Save & Sound

70 YEARS OF CPF

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SUNDAY PLUS

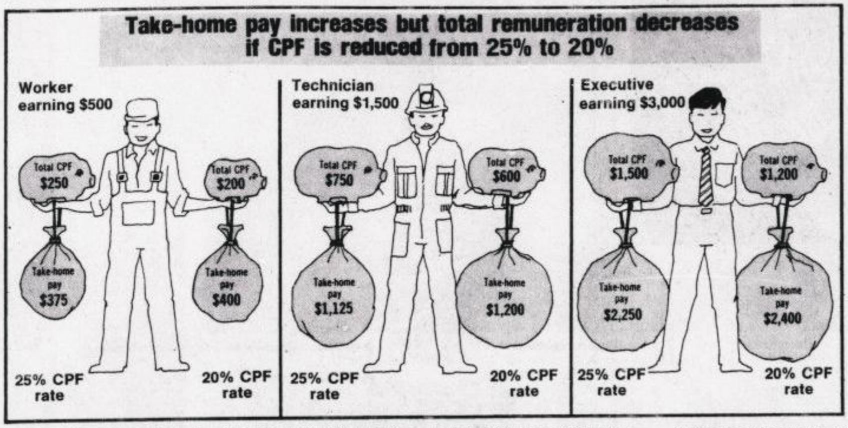
LOOK

The dollars and cents of a cut in CPF

Labour costs have been pinpointed as one cause for the poor state of Singapore's economy. Should we reduce the rates of CPF contributions to ease the load on employers? One MP has called for a 10 per cent cut. It is a move which some ministers have come out against since CPF is part of the worker's salary, and home buyers among them may be hard hit.

But what does a 10 per cent cut portend?

PAUL ONG looks at three wage earners, one earning $500, another $1,500 and a third $3,000, to see what the cut means in terms of dollars and cents.



THE high cost of labour has been identified as one reason for the economic downturn and to reduce the wage bill for employers, one possible direct measure has been mentioned.

It has been suggested that the government cuts contributions to the Central Provident Fund, the mandatory savings fund to which both workers and employers contribute every month.

At present, for every dollar a worker earns, 25 cents go to the CPF and his employer contributes a matching sum. This adds to a total of 50 cents for every dollar he earns or 50 per cent of his salary.

Many employers have blamed CPF rates for their high costs. It has been estimated that wages constitute about 22 per cent of a firm's total costs.

As a result, many firms would like to see a cut in the rate of CPF contributions, and a reduction of 10 per cent is one figure which is often mentioned.

An MP who has lent his voice in support of this sentiment is Dr Toh Chin Chye (Rochore).

He said the rate of contributions should be reduced by 10 per cent, and later by a further 5 per cent if the slump continued.

He said a 10 per cent reduction would pump an extra $1,077 million into the economy without any cost to the Government as the money represented employees' salaries and employers' contributions.

Last Sunday, however, the Acting Minister for Labour, Mr Lee Yock Suan, gave four reasons why the rate of CPF contributions should not be cut.

First, CPF is one of the pillars of the Singapore economy. Secondly, the savings are a form of hard cash, a useful buffer in the event of a world banking crisis.

Thirdly, the contributions make up part of the worker's wages and, fourthly, contributors will find it difficult to service their housing loans if the rate is cut.

How is the worker affected if the rate of contribution is cut, say by 10 per cent, that is, 5 per cent on each side?

Take for example, someone earning $1,000 a month. His CPF contribution is $250. His employer pays in an equivalent amount. Thus, every month, his CPF account goes up by $500.

If there is a 10 per cent cut, he will see $100 less in his savings, since both he and his employer will now pay only $200 each into his CPF account (20 per cent of his salary equals $200).

Let's look at three hypothetical cases — a factory hand who earns $500, a technician who earns $1,500 and a manager who earns $3,000.

For **Mr Factory Worker** who earns $500, it means extra cash of $25 in hand ($400 instead of $375) but it also means a drop in the total remuneration. (See table.)

He will now get $600 (salary plus what his company gives him in CPF) instead of $625. And each month his CPF will go up by only $200 instead of $250.

Likewise, **Mr Technician** who receives $1,500 a month will get $75 more cash and "lose" $75 in terms of the total remuneration.

He will really be getting $1,800 instead of $1,875. As for monthly CPF, he will be putting away only $600 instead of $750.

For $3,000-a-month **Mr Manager**, the absolute loss will be even more grievous.

