

# Call to raise older workers' CPF contribution rates

Move will help seniors save up to \$145k more for their retirement: IPS study

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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 that 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 rate is 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 60 to 65, and 12.5 per cent for those above 65.

IPS research associate Damien

## Proposal to improve retirement adequacy

### HIGHER CPF RATES FOR OLDER WORKERS

Age of employee	CPF contribution					
	By employer		By employee		Total	
	Current	Proposed	Current	Proposed	Current	Proposed
Up to 55 years old	17%	Unchanged	20%	Unchanged	37%	Unchanged
55 to 60 years old	13%	17% (▲4%)	13%	20% (▲7%)	26%	37% (▲11%)
60 to 65 years old	9%	17% (▲8%)	7.5%	20% (▲12.5%)	16.5%	37% (▲20.5%)
Above 65 years old	7.5%	Unchanged	5%	Unchanged	12.5%	Unchanged

\*In Ordinary and Special accounts.

Source: INSTITUTE OF POLICY STUDIES STRAITS TIMES GRAPHICS

### POTENTIAL ADDITIONAL SAVINGS FROM AGE 55 TO 65

Income percentile	Extra savings (\$)*
10th	31,056
50th	82,365
90th	145,117

Huang and senior research fellow Christopher Gee said in the paper that raising CPF contribution rates may encourage older workers to remain 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 would add about \$800 million to employers' wage bills in the first year.

To mitigate the costs, they recom-

mended 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... who are unable to meet the CPF savings thresholds," they said.

They suggested that other mechanisms be used to increase the progressivity of the CPF system, as raising contribution rates results in a larger savings amount for higher-income CPF members.

There have been calls, including from a group in the People's Action Party that champions causes for

the elderly, for CPF contribution rates for older workers to be raised. They were on a par with younger workers until 1988, before being adjusted several times.

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

The Tripartite Workgroup on Older Workers, which was formed last year, is looking at issues such as how CPF contribution rates affect retirement savings. It will give an update by September.

A Manpower Ministry spokesman said it has 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.

For example, based on the savings a worker at the median income percentile would have accumulated in his Ordinary and Special accounts between 55 and 65, he could get an extra \$451 a month in CPF Life payouts if the contribution rates were raised.

A worker at the 20th income percentile could get an extra \$248.

They also said that if the contribution rates were restored, an additional 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, they could set aside the basic retirement sum of \$85,500 in cash.

Singapore Business Federation chief executive Ho Meng Kit said raising the CPF contribution rates would address some level of 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 the pressure to spend resources to digitalise, he said.

"Amid the economic uncertainties brought on by the ongoing US-China trade war, a gradual approach needs to be taken in the push to align rates for older workers with young ones. The effect on business costs needs to be moderated or it may impact the employability of our older workers," he said.

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