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### Annuities scheme begins to take shape

By Lee U-Wen, TODAY | Posted: 22 August 2007 11:57 hrs

Singapore: If you are a Singaporean aged 50 or younger, you will have a "small portion" of your Central Provident Fund (CPF) minimum sum set aside for compulsory annuities.

This contribution will be pooled with others and once you hit the age of 85 and your minimum sum is exhausted, the annuity payouts will begin - possibly a monthly sum of \$250 to \$300 - assuring you a financial lifeline until the day you die.

For the first time since Minister Lim Boon Heng hinted that the Government was looking at making annuities compulsory and Prime Minister Lee Hsien Loong confirmed it on 19th August, citizens have been given an idea of what shape the scheme will likely take.

The actual premium amount has yet to be decided. But Manpower Minister Ng Eng Hen gave the reassurance that a major portion of the minimum sum will still be meant for CPF members to withdraw when they reach the official draw-down age.

Also not fixed: How the money will be drawn out, whether as a lump sum or monthly premiums.

But the tentative plan is to pay out \$250 to \$300 a month from the time members hit 85 - when the 20-year payouts from the minimum sum cease - until the day they die, said Dr Ng. "I'm trying to protect you for very long life expectancy," he added.

But should one not live to 85, the premium would be used to support others in the pool still alive. You can have the money transferred to your family members instead, but at the price of a higher premium.

Observers say the Government now has to "sell" the scheme to Singaporeans.

"To my knowledge, no country has ever made it compulsory for such a large chunk of the population to contribute to a pool in this manner. Most of us are waiting to see how much the premium will be," said Mr Leong Sze Hian, president of the Society of Financial Service Professionals.

Minister-in-Charge of ageing issues Lim Boon Heng urged insurance companies to come up with "creative" annuity products.

"They could have variations of life annuities, they could pay the person's estate in case he passes on too quickly after buying a life annuity. If those kinds of products came onto the market, more people would accept the idea of buying an annuity," he said.

Said a group manager from Great Eastern Life: "This compulsory scheme is a chance for insurance companies to 'wake up their ideas'. Annuities are big in the west, but have never taken off in Singapore. The returns on annuities are now averaging just 2.3 per cent... The take-up was poor. Companies should now take advantage of the upcoming demand for annuities and come up with good products with better returns, say, 5 per cent."

The Ministry of Manpower is still "consulting widely" on the fine print of the compulsory annuity scheme, such as whether it would be managed by the CPF Board or the private sector. - TODAY/ym



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