Closure of CPF Special Account – so what's next?

Learn more about what you can do following the closure of the Special Account for members aged 55 and above in early 2025.

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SOURCE: Lorna Tan

Following the announcement that the CPF Special Account (SA) will be closed from early 2025 for those aged 55 & above, some CPF members, particularly those who have substantial SA savings after turning age 55 are reviewing their retirement plans.

They are likely to be "CPF-rich" and would have planned to enjoy the risk-free interest of 4.05%* pa and the flexibility of making withdrawals anytime from their SA, having set aside the Full Retirement Sum (FRS) or the Basic Retirement Sum (BRS) plus property pledge in their Retirement Account (RA).

To continue to enjoy the same interest rate, CPF members can top up their RA up to the ERS of 4 times of BRS from 2025, which translates to $426,000 next year. ERS is currently 3 times of BRS. The revised ERS will boost retirement adequacy for all as they can look forward to higher monthly payouts for life.

*The interest rate for Special, MediSave and Retirement Account is 4.05% per annum from 1 April 2024 to 30 June 2024.

What happens when a CPF member turns age 55?

When a member turns age 55, their SA and Ordinary Account (OA) savings up to the Full Retirement Sum (FRS) will be transferred to the newly created RA. As the SA will be closed thereafter, any SA balance in excess of FRS will be transferred to the OA and earn the lower interest of at least 2.5% pa.

Future employer and employee CPF contributions will be channelled into OA, RA, and MediSave Account (MA). If the RA has reached FRS and/or the MA has reached the Basic Healthcare Sum, the excess contributions will go to their OA.

For members who invested SA monies before age 55 via CPFIS-SA and choose to liquidate after SA closure, the proceeds will be transferred to the RA (if FRS is not met) or to the OA if the FRS in RA has been met.

Tips for CPF members to maximise their CPF savings

Age 55 & above:

1. Transfer OA savings to RA up to the new ERS amount to enjoy higher monthly CPF LIFE payouts.

A male CPF member who turns age 55 in 2025 and tops up his RA to ERS of $426,000 can expect monthly payouts of $3,300 under the CPF LIFE Standard Plan for as long as he lives. In fact, he can continue to top up his RA to the prevailing ERS each year from age 55 to enjoy higher monthly payouts.

2. Keep the money in OA and use it as a fixed deposit, enjoying the 2.5% pa interest.

3. Invest OA monies under the CPF Investment Scheme (CPFIS) in T-bills, fixed deposits, insurance plan, unit trusts, and so on, depending on risk profile, financial knowledge, and objectives. When the investment is liquidated, the proceeds return to OA.

4. Withdraw savings (beyond the FRS) for investments and/or insurance that are not covered under CPFIS, if they are investment savvy

5. Withdraw savings (beyond the FRS) for immediate needs, if necessary.

Below age 55:

Members below age 55 will continue to have the SA which earns up to 5% pa interest. Maximise your SA by reaping the power of compounding interest which will result in higher monthly payouts in retirement.

Here are three tips:

1. Make cash top-ups to your SA up to the prevailing FRS. You enjoy up to $8,000 tax relief when you make a cash top-up to your accounts and up to another $8,000 when you make a cash top-up to that of your loved ones (parents, parents-in-law, grandparents, grandparents-in-law, spouse and siblings) in each calendar year.

2. Transfer your savings from your OA to your SA up to the prevailing FRS to earn higher interest of up to 5% pa. However, CPF transfers are not eligible for tax relief as CPF savings are already tax-exempted.

3. If OA savings are not required for housing, consider investing them under the CPFIS to generate higher returns than 2.5% pa. This depends on your risk profile and understanding of investments.

What would Lorna do

Come next year, and assuming I have SA savings of just over $300,000, I will likely use one-third of it to top up my RA to the ERS of $426,000 and continue to top up to the prevailing ERS each year till age 65.

CPF Board has worked out that I can expect monthly payouts of about $3,200 under the CPF LIFE Standard Plan from age 65. This is a higher payout than the $2,300 monthly payout I was expecting if ERS had remained at 3 times of BRS.

The remaining $200,000 will be transferred to my OA to earn a lower interest of 2.5% pa. As I have no pressing liquidity needs, I intend to keep them in my OA and invest most of it under CPFIS to earn potentially higher returns than the OA interest of 2.5% pa. If I find viable investment options outside of CPFIS, I will withdraw a portion of my OA.

In the past, it would have been more challenging for CPF members to find risk-free products that can offer an interest of at least 4% pa. In the light of the still high interest rate environment, it is possible to invest in lower-risk investment options like Singapore T-bills, Singapore Savings Bonds, corporate bonds, retirement insurance plan, and so on, and enjoy decent returns.

De-mystifying CPF LIFE plans

When we reach our payout eligibility age of 65 at the earliest, we get to select one of three CPF LIFE plans. Here are some considerations.

1. For the CPF LIFE Escalating Plan, the initial monthly payouts are lower than that of the Standard Plan and they rise by 2% each year for life thereafter.

2. CPF LIFE Basic Plan's monthly payouts are relatively lower than that of the Standard Plan. This is because the Basic Plan is structured in such a way that only 10-20% of your RA savings will be deducted as CPF LIFE premium when you join the annuity scheme. Under the Basic Plan, your monthly payouts will be paid out from your RA till it is depleted at about age 90, after which the payouts will come from your CPF LIFE premium and interest earned.

3. For the Standard and Escalating Plans, 100% of your RA savings will be deducted as CPF LIFE premium when you join CPF LIFE.

4. For all three plans, you will continue to earn CPF interest on the CPF LIFE premium. This interest is factored into CPF LIFE payout computations, allowing you to receive higher payouts from the start.

When you pass away, your beneficiaries will receive your CPF LIFE premium balance and this will exclude any interest earned that has not been paid to you. The interest earned on your CPF LIFE premium are pooled to ensure that we can continue receiving payouts no matter how long we live, even if our CPF LIFE premium balance is depleted.

5. Beyond 90+ age, there is no bequest under the three CPF LIFE Plans. This means that for those who live to their 90s and beyond, they would be better off choosing the Standard or Escalating Plan to enjoy the higher monthly payouts