# Should I invest my cpf ?

Hello friends, today we will be answering the question, should I invest my cpf?

First of all, what is CPF?

A simple search in Google would yield you the result:

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And what does CPF comprises of ?

Diagram

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CPF comprises of three accounts, the ordinary account, the special account, and the Medisave account.

We will not go into details about each respective account. You can always google to learn more.

However, what you need to know is that only Ordinary account and Special account can be used for investment. You cannot use Medisave account to buy stocks or unit trust etc.

Now let’s look at the current interest rate that each account gives you per annum.

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From the chart above, we can see that ordinary account give you 2.5% per annum, Special account is 4%, whereas Medisave is 4% as well. We will not go into retirement account.   
  
Take note that you will earn an extra 1% interest on the first $60,000 of combined balances. For OA accounts, it is capped at $20,000, therefore the first 20,000 in your OA will be 3.5%, and the remainder will be 2.5%.

In summary, ordinary account gives you around 2.5% per annum, whereas special account gives you around 4% per annum.

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Additionally we need to know how much of our CPF savings can we invest in.

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As you can see from the table above, you can only invest your CPF savings under CPF investment scheme, after setting aside $20,000 and $40,000 in your OA and SA respectively. That means if you have less than $20,000 or $40,000 in your OA or SA account, you cannot invest at all.

With that out of the way, lets see if we can actually beat the CPF 2.5% and 4.0% return.

Table

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There are many things you can invest in. You can invest in Stocks, Unit trust, ETF, Bonds, Fixed Deposit, and etc. Note that I’m not a fan of ILP, annuities and endowment. As there are usually lots charges involved, and usually have a certain lock-in period. I will include this pdf link in the description below, as this is generated by the CPF Board.

Now let’s click on the List A UTs here, as after some research, I have managed to find some good unit trust that are able to beat the return of CPF in the long run.

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From the screen above, we can see the Unit Trusts that are approved by CPF Board for us to invest in.  
As you can see, there are many units trusts for us to choose from. Now our responsibility is to find a good unit trust that we can invest in, in the long run. The unit trust that I have selected is Franklin U.S. Opportunities Fund AS (acc)SGD and Schroder China Opportunities Fund. These two funds are quite good, and are able to beat the return of cpf in the long run.

From the pdf, we can see the name of fund, risk of class, Included under CPFIS-OA/SA, expense ratio, sharpe ratio, 1 year performance, and 3 year performance. The first to is rather self explanatory, but for included under CPFID-OA/SA, it tells you whether you can buy this with OA or SA. Because, some funds only can be bought be OA, and not SA. An expense ratio is an annual fee charged to investors who own unit trust. Generally the lower, the better. The Sharpe ratio is a measure of risk-adjusted return. It describes how much excess return you receive for the volatility of holding a riskier asset. Generally, the higher the better. And next is the 1 year performance and the 3 years performance. Note that this is as of 31st December 2020. To see the latest performance and related info of the fund, you need to search for the fund name in Google. Before we search Franklin U.S. Opportunities Fund AS (acc)SGD and Schroder China Opportunities Fund in Google. Lets see the other benefits of investing with CPF.

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The info here can be found at the bottom of the List A UTs pdf, which I will put in the description below. If you look at point 3, you can see that there is 0 sales charge if you invest with your cpf. A sales charge is a upfront fee paid to purchase a unit trust, and it typically ranges from 1.5% - 5% of your investment. So by investing with your cpf, you can actually can save on this as well.

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Next, we will actually look at one of the funds we are interested in. In this case, it’s the Franklin U.S. Opportunities Fund AS (acc)SGD. To get the latest info about this fund, we can google it. Then click on its website.

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In its website, of course we can find a lot of information about the fund. For example, its inception date, the nav value and etc. However, one of the most important thing is the annualized performance. From here, we can see that 3 years, 5 years and 10 years annualized return is pretty good. Meaning that If we were to hold on to this fund 10 years ago, it would give us an average annualized return of 16.63%. This easily outperform the cpf return of average 2.5 or 4% per annum.

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Let’s look at another fund. Which is the Schroder China Opportunities Fund. Then click on here.

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As you can see from here as well, the average 10 years return is 10.4%, and it is much higher than the cpf returns.

Of course, until this point, some of you might say, but this is Tech funds! Of cos its return will be high, as tech fund is risky. Fair enough, however, I did not say that you need to all in your cpf on a single tech fund. You can mixed and match the fund you prefer, to achieve a rather diversified portfolio, so you can sleep well at night, as long as overall return is generally higher than that of cpf return.

That said, keep in mind that tech index such as nasdaq100 average at 18% annualized return, and even diversified non-tech S&P500 index average at around 10% annualized return. Therefore, I believe that if you have a long enough investment horizon such you can keep your fund invested for 15-20 years, you will stand a good chance in generating far more return in your cpf account.

Ultimately, I believe that maximizing return in your CPF account in a safe way is important, as ultimately it is your money. You can use it buy house, etc. And if your cpf account money has more than the minimum retirement sum, you can even withdraw the excess after 55 years old. Lastly, to answer the original question of whether you should invest your cpf? The answer is YES, if you have a long investment horizon such that you won’t withdraw this money for 10-15 years, and NO if you need to withdraw the cpf money within 1-2 years. As with all investment, it comes with investment risk. That’s said. Thanks for watching. Bye.