While his cash flow rises by $150, his total remuneration has fallen by the same. His total package will drop by $150 to $3,600 from $3,750, a fall of 4 per cent.

And he will now be adding only $1,200 instead of $1,500 a month to CPF.

What about house buyers?

A cut in CPF may be seen as a boon for some who prefer to have more cash now regardless of the fact that their CPF savings have fallen.

But those who are in the process of paying off loans for their house or flat may not feel quite the same.

Take **Mr Factory Worker.** Let's say he has bought a $30,000 three-room flat with a loan and is spreading the loan over 20 years. His monthly repayment to the HDB would be $180.

Currently, he can use all the money which goes into his ordinary account for the repayment of his housing loan. That is, he can use 40 per cent of the 50 per cent paid into his CPF every month. In this case, $200.

A 10 per cent fall in contributions however means that **Mr Factory Worker** will be saving only $200 a month. If he can still use the same proportion of CPF for his housing loan, only $160 can be used.

Which means that he will have to supplement the CPF funds with a cash payment of $20.

Let's assume that **Mr Technician** and **Mr Manager** have worked their loans so that the full portion of their CPF monthly contributions is being used for repayment.

Mr Technician who earns $1,500, is thus utilising his $600 a month.

If a 10 per cent cut in CPF does take place, he would have only $480 monthly CPF funds for his housing loan. Which means he would have to top it up to $600 with a cash payment of $120, wiping out his "cash gain" of $75.

He now has $45 less in cash than before the drop in CPF.

Similarly, if **Mr Manager** has been maximising the use of CPF funds for the servicing of his loan, he would currently be using $1,200 for his loan pay-back.

A 10 per cent cut in CPF contribution rates will mean that he will have only $960 available. So he would need $240 in cash for topping up.

Thus, despite his cash gain of $150, he ultimately has $90 less cash once he has settled his housing loan.

So who benefits?

In terms of money, the worker has little to gain and much to lose if CPF rates were to fall. The plus points accrue strictly at the employer's end.

MIND & BODY

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ASSURANCE FOR WORKERS

"From the workers' perspective, to know that they have got money in their CPF account to cover outgoings such as mortgage repayments and healthcare expenses will give them a lot of comfort. It's less stressful for them, even when they are in between jobs. If they are able to build up their CPF funds during their working life, they will also be able to enjoy some post-retirement income."

Mr Bob Tan
Former Vice-President of Singapore National Employers Federation

After years of working on the assembly line meticulously putting together intricate circuit boards, Mr James Jayabalan was promoted to planner, overseeing the process at his electronics company Honeywell Synertek. Finally, he was advancing in his career.

But it was cut short abruptly. When Singapore entered a recession in 1985 after 20 years of uninterrupted growth, he was retrenched. At a loss over how to support his family, he told *The Straits Times* during the depths of the downturn: "I need to have a job by the end of the month. Or else I am in trouble."[1]

Mr Jayabalan was not alone. Thousands of industrial workers like him were laid off as companies in Singapore such as Bata, Eveready, and Union Carbide halted production amid a slowing global economy and stiff regional competition.

Some workers like Ms Goh Sim Ai were more fortunate. After losing her job at electronics company E. Hopt, her union helped her to find a new job – but it would pay less than two-thirds of her previous salary.[2]

Unions were trying their best to sustain the livelihoods of workers, but there was only so much they could do. The escalating wages from the years of double-digit growth, and a three-year corrective wage policy from 1979 to 1982, had caught up with Singapore.

"The recession in 1985 was caused by wages outstripping productivity growth," said Mr Lim Boon Heng, who was then-Assistant Secretary-General of the National Trades Union Congress (NTUC), in an interview for this book. "When the recession happened, there was a hot debate over what should be done."

The Government had to moderate wage growth to save jobs and keep Singapore competitive. One way was to trim CPF contribution rates, which had reached a high of 50 per cent of salaries in 1985 – comprising equal contributions from both employer and employee.[3]

▶ Workers at a factory in Kallang in 1987. The recession in the mid-1980s caused many industrial workers to lose their jobs. (Source: Ministry of Information and the Arts Collection, courtesy of National Archives of Singapore)

▲ Then-Deputy Prime Minister Mr Goh Chok Tong met with union leaders in 1985 to discuss how to save jobs amid the recession. (Source: Ministry of Information and the Arts Collection, courtesy of National Archives of Singapore)

An obvious solution was to lower employer contributions, which would effectively be a wage cut. But this cost-cutting measure should be a last resort as it would affect the finances of workers, particularly for their retirement.

