

New IPS study calls for higher CPF contribution rates for older workers

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The Independent, 27 June 2019

A policy brief from the Institute of Policy Studies (IPS) dated June 26, Wednesday, shows how increasing the Central Provident Fund (CPF) contribution rates for older workers to put them at the same level of those of younger workers would be helpful in helping them save between S\$31,000 and S\$145,000 more by the time their retirement period comes around.

The brief from IPS said that, depending on the income bracket, a 55-year-old employee would be able to put together this amount in savings in his or her Ordinary and Special accounts, if the total rate of contribution is raised to 37 percent until the employee reaches the age of 65.

At present, this CPF contribution rate of 37 percent is only given to employees until they are 55 years of age. As the worker grows older, the rate gets smaller. From the ages of 55 to 60, the rate goes down to 26 percent, and for those older than 65, the rate is 12.5 percent.

Increasing CPF contribution rates for older workers may also give them an incentive to stay as part of the workforce, and younger workers all end up with greater savings during their years of employment, said Damien Huang, IPS research associate, and senior research fellow Christopher Gee, in the policy brief.

But, according to Messrs Huang and Gee, the price of such an increase would be higher wage costs to employers, around as much as S\$800 million in the first year of implementation.

“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.”

Therefore, they suggest that raising CPF contribution should be done incrementally, or through utilising 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.”

A group in the ruling People’s Action Party (PAP) has similarly suggested raising CPF contribution rates for older workers. These rates were actually on the same level as for younger workers, but have been adjusted a number of times from 1988 onward. The rate for workers in the 50 to 55 age bracket was raised three years ago to match the rate given to younger workers.

The Tripartite Workgroup on Older Workers, formed in 2018, will give a report in September concerning CPF contribution rates and their effect on retirement savings, among other issues.

The Ministry of Manpower said that it is taking note of the latest recommendations from IPS. According to a representative from the ministry, 59 percent of active CPF members who turned

55 in 2018 are able to put aside the full retirement sum of S\$171,000 in cash. Those who own property are able to set aside the basic retirement sum of S\$85,500 in cash.

The Straits Times (ST) reports that Ho Meng Kit, the chief executive of the Singapore Business Federation, admitted that increasing CPF contribution rates for older workers, will help address inequality that older workers experience by making sure that they are paid similar rates as younger workers, but that businesses are already grappling with increased costs and the pressure to digitalise, which also needs resources.

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."/ TISG