Despite hearing two ministers explain and defend the risk-free Central Provident Fund (CPF) system in Parlia
ment, Tampines GRC MP Ong Kian Min is unmoved.
He remains convinced that the Government can do much more to improve returns for members.

"I'm not satisfied at all and will bring this issue up again and again, as I cannot see any good reason that it cannot be higher," says Mr Ong.

"Getting higher returns is the crux of the issue -- preparing for retirement but I feel it has not been properly ad
ressed."

Indeed, the topic of higher interest returns for CPF monies was one of the most controversial during the de
bate and may have generated more heat than light.

MPs supported the move to up the interest rate by 1 percentage point for the first $60,000 in the CPF ac
counts. But several of them, such as Nominated MP Siew Kum Hong and Ang Mo Kio GRC MP Kranji Singh, urged the Government to do more with the money.

On Tuesday, Second Fi
nance Minister Tharman Shanmugaratnam explained how the rate was fair and reasonable and that to promise more would result in it be
coming an interest rate subsidy.

That did not stop Dr Ng and Tampines GRC MP Lim Wee Boon Ann from pressing the Govern
ment on the same point the next day.

Manpower Minister Ng Eng Hen's reply to them was firm.

"Fungible" Funds

"If CPF places the money in the bank and the bank lends it to GIC, these are separate transactions and
at different transfer pricings. It is not a case of the originator of funds deserving the returns just
because they provided the liquidity. It's a function of the risk that you take."

MP LIANG HWA, who is a managing director in DBS Bank, rebutting those who called for CPF returns to be linked to GIC gains

dos so wisely? Surely some of the money can be managed by the GIC, which has done well in the past two dec
dades," he says.

"Risks? I'm sure they can be managed over the long term."

Dr Ng did not rule out the CPF Board helping members in
vest, with it playing an aggregator role in the future.

Still, the link between the GIC and CPF was a point picked up by opposition MP for Hougang Low Thia Khiang, who asked whether the GIC uses the CPF funds to invest.

Dr Ng said: "The relationship is not so simple."

Using a banking analogy, he explained: "The Ministry of Finance has taken our liabilities. What MOF does with its money is MOF's consideration but the Government takes over the liabilities of CPF Board, that promises a risk-free rate to members."

Agreeing, Holland-Bukit Timah GRC MP Liang Eng Hwa, who is a managing di
rector in DBS Bank, points out that funds are "fungible."

"If CPF places the money in the bank and the bank lends it to GIC, these are separate transactions and at different transfer pricings. It is not a case of the originator of funds deserving the returns just because they provided the liquidity. It's a function of the risk that you take," he says.

But Singapore Management University economist Hoon Tian Teck thinks that it may be time to rethink the premise of having a totally risk-free system that gives low returns.

He says: "One can ques
tion whether the Government's revealed preference to provide a safe return for the typical CPF
mem
ber best re
flects the member's appet
ite for risk," he says.

Another question that lingers is over the re-legging of the SMRA to 10-year Singa
dore government securities.

Mr Singh is unconvinced that the long-term return will outperform the current guar
anteed return of 4 per cent.

This also worries Sen
hawang GRC MP Lim Wei Kiat, who still wants the Government to extend the 4 per cent floor rate to 2011, when its term runs out, in
stead of just two years.

This, despite Mr Thar
man's explanation that ex
tending the floor would be unwise as it is tantamount to making the CPF a subsidy scheme.

While there are those who believe the Government should pay more interest, oth
er MPs wonder just who will end up footing the bill.

Bishan-Toa Payoh GRC MP Josephine Teo says that the ministers did not address her query on whether taxes, such as the goods and service
tax, will be raised as a result.

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