IPS: Raise CPF rates to help older workers

Study shows doing so can help them save up to $145,000 when they retire

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Raising the Central Provident Fund (CPF) contribution rates for older workers to put them on a par with those of younger workers could help them save between $31,000 and $145,000 more by the time they retire, researchers have found.

The Institute of Policy Studies (IPS) said in a policy brief yesterday a worker aged 55 last year would be able to accumulate those savings in his Ordinary and Special accounts, depending on his income bracket, if the total contribution rates are 37 per cent until he is 65 years old.

Currently, the rate is 37 per cent for workers up to 55 years old. It then drops progressively to 26 per cent for workers aged 55 to 60, 16.5 per cent for those aged above 60 to 65 and 12.5 per cent for those above 65.

IPS research associate Damien Huang and senior research fellow Christopher Gee said in the paper that raising CPF contribution rates may encourage older workers to stay employed and will help younger workers to save more through the system while they work.

"However, a contribution rate increase is not without its downsides, chiefly an increase in wage costs to employers and a decrease in disposable income to workers," they noted.

They expect the change to add about $800 million to employers' wage bills in the first year. To mitigate costs, they suggested phasing in the change gradually or using temporary subsidies.

"This solution should also be preferable to paying higher general taxes for basic pension payouts to the portion of the population... unable to meet the CPF savings thresholds," they said.

In 2016, the rates for workers aged 50 to 55 were raised to match those of younger ones.

The Tripartite Workgroup on Older Workers is looking at how CPF contribution rates affect retirement savings.

A spokesman for the Manpower Ministry said it noted the IPS recommendations.

Raising the contribution rates would help workers receive higher monthly CPF Life payouts when they retire, Mr Huang and Mr Gee believe.

They said if contribution rates were restored, another 21,790 people – or 10 per cent of each five-year cohort – would reach their full retirement sum.

The ministry spokesman said 59 per cent of active CPF members who turned 55 last year could set aside the full retirement sum of $171,000 in cash, or, if they owned a property, could set aside the basic retirement sum of $85,500 in cash.

Singapore Business Federation chief executive Ho Meng Kit said raising CPF contribution rates would address some inequality by ensuring older workers are paid the same as their younger colleagues for doing the same job. But companies are already struggling with rising costs and pressure to spend resources to digitalise, he said.

"A gradual approach needs to be taken in the push to align rates for older workers with young ones. The effect on business costs need to be moderated or it may impact the employability of older workers," he said.

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