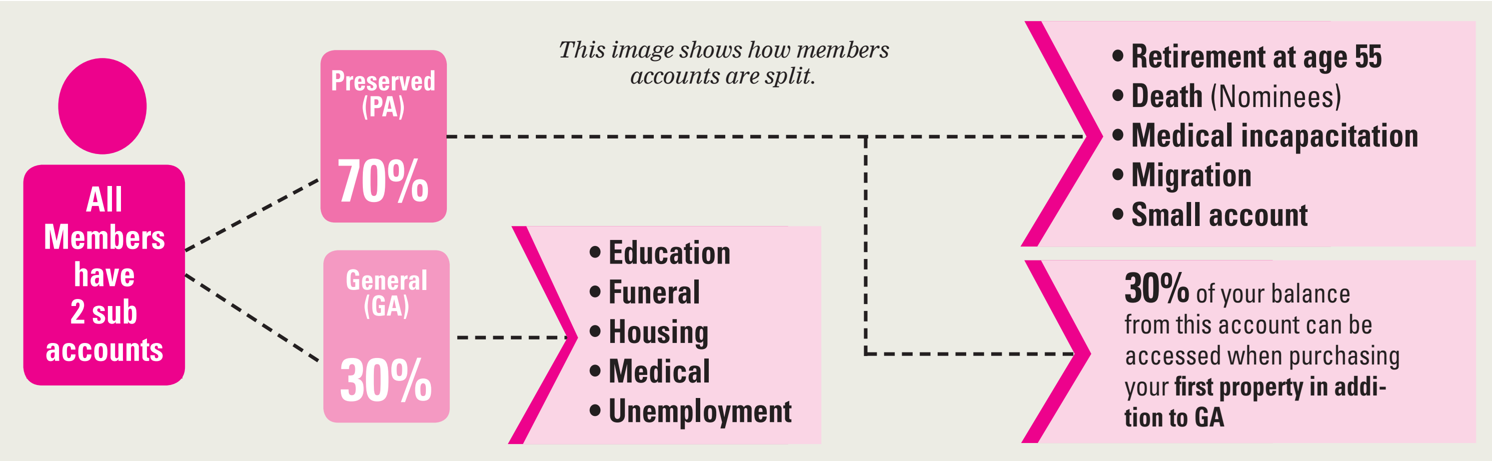
Your FNPF Account - what you need to know



One of the key components of the FNPF reforms in 2011, was the establishment of sub accounts for all members.

This led to the split in members' accounts to two sub accounts – the preserved and general accounts.

Section 44 of the FNPF Act establishes two accounts for each FNPF member. This change was implemented on 1st November 2014 – with 70% allocated to the preserved account and 30% for the general account.

The immediate impact was that a larger portion of members' funds were now locked for retirement.

Prior to this change, members had one account and could access up to two thirds (2/3) or 67% of their funds for early or pre-retirement withdrawals at any point in time. There were also a lot more grounds for withdrawals and naturally, a lot of members used their account as a revolving fund.

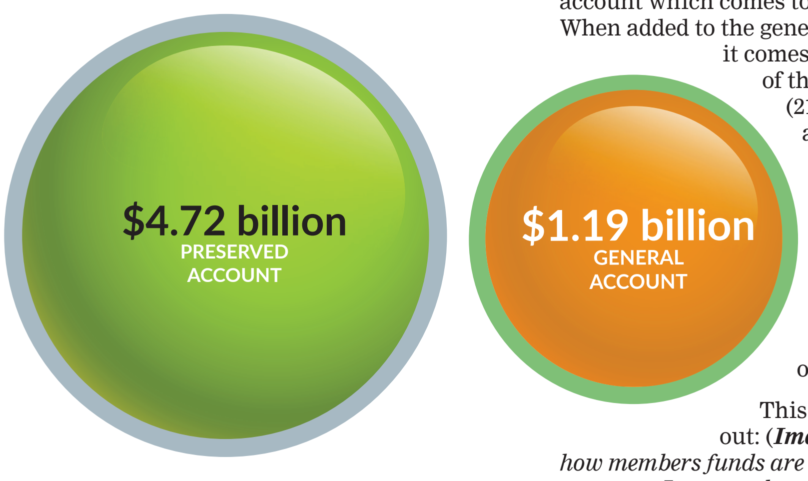
The excessive access to their retirement funds was one of the key reasons that members are now retiring with low balances.

The change brought about by the reforms reversed what had been the practice up until 2014 as it now means that members can only access a smaller portion of their funds to ensure that more was set aside for retirement.

