Some financial websites and advisors have advocated that CPF members should transfer unutilised balances from their Ordinary Accounts to their Special Accounts? Is this really wise?

Much has been written about the benefit of doing so, namely to exploit the higher yield in the SA (namely 4% per annum currently) versus the OA's 2.5% p.a. For every $10,000 transfer, the equivalent increase in interest received would be $150 per year.

However, here are some counter arguments why this might be a bad advice.

01 **Restrictions in Usage**

CPF balances in the SA are much more restricted in their usage. For example, they cannot be used for housing nor for your children's tertiary education.

02 **Potentially Higher Yields Elsewhere**

{loadposition advert1}If higher yield above 2.5% is really your target, excess CPF OA balances can be invested in the STI ETF or S-REIT ETF at 3+% and 5+% respectively, with the further potential for capital gains, albeit at a slightly higher risk.

03 **Avenue for Tax Relief**

Perhaps the most importantly reason is this: by moving funds to the SA account, it reduces the headroom that you can get from tax relief from CPF top-ups . Only cash top-ups to the SA (not the OA) provide income tax-relief, subject to a contribution cap of $7,000 annually. The SA balance must also not exceed the prevailing CPF Retirement Sum for one to enjoy the relief. For instance, suppose the CPF Retirement Sum is $181,000 currently and you have $101,000 in the SA and $80,000 in the OA. By transferring the entire OA balance of $80,000 to the SA, there is no more headroom for tax planning using cash top-up to the SA. For every $7,000 cash top-up to the SA and assuming a marginal tax rate of 7%, a $490 of tax relief every year can be obtained, which is not insignificant. At the highest tax bracket of 22%, this tax relief is worth $1,540 per year in reduced tax payable. By maxing out the SA balance to at or above the Retirement Sum, the door to tax planning via top-ups to the SA will be closed to you.

Conclusion

{loadposition advert1}In summary, the transfer of CPF OA balances to the SA is not as “no-brainer” as it seems. Essentially, it sacrifices flexibility (in options for housing, tax planning or opportunistic investments) for a 1.5% p.a. increase in interest returns. It may be suitable for a risk-adverse individual who A) does not plan to finance a home loan with CPF OA funds, B) does not need to pay for their children’s education, C) does not intend to contribute top-ups to the SA to obtain a tax relief and D) does not earn a high taxable income. For everyone else, the merit of the decision is really dependent on your individual financial circumstances.

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