**Study lists three conditions for people to build an adequate nest**

By TOH YONG CHUAN

YOUNG Singaporeans who join the workforce today will have enough savings in their Central Provident Fund (CPF) to finance their retirement, say two university professors. But there are three caveats:

- They must be prudent in their choice of homes and buy HDB flats within their means;
- Any CPF savings above the Minimum Sum they withdraw must be invested to generate a steady stream of retirement income; and
- They must continue to remain in the workforce.

National University of Singapore (NUS) economic professors Chia Ngee Choon and Albert Tsui drew these conclusions in their 27-page study on the adequacy of CPF payouts. The study was commissioned by the Ministry of Manpower and released yesterday.

It comes on the heels of questions raised recently on whether CPF funds can meet retirement needs.

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The income replacement rate, or IRR, is the ratio of income after and before retirement. A higher ratio means that they have a higher retirement income, proportionate to what they were earning before retirement.

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They picked young workers entering the workforce this year so as to build a "baseline model" where variables like initial wage, wage growth and employment history can be calculated.

They worked out that a 25-year-old male who starts work today and draws a starting median monthly pay of $2,500 will be able to build up enough CPF savings over 40 years. After he retires at 65, he will be able to get an income that is 70 per cent of his pre-retirement income, pegged at his monthly pay at age 55.

The ratio of retirement income to pre-retirement earnings is known as the income replacement rate (IRR), and is used by economists to measure whether retirement funds are adequate. The higher the number, the better.

The IRR for a 23-year-old female Singaporean who starts work today would be 64 per cent when she retires at 65.

The professors said these IRRs are comparable to that of Organisation for Economic Cooperation and Development countries, which stands at 68 per cent.

Prof Chia said three groups who were representative of the labour force were studied — those earning incomes at the 30th percentile, 50th percentile and 70th percentile of their cohort.

The authors assumed these Singaporeans will marry, buy a new HDB Build-To-Order flat in 2017, and live in it till past retirement.

They stressed that to have enough retirement funds, Singaporeans must choose homes based on their income bands. Those at the 30th percentile should buy a three-room flat, those at the 50th a four-room and those at the 70th a five-room. The IRR would drop if they choose larger flat types, they said.

The study also said the Workfare safety net provides a "significant boost" to help low-wage workers meet retirement needs. For example, the IRR of the 20th income percentile for men would rise from 80 per cent to 92 per cent with Workfare.

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