The rationale behind this change was simple – to save for a meaningful retirement and ensure financial security.

This important change has seen a growth in total members funds held in the Preserved Account, in comparison to five years ago, indicating that the preservation policy is working. *(The image below reflects the total member funds up to June 2019.)*

Members Funds as at June 2019
$5.91 billion



70% Of Members Funds is Preserved for Retirement

This week, we discuss the two sub accounts and the impact of splitting members' accounts into the existing preserved and general accounts.

Why was it important for FNPF to split all members' accounts into the preserved and general accounts?

Up until 1st November 2014, members could access their retirement savings through various withdrawal grounds. This meant that more of their savings was being accessed while they were still working instead of setting these funds aside for their retirement, when they would no longer be working and would need their retirement savings to support them financially. By creating sub accounts and splitting funds into the preserved and general accounts, FNPF was simply ensuring that more funds were now reserved for retirement by shifting focus from withdrawals to savings.

Preserved Account

What is the preserved account?

This is the larger of the two sub accounts where 70% of a member's retirement savings is kept. For example, if a member's total savings is $30,000, the portion allocated to the preserved will be $21,000 (70% of $30,000), while $9,000 will be in the general account (30% of $30,000).

How are my contributions split into the two sub accounts?

The 70/30 rule is applied to all contributions received from compulsory members. For example, if your monthly contributions is $200, 70% or $140 will be allocated to your preserved account, while the balance of $60 will be for your general account.

Can I access my preserved account before retirement?

The only time members can access their preserved account for a pre-retirement or early withdrawal is when they purchase their first property, which can either be land or to build a house or an existing house.

How much can I access from my preserved account when buying my first property?

Members can access 30% of their preserved account which comes to 21% (30% of 70%). When added to the general account balance, it comes to a total of 51% of their total balance (21% + 30% general account balance). For example, on a total balance of $30,000, a member will be able to access $15,300 to buy his or her first property (which can either be land or a house).

This is how it's worked out: (***Image 1** below shows how members funds are split into the sub accounts. **Image** 2 shows how the housing eligibility is calculated.)*

What is my housing eligibility or entitlement?

This is the amount that members can access when buying their first property. It refers to 51% of members' total balance and will be shown as 'housing entitlement' or 'housing eligibility'.

Can I access my housing entitlement for other pre-retirement withdrawals if my general account balance is low?

No – the housing entitlement or housing eligibility can only be accessed when purchasing your first house or land.

Apart from buying my first property, is the preserved account only accessed at retirement?

This account can be accessed when a member fully withdraws his or her funds under the following grounds:

- Migration
- Medical incapacitation
- Death of a member (his or her total balance is then paid to his or her nominees)
- Small account

General Account

What is the purpose of the general account?

The general account makes up 30% of a member's total balance. It allows for early or pre-retirement withdrawals under the following grounds:

- Education
- Medical
- Housing
- Funeral
- Unemployment

(The image shown at the top is a graphical representation of all members accounts.)

How much of my general account can I access for early or pre-retirement withdrawals?

Members can only access the amount that is in their general account for the approved withdrawal grounds mentioned above. Based on a total balance of $30,000, the general account balance will be $9,000 ($30,000 x 30/100). It must be stressed that withdrawals will not only reduce your general account balance but your total balance as well.

What is the difference between eligibility and housing eligibility?

Eligibility refers to your general account balance and what you can access for early or pre-retirement withdrawals. Housing eligibility is made up of your general account balance and 30% of your preserved account (51% of your total balance). It can only be used for purchasing your first house or property.

If I have $0 in my general account but more than $10,000 in my total balance, can I access my total balance for early or pre-retirement withdrawals?

No, early withdrawals can ONLY be accessed from the general account.

How can I increase my savings?

You can sign up for additional contributions and commit an additional amount on top of the current 5% that you contribute from your wages or salary for your retirement savings. You can decide the allocation of your additional contributions – whether you follow the 70/30 rule to allocate it to your preserved and general accounts or you can decide on the percentage split or allocate all of it (100%) to either the preserved or general accounts.

The other option (to increase your savings) is to repay withdrawals for any of the pre-retirement withdrawals you may have accessed through the years.

How much can I commit for additional contributions?

You can commit up to 20% of your pre-tax salary. For example, if your monthly contribution (5% member contribution) is $52/fortnight or $104/month and you wish to sign up for 5% additional contributions, you will be paying a total of $208 towards your retirement savings.

Source: FNPF

Image 1

Image 2