Raise CPF contribution rates for older workers to be on a par with younger workers: Study

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Central Provident Fund (CPF) contribution rates for older workers should be raised to be on a par with that for younger workers, a new local study published on Wednesday (June 26) has recommended.

Lifting both employee and employer contribution rates would encourage older workers to remain employed and increase their retirement savings, said the study from local think-tank, the Institute of Policy Studies (IPS).

The question of contribution rates for older workers has been in the spotlight this year, with the Manpower Ministry set to unveil details of a review of retirement and re-employment ages as well as the contribution rates in September.

With the raise proposed by the IPS researchers, the total contribution rate for workers aged above 55 to 65 would be 37 per cent, the rate currently enjoyed by those aged 55 and below.

This means that workers aged above 55 to 60 would get an 11-percentage-point increase from their current contribution rate of 26 per cent, while workers aged above 60 to 65 would get a bigger hike of 20.5 percentage points.

With such increases, the study showed that a 55-year-old in 2018 could save between S$31,000 and S$145,000 more within a 10-year timeframe from the age of 55 to 64.

This would more than double their CPF Life payouts, an annuity scheme which provides Singaporeans or permanent residents aged 65 and above with lifelong monthly payouts from their CPF retirement accounts.

Here are the report's key findings:

Higher Contribution Rates For Older Workers

For workers aged 55 and below, the current CPF contribution by an employer is 17 per cent, while the employee contributes 20 per cent — making a total CPF contribution rate of 37 per cent.

While the rates for workers aged above 55 to 65 should go up, the rates for those above 65 should remain unchanged, the report recommended.

Speaking to TODAY, Mr Christopher Gee, a senior research fellow at IPS, said the research team could have proposed similar increments in the total contribution rate for those aged above 65, but focused on the two other age brackets as increased contribution rates have the effect of more than doubling CPF Life payouts from age 65.

“But in principle, there’s nothing to stop the policymakers from also raising rates for workers aged 65 and above too,” he added.

So, what are the proposed increases?

For workers above 55 to 60:

The employer contribution rate should be raised from the current 13 per cent to 17 per cent.

The employee contribution rate should be increased from 13 to 20 per cent.

For workers aged 60 to 65:

The employer contribution rate should be raised from 9 to 17 per cent.

The employee contribution rate should be increased from 7.5 to 20 per cent.

How much savings workers would get:

Workers above 55 to 65 and earning S$1,424 a month, for instance, would get S$25,610 under their current CPF contribution rates. The proposed increase in rates would raise their savings to S$66,524, or S$40,914 more.

They would also get higher CPF Life payouts. Using the same income example, workers would get S$248 more in payouts — from S$166 under current rates to S$414 under the proposed rates.

What are the pros and cons?

As with any policy recommendations, there are pros and cons, said the IPS researchers, Mr Damien Huang and Mr Gee.

The good: The previous argument was that cutting the contribution rates for workers above the age of 55, carried out in 1988, 1993 and 1999, would make older workers more attractive to employers.

But the researchers pointed out that raising the rates might encourage such workers to remain employed.

They said this was especially relevant as the labour market has remained tight in recent years, with employers “forced to turn to older workers”.

The bad: For workers, higher rates mean lower disposable incomes, while for employers, it means higher wage costs, noted the researchers.

Mr Gee told TODAY that although workers might “feel some pain” in the short run as their disposable income will be reduced, they stand to gain in the long run.

For one thing, they would get higher payouts later on and could live comfortably in their retirement years. He and his colleague also noted in the study that with longer housing loan tenures, higher contribution rates mean that homeowners who are over 55 and still paying their mortgages do not have to pay additional out-of-pocket cash.

The higher wage costs for employers could also be mitigated through “phased-in increases or phased-out subsidies” similar to the Temporary Employment Credit, which was introduced in 2015 – and lasted till 2017 – to help employers cope with the 1-percentage-point increase in the CPF contribution rates to the Medisave account that year.

A Precedent For Lifting Rates In 2016

The rates for older workers were last increased in 2016, when those in the above 50 to 55 age group had their rates raised by 2 percentage points to 37 per cent, in line with that of their younger counterparts.

The IPS proposals add to similar calls that have been made earlier this year.

In January, the People’s Action Party Seniors Group (PAP.SG) – an advocacy group in the ruling party that seeks to represent the interests of the elderly here – also proposed raisingthe total contribution rates for workers aged 55 and above so that they can retire with enough savings.

Asked why they had decided to put out the study now, Mr Gee told TODAY that amid the broader discussion on the issue, there is a need to put “some numbers out there”, such as the projections of higher savings workers stand to gain.

This could allow lawmakers and Singaporeans to “work out the figures on their own” and also understand the implications of implementing such a proposal, he added.

Mr Gee said that the study is also an “important step” to signal to older workers that “they are not necessarily less productive once they hit the age of 55”. He added: “And we also want to tell them that because you’re getting older, you need more protection.”