NTUC calls for flexibility in CPF lump sum withdrawals

Valerie Koh
TODAY, *22* January 2015

SINGAPORE — Amid long-standing grouses, particularly among lower-income groups, about the Minimum Sum rules locking in their retirement kitty, the labour movement has suggested an eye-catching change be incorporated into the Central Provident Fund (CPF) system: Allow everyone, regardless of whether they meet the Minimum Sum, to withdraw at least 20 per cent from their Retirement Accounts at one shot when they reach draw-down age.

SINGAPORE — Amid long-standing grouses, particularly among lower-income groups, about the Minimum Sum rules locking in their retirement kitty, the labour movement has suggested an eye-catching change be incorporated into the Central Provident Fund (CPF) system: Allow everyone, regardless of whether they meet the Minimum Sum, to withdraw at least 20 per cent from their Retirement Accounts at one shot when they reach draw-down age.

Such a move will help CPF members foot potential large expenditures after they retire, the National Trade Unions Congress (NTUC) said in a press conference yesterday on the changes it proposed to a panel looking at enhancements to the CPF system.

Concerns have persisted over how current rules, which limit CPF lump sum withdrawals to S$5,000 for those who fall short of the Minimum Sum when they reach age 55, have hamstrung

retirement plans of low-wage earners who find it a struggle to accumulate enough CPF savings to meet the yearly adjustments to the Minimum Sum.

In calling for the shift, however, the NTUC added the caveat that financial counselling should be offered so that CPF members understand the trade-offs between making a lump sum withdrawal and holding out for monthly payouts. Incentives could also be offered to those who choose not to exercise this option of lump sum withdrawals, it added.

The Government should also set out a 10-year schedule that will indicate how the Minimum Sum will change over the years and the corresponding monthly payouts to provide “greater certainty and predictability” for CPF members, the NTUC said, adding that reviews at the halfway mark would help ensure the quantums are kept up to date.

Another among the 15 proposals it had for the 13-member panel that is expected to submit its recommendations on CPF changes to the Government early next month is to raise the wage ceiling for CPF contributions. Employers now only have to pay CPF for those earning a salary of up to S$5,000.

Echoing a call that economists have long been making, the NTUC said this S$5,000 ceiling should be upped by between S$500 and S$1,000 for a start — which would mean workers will get more in their CPF coffers. It added that the ceiling should continue to be raised until it reaches the 80th income percentile, as outlined in CPF policy. In 2012, this percentile was already S$6,000.

The NTUC also reiterated its call to shave off the 2 percentage point difference in CPF contribution rates for workers over age 50 to 55 with their younger peers, in addition to increasing the total contribution rates of workers who are older than 55.

While the move will incur extra labour costs for businesses, NTUC assistant secretary-general Cham Hui Fong said yesterday: “We agree that CPF contribution is part of the labour costs to employers, like levies are part of the cost for employers to employ foreign workers. In the computation of the entire labour costs, employers would have taken that into consideration.

“What is important is that we would have to find ways to continue to make sure that workers are employable,” she added.

Responding to the proposals, some labour economists were against the idea of lump sum withdrawals.

Institute of Policy Studies research fellow Christopher Gee said the change may not be in workers’ interest and defeats the purpose of having a Minimum Sum. “You’re asking people to make a decision quite early — say, at age 55 — and you think (your remaining savings) are enough. But this might not be enough for your 65-year-old self,” he said.

Members of Parliament, however, welcomed the proposal but noted that safeguards must be in place, such as pegging the withdrawal age to retirement and stepping up public education.

Mr Ang Wei Neng (Jurong GRC) said: “My take is that it should go with the retirement age. As long as you’re working, we’ll encourage you to put the money inside your CPF account because you have an income. When you retire, that’s when you have the option of withdrawing.”

He added that incentives such as a higher interest rate or a bonus of a few thousand dollars could be offered to those who opt against a lump sum withdrawal. However, SIM University labour economist Randolph Tan noted that incentives have a “declining marginal utility”, and the Government would end up having to boost incentives to satisfy people.

On the call for total contribution rates to be raised, Mr Gee suggested transitional subsidies be handed out by the Government to tide small and medium enterprises over.

Key proposals from the NTUC on CPF changes

- Allow a lump sum withdrawal of at least 20 per cent of Retirement Account balance at draw-down age, currently 64. Currently, those who cannot meet the Minimum Sum can withdraw only up to S$5,000.

- Make CPF contributions payable up to between S$5,500 and S$6,000, up from the current S$5,000 — for a start. This Ordinary Wage Ceiling should be progressively raised until it hits the 80th income percentile — S$6,000 in 2012 — as outlined in CPF policy.

- Members earn an extra 1 per cent interest for the first S$60,000 (including a maximum of S$20,000 from the Ordinary Account) in their CPF accounts. The NTUC wants this limit reviewed as average net CPF balance has risen from S$46,800 in 2008 to S$67,300 in 2012.

- Draw up a schedule indicating how Minimum Sum levels are expected to change over a 10-year period and what the corresponding monthly payout is going to be. This will allow members to make plans in advance, based on whether they foresee themselves to be able to meet the Minimum Sum when they retire.