

POLICY BRIEF No. 2/2019
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Reforming the Retirement and Re-Employment Act: Rename, Raise and Adjust to reflect Singaporeans' Health-Adjusted Life Expectancy

by Christopher Gee and Damien Huang

RECOMMENDATIONS

We make two recommendations, one for immediate action and the other to be implemented by 2024. First, we recommend that the **Retirement Age be renamed the Structured Re-Employment Age (or SRA)** and the **Re-Employment Age the Optional Re-Employment Age or (ORA)** to more accurately reflect how the re-employment mechanism in Singapore works.

Secondly, we propose **the RRA be amended to allow the retirement and re-employment ages to be dynamically indexed to HALE in the medium term**. These adjustments can be made after tripartite consultations, to accurately reflect the fact that successive cohorts will be better able to continue working beyond the current norms of when people retire.

These adjustments to what is currently understood as re-employment will encourage employers to tap valuable human capital, and shift the mind-set of employees to understand that there is no one fixed age by which people's productive lives must end.

Key Terms Defined

Retirement Age: 62 years, the age at which firms must offer re-employment to workers at or above this age on renewable contracts with a minimum term of one year.

Re-Employment Age: 67 years, the age at which re-employment is no longer mandatory.

Health-Adjusted Life Expectancy (HALE): Currently 74.2 years, the average number of years a Singaporean might be expected to live in full health. HALE is calculated from data on the Singapore burden of disease and mortality risks collected by the Institute of Health Metrics and Evaluation, in collaboration with the Ministry of Health.

CONTEXT & ANALYSIS

Since 1993, the Retirement and Re-Employment Act (RRA) (then called the Retirement Act) has provided employees

protection against age discrimination. This legislation prohibits employers from dismissing workers before they attain the specified age (currently 62 years) solely on grounds of their age.

Retirement and Re-Employment Act (RRA) Mechanism. Unlike other countries where the retirement age is the maximum age at which a person is expected to stop working and becomes eligible to receive state pensions, Singapore's statutory RRA model allows for a soft-landing, allowing older workers who choose to continue working to do so at reduced workloads. The RRA thus offers employees some protection while at the same time allowing employers the opportunity to reallocate human capital.

This RRA is typically established in Singapore by way of consensus amongst the tripartite partners: employees via unions, employers and the government.

Although no blanket anti-age discrimination legislation exists in Singapore, the RRA specifies an age below which employees are not allowed to be dismissed solely on the grounds of their age (the "retirement age"), and another upper threshold up to which employment must be offered to eligible employees until they reach it (the "re-employment age").

A common misperception is that by raising the statutory retirement age, the government is forcing workers to work longer. This is not the case, with the RRA acting primarily as age discrimination legislation providing employment protection for older workers. However, we note that the terminology used may be confusing to some, and inadvertently contribute to misconceptions about the legislation.

History of the RRA. The RRA, since 2012, also requires employers to offer re-employment to eligible employees who turn 62 up to the age of 67 years. This enables older workers who wish to

continue working so long as they are willing and capable.

The current retirement age of 62 has remained unchanged since it was last revised in 1999, whilst the re-employment age was introduced in 2012, initially set at 65 years and raised to 67 on the 1 July 2017. This also created a three-year-gap between the CPF payout eligibility age of 65 (raised from 62 in 2007) and the retirement age of 62.

Healthy life expectancy: a better proxy for ability to remain productive.

Singaporeans are now living longer and in 2017 now have the longest life expectancy at birth in the world at 84.8 years (Ministry of Health & Institute of Health Metrics and Evaluation, 2019).

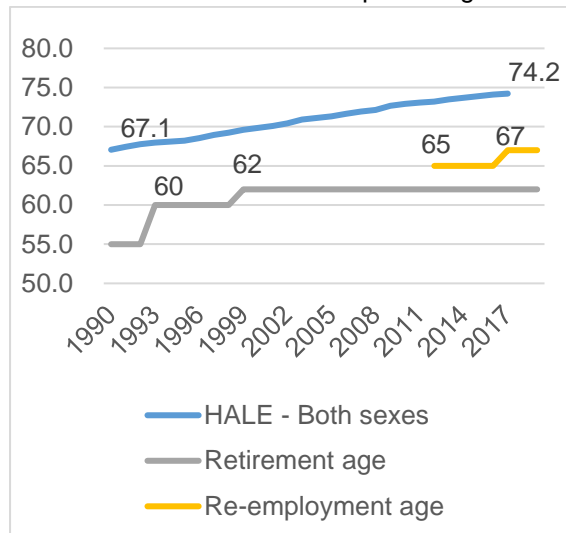
The health-adjusted life expectancy (HALE) of Singaporeans, defined as the number of years a person at a given age might be expected to live in full health, is also the highest in the world at 74.2 years (ibid). This is 4.6 years more than what it was in 1999 when the retirement age was raised to 62 years (from 60).

This growing difference represents lost opportunities for those above the current statutory ages established in the RRA legislation who may wish to remain employed. At a national level, this represents foregone economic productivity that can mitigate the effects of smaller younger cohorts entering the workforce.

