Minimum Sum, pace of increase come under scrutiny

Charissa Yong
The Straits Times, 23 July 2014

The Minimum Sum an average Singaporean must save for retirement in his Central Provident Fund (CPF) account, particularly the pace at which it is going up, came under scrutiny at a forum yesterday.

Two participants asked if wages were rising fast enough to keep up with the recent annual increases in the Minimum Sum.

Another participant called for a change in the way the Minimum Sum is calculated, urging that the formula exclude imputed rent, which is what home owners would pay if they were renting their homes.

In response, Manpower Minister Tan Chuan-Jin, who was one of the speakers at the Institute of Policy Studies (IPS) forum, gave figures to show that people's real wages - which take into account inflation – have gone up in the past few years, including those of the lower income.

Hence, Mr Tan is confident that more and more people will be able to meet the Minimum Sum.

The issue of the Minimum Sum has been at the forefront of an ongoing debate among many in Singapore - about whether people can meet the rising amount, which was $80,000 in 2003.

Since then, it has risen yearly to adjust for inflation.

The current sum is $155,000 - or $117,500 in terms of what the Singapore dollar was in 2003. The new amount for next year has not been announced.

But the sum is already too much, too soon, said financial consultant Edwin Siew and blogger Roy Ngerng at the forum.

They argued that wages are stagnating and not growing fast enough to keep pace with the continual rise in the Minimum Sum.

Also, the CPF interest rates "have grown a lot slower than the CPF Minimum Sum", said Mr Ngerng, who is being sued by Prime Minister Lee Hsien Loong for defamation, for alleging that Mr Lee criminally misappropriated CPF monies.

When the Minimum Sum is not met, a Singaporean is allowed to withdraw only up to $5,000 in cash from his CPF savings upon turning 55. The rest goes into his Retirement Account, half of which can be in the form of a pledge on the home he owns.

But the CPF Board's annual reports show that 49.4 per cent of active CPF members who turned 55 last year met the Minimum Sum. The figure was 48.7 per cent in 2012 and 45 per cent in 2011.

Mr Tan noted that overall real wages have risen by 2 per cent to 3 per cent in the last few years, with the progressive wage model helping low-income workers like cleaners get higher pay according to a wage ladder.

The Workfare scheme also tops up the salaries and CPF accounts of those earning $1,900 and less a month.

But executive Alan Ng of NTUC Income worked out that the Minimum Sum would shrink by $10,000 if imputed rent is taken out of the inflation formula.

He asked why these rents are included in calculating the Minimum Sum, when many Singaporeans own their homes.

Mr Tan said the Government is looking into it. "In terms of computing our inflation rate, one of the things we're looking at is actually imputed rents... (This) is something that perhaps we may want to consider not including," he said.

At the discussion, economist Augustine Tan expressed concern that wages were too high and eroding Singapore's economic edge, saying: "Are you not giving way too much to social pressure to raise wages, even when the economy really cannot afford it?"

The former People's Action Party MP also asked if the Government would rethink its foreign labour quotas.

The minister replied: "The answer is no. Foreign labour growth needs to be kept at a sustainable pace."

But the professor raised a valid point and there were "contending pressures" at play, he said. "On some of the challenges we face, you will realise there are actually divergent pressures... But at the end of (the day), we do need to make that judgment call about how best to strike the balance between all the different pressures."