'THEY WERE LOOKING VERY SCARED'

Mr Goh Chok Tong, the newly-minted Deputy Prime Minister and successor to founding Prime Minister Mr Lee Kuan Yew, had a tough task – to save jobs in Singapore.

He had gathered the country's union leaders for their views on the worst downturn since independence, as unemployment rose to 4.1 per cent in June 1985[4] and economic growth dipped below zero for the first time to minus 1.4 per cent in the second quarter of 1985.[5]

CPF CUTS: A LESS PAINFUL WAGE CUT

"If we had stopped increasing CPF since 1980, the CPF rate would have stayed at 38.5 per cent, 11.5 per cent less than it is today (in 1985). With the yearly National Wages Council recommendations from 1981 to 1984, the wage settlements would nevertheless have been at and beyond the upper ranges of the recommendations because we were short of workers.

The only difference would have been that with no change in CPF rates, employers would have paid the whole increase in wages, without additional savings for workers in the CPF of 11.5 per cent (CPF increased 4 per cent in 1981; 2.5 per cent in 1982; 1 per cent in 1983; 4 per cent in 1984). The workers would have got all these increases immediately to spend as disposable incomes.

The downturn in 1985 would still have happened. The difference, however, is that workers would have gotten used to spending higher incomes. Any cutbacks now will mean painful cuts in take-home pay.

Instead, because of increases in CPF from 1980 to 1984 of 11.5 per cent, we now have a margin of safety for cutting back wage costs, without reducing disposable incomes of workers, by reducing their compulsory savings."

Mr Lee Kuan Yew,
then-Prime Minister, in a speech at the 1985 National Day Rally[6]

There was disquiet in the room, noted Mr Goh, adding: “I found that they were all looking very scared as the recession was getting deeper.”

The Cabinet had already approved a 10 percentage point cut on employers’ CPF contributions. Yet, Mr Goh believed the reduction should be dialled up to 15 percentage points for greater impact, meaning firms contributed just 10 per cent of their employees’ salary into their CPF accounts – instead of 25 per cent.

One problem stood in the way: Workers would not take kindly to such a deep slash. But Mr Goh’s meeting with union leaders convinced him that they were aware that the painful short-term cut would lead to longer-term recovery and success.

“I told them, ‘Let’s go for a 15 percentage point cut to show the investors that the workers can take the pain,’” he said, in an interview for this book.

The union leaders recognised that this was a necessary move, and the cut was approved.

Their cooperation was, in fact, a strong show of Singapore’s model of tripartism, where the Government, employers, and unions worked together to implement the deep CPF contribution rates cut across the board, which was enforced in 1986.

Explaining why Singapore could pull off the seemingly impossible task and get workers’ buy-in at that time, NTUC’s Mr Lim, who became labour chief, said: “It wasn’t an easy task, but there was trust in the NTUC leadership. What the ground required was fair play – that when the economy grew again, the cuts should be restored.”

The CPF proved to be more than just a national retirement savings scheme, but also a macroeconomic tool and a cost-cutting mechanism. The CPF contribution rates had been rising from 20 per cent in 1971 to 30 per cent in 1974 and reached the high of 50 per cent in 1985, but there was a need to strike a balance between saving for old age and the nation's needs to keep industries competitive and retain jobs.

Thanks to the CPF contribution rates cut, Singapore pivoted strongly to recovery, with the growth rate bouncing back to 10.8 per cent in 1987. "The economy is recovering because we took decisive measures to tackle our economic problems directly," said then-Prime Minister Mr Lee in his 1987 New Year message. "By not flinching from painful policies, Singaporeans have spared themselves higher inflation and a longer recession."[7]

The CPF contribution rate, however, was never restored to 50 per cent as it was deemed too high, leading to uncompetitive wages. Instead, it took five years before the CPF contribution rate was raised from 35 per cent to 40 per cent (with employees contributing a higher 22.5 per cent then and employers contributing 17.5 per cent). Over the next three years, the contributions from employees and employers were calibrated to land at 20 per cent each from employee and employer.

"In retrospect, perhaps we should have moved a little faster in restoring the CPF rates after 1985. But we could not be sure that growth would continue to be strong. Also, it is quite likely that the strong growth was partly the result of our cautious approach in restoring CPF rates," observed then-Deputy Prime Minister Mr Lee Hsien Loong at the inaugural National Manpower Summit in 1999.[8]

What was clear about the CPF cuts was that a cut in the contribution rates across the board was too blunt a tool. A more refined approach was needed for future economic storms.

