earned) above the Basic Retirement Sum (BRS) if he/she owns a property with sufficient CPF property charge or pledge.

[2] We study respondents aged 55 to 70 (at point of survey) from the first and second waves of the RHS, which include members from different cohorts who may have different withdrawal rules. The first and second waves of the RHS were completed in 2014/15 and 2016/17 respectively.

[3] CPF members earn up to 3.5% per annum on the Ordinary Account and up to 5% per annum on the Special, MediSave and Retirement Accounts; On top of that, CPF members aged 55 and above will earn an additional 1% extra interest on the first $30,000 of their combined balances.

Figure 1 Proportion of CPF Members Making Cash Withdrawals after Age 55

Source: Retirement and Health Study Wave 1 (2014) & Wave 2 (2016)

Members who do not intend to withdraw their CPF in cash can also make use of other options available to improve their own and their loved ones' retirement adequacy. For members who have CPF savings above what is needed to be set aside for their own retirement sums, they can consider transferring such monies to their Retirement Accounts, up to the prevailing Enhanced Retirement Sum[4], to improve their retirement adequacy. These members can also consider transferring their CPF savings to their spouses' and other loved ones' CPF accounts to build up their retirement savings. To facilitate this, the government has made it easier for members to make CPF transfers to their spouses and parents/grandparents in recent years.[5]

What are the common uses of cash withdrawals?

About six in 10 CPF members aged 55 to 70 reported having made cash withdrawals from their CPF savings since turning 55 years old. Among those who withdrew, the median and average amounts withdrawn were $9,000 and $33,000 respectively.

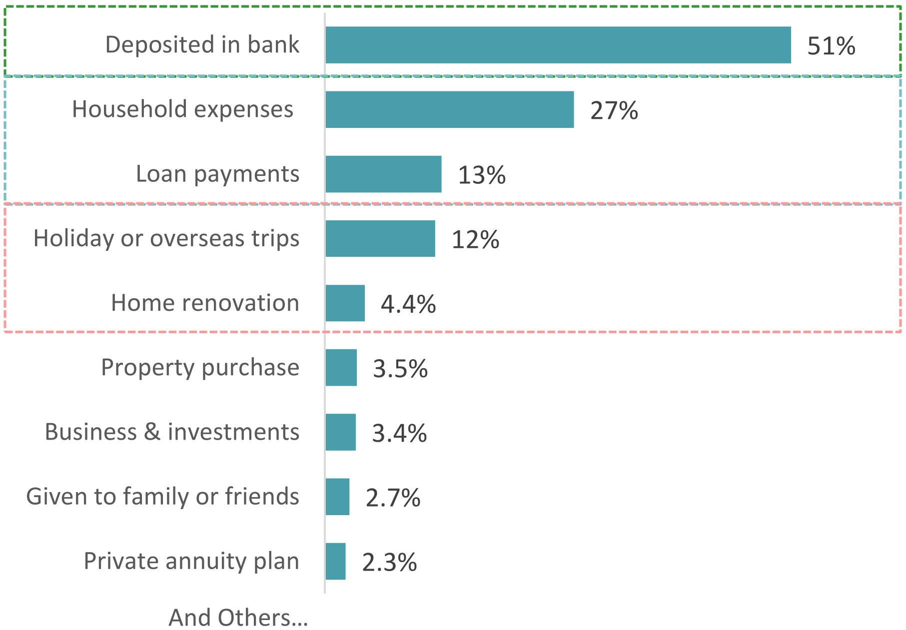
Broadly, there were three main uses of the cash withdrawals [Figure 2]:

i. Leaving the funds in the savings accounts of banks and finance companies without any specific use for the monies;
ii. Paying for immediate expenditure needs, such as household expenses or to pay off their loans; and
iii. Spending on big-ticket items, such as holidays and overseas trips or home renovations.

[4] The prevailing Enhanced Retirement Sum (ERS) for members aged 55 and above in 2018 is $256,500.

[5] Since 2016, members have been able to transfer their CPF savings above the BRS (rather than FRS) to their spouses. From October 2018, members can transfer savings above the BRS (rather than FRS) to their parents and grandparents, if their savings together with the property charge or pledge can meet the FRS.

Figure 2 Common Uses of Cash Withdrawals from CPF after Age 55 (Share of respondents who made withdrawals)



Notes:

1. Other than the 3 commonly reported uses, relatively small proportions of CPF members used their withdrawals for other purposes, such as for investments or financial plans, or to give to their family.
2. Figures do not sum to 100% as respondents may report more than one use for their withdrawals.

Source: Retirement and Health Study Wave 1 (2014) & Wave 2 (2016)

Leaving CPF withdrawals in bank savings accounts

Amongst those who took out funds from their CPF accounts, around half of them parked the monies in their savings accounts at banks and finance companies. The median amount deposited was around $8,000. Given that this group of members did not report any specific purpose or usage when they made the withdrawals (other than to deposit in their savings accounts), this could suggest that they had not used the funds for immediate needs.

Most of those who made cash withdrawals deposited the funds in bank accounts

For the older cohorts, this could indicate a desire for liquidity, since prior to 2014, members could only make one withdrawal per year. Now, members have more flexibility with their withdrawals and can even receive their withdrawals within a day through PayNow. For members who view bank savings as being more liquid and accessible compared to CPF savings, education and outreach could help increase their awareness of CPF withdrawal rules and appreciation of CPF's attractive risk-free interest rates, which are higher than bank savings deposit rates.

Paying for immediate expenditure needs

Others used the funds mainly for near-term expenditure needs

The next common use for the withdrawals was for near-term expenditure needs, such as to pay for household expenses or to pay off their loans. This was reported by 40% of CPF members who had made withdrawals. The median amounts used for household expenses and loan payments were $5,000 and $6,000 respectively. Notably, individuals in this group had more children on average compared to the other groups, and some had specifically used the withdrawals for their children's education expenses. A relatively higher proportion of members in this group also reported poorer health status, with some indicating that the funds withdrawn had been used to pay for medical expenses. For members with higher healthcare needs, policy enhancements in recent years, such as the introduction of MediShield Life and increased MediSave withdrawal limits, would help better support their healthcare expenditures and provide them with greater peace of mind.

Spending on big-ticket items

Around 20% of those who made withdrawals spent them on big-ticket items

About 20% of CPF members who made withdrawals after turning 55 years old spent the monies on big-ticket items, such as holidays and overseas trips, or home renovations. The median amounts used for these purposes were $5,000 and $10,000 respectively. A relatively larger proportion of individuals in this group were employed at the point of survey, compared to the other groups. Some of them could have viewed the accessibility to their CPF monies upon reaching the milestone age of 55 as a source of additional funds to spend on big-ticket items to benefit themselves and their family.

Conclusion

Using data from the RHS, we are able to study what CPF members used their withdrawals for, and explore the underlying motivations. A sizeable proportion did not make withdrawals after turning 55 years old, hence allowing their funds to continue earning higher CPF interest rates compared to bank savings deposit rates. Of those who made withdrawals, most deposited their funds in the banks, or used them to pay for near-term expenditure needs or big-ticket items. In deciding whether or not to withdraw, CPF members should consider the trade-off between withdrawing their CPF monies to meet current needs and leaving their withdrawable monies in their CPF accounts to grow for retirement. Members can access the withdrawable monies in their CPF accounts when the need arises, and those who withdraw their CPF savings via PayNow can receive payments within a day.

About *CPF Trends*

CPF Trends is a series of papers produced mainly by CPF Board's Management Information Department and occasionally by guest contributors, 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.