The government has signaled that there is tripartite consensus to increase in the retirement and re-employment ages, but we believe it may not go far enough in addressing the productive capacity of older workers.

This signalled increase has the benefit of reducing the now twelve-year gap between HALE and the retirement age, as well as harmonising the retirement age with the current pension eligibility age. This would reduce the number of reference points around which retirement behaviours may be anchored.

Chart 1. HALE and the RRA specific ages



Source: Ministry of Health & Institute of Health Metrics and Evaluation, and Ministry of Manpower.

DYNAMIC INDEXATION OF RETIREMENT AND RE-EMPLOYMENT AGES

Countries such as Denmark, Greece, the Netherlands and Portugal have already introduced an explicit linkage of their normal retirement age and pension eligibility age to life expectancy.

These countries are doing this to cater for greater longevity amongst their retirees, a factor that has put pressure on their fiscal sustainability of their state-funded pay-as-you-go pension systems.

In addition, these countries that have committed to a dynamic indexation to life expectancy have legislation in place to

protect older workers from unfair employment practices and discrimination on the basis of their age.

Dynamic link to HALE. In Singapore, the prescription of fixed chronological ages for retirement and re-employment in the legislation creates two problems.

Firstly, enshrining the retirement and re-employment ages in the legislation can induce policy lags. This is particularly apparent in the case of the retirement age, which has been set at 62 years since 1999, over which time the HALE for Singaporeans has increased by almost five years. The difference between HALE in 2017 and the retirement and re-employment ages is now 12.2 and 7.2 years respectively (Chart 1).

Whilst regular reviews of these fixed ages can be scheduled, this exposes the review process and the associated tripartite consultation to the vagaries of the economic and political cycles.

Secondly, fixing the retirement and re-employment ages in the legislation entrenches these chronological ages as critical thresholds, arbitrarily classifying those above the specified age as old and thus no longer as productive as they were before. This anchoring effect can accentuate ageist mind-sets amongst both employers and employees by reinforcing the legislated ages as markers that serve as convenient reference points for exiting the workforce.

Linking the retirement and re-employment age to a dynamic measure of Singaporeans' ability to continue working such as the HALE would overcome these two problems. The shift away from fixed chronological definitions for these legislated ages to an indexation based on

HALE would enhance employment protection for cohorts of healthier older Singaporeans to remain in the workforce, and counter attitudes that create artificial ceilings for older workers' ability to remain employed.

Note: we are not recommending a change at this time to index CPF payout eligibility age to HALE. The CPF payout eligibility age relates more directly to remaining life expectancy after normal retirement, with the primary considerations being that of retirement adequacy and longevity risk. These issues are beyond the scope of this policy brief.

SPECIFIC RECOMMENDATIONS

To prevent confusion and misconceptions arising from the terminology used in existing RRA legislation, **we first propose to rename the retirement age to the Structured Re-Employment Age or SRA.** The SRA reflects the nature in which re-employment happens – under structured guidelines imposed by the Ministry of Manpower.

Correspondingly, **we also propose to rename what is currently the Re-Employment Age to the Optional Re-Employment Age or ORA.** The ORA terminology reflects the nature of the law in protecting the re-employment of older workers up to the specified age.

These changes maintain the spirit of the law while clarifying the purpose of the age thresholds.

The RRA legislation should also be updated to reflect this terminology, and **we recommend the Retirement and Re-Employment Act be renamed simply as the Re-Employment Act.**

We also recommend the law be amended to allow the SRA and ORA to be dynamically indexed to HALE in the medium term. These two age thresholds would be automatically gazetted by the Minister of Manpower by reference to HALE but with a ten-year lag. For example, the re-employment age in 2029 would be indexed to the HALE in 2019 (rounded down to the nearest whole number), whilst the retirement age would be the re-employment age less five years.

In the future, changes would be gazetted automatically once the HALE changes to another whole number (upwards or downwards). The first cohort expected to be affected are those born in 1956.

By implementing this indexation with a ten-year lag, we allow different demographic groups within each cohort to enjoy improvements in HALE before their SRA and ORA are raised. Furthermore, both employers and employees will have the necessary lead time to prepare for the changes.

This indexation should, in line with recent government initiatives, be done in consultation with the public to set out appropriate timelines for implementation.

CONCLUSION

Countries that have linked their retirement and pension eligibility ages to life expectancy are responding to the challenges that ageing populations pose to the fiscal sustainability of state-funded pension schemes.

Whilst Singapore has avoided this issue by having a fully-funded defined contribution pension system, the country also faces related challenges arising from a rapidly ageing workforce and population.

The adoption of a dynamic benchmark such as HALE for Singapore's legislated re-employment ages will better align the successful ageing objectives of older workers with productivity goals desired by employers and in the national interest.

We also believe that simple changes to the terminology used in the RRA legislation, deep-seated misconceptions over the intent of the legislation will be minimised, and focus attention on the goal of employment protection for older workers.

Growing ranks of older workers who are healthy, willing and able to remain employed represent a powerful longevity dividend that can enhance the well-being of individuals and society at large.

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