"After the 1985 recession, we embarked on wage reform.

STORY SPOTLIGHT

HOW CPF CUTS IMPACTED EMPLOYERS AND WORKERS

As Singapore became more open and globalised, it was more than just economic trends that swept the country. On the street, preppy fashion styles like pastels, turtlenecks, and lycra were adopted by "yuppies", the term coined for young urban professionals of the 1980s.

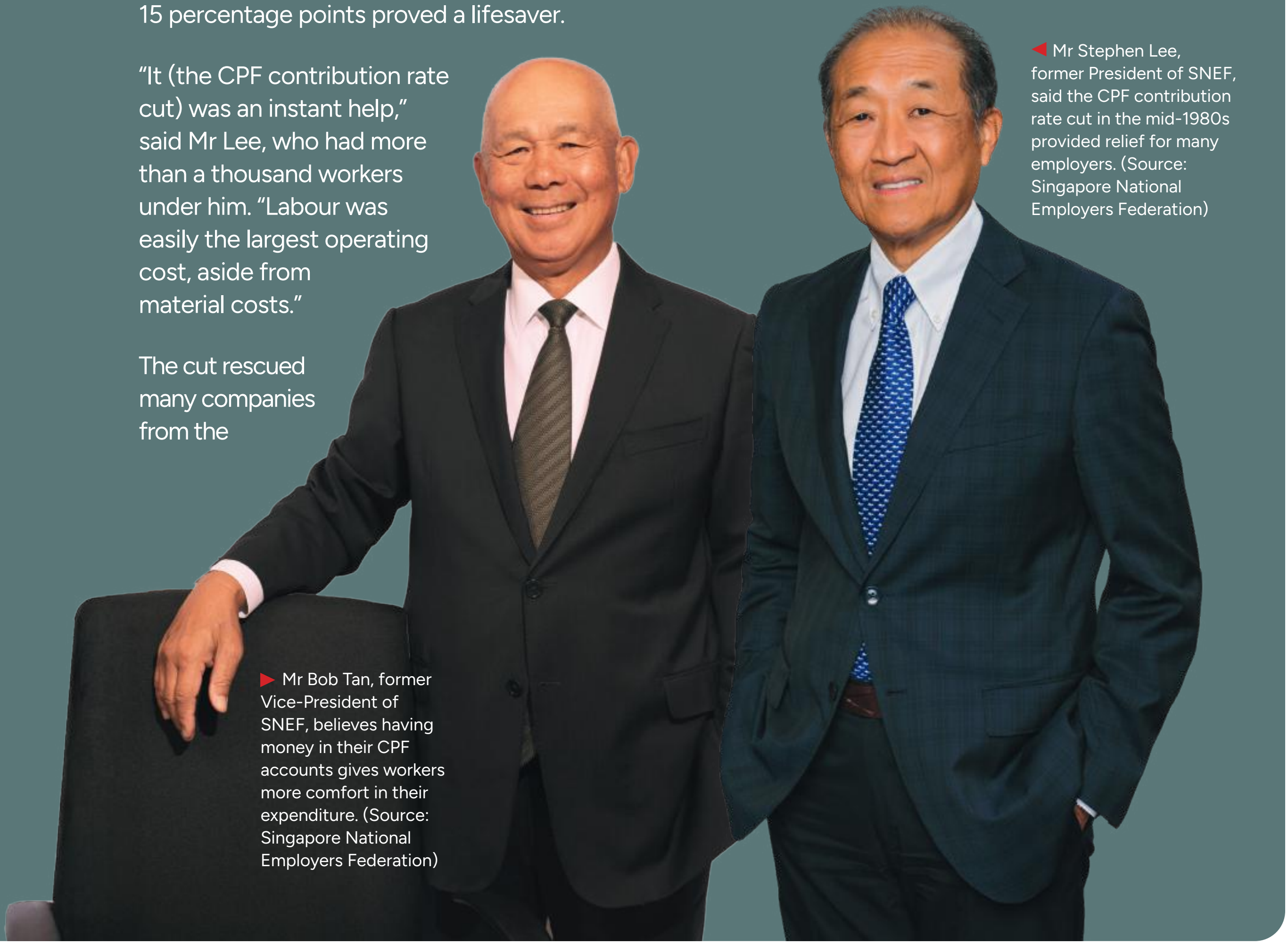
Mr Stephen Lee, then-Managing Director of textile firm Great Malaysia Textile Investments,

▲ Then-Managing Director Mr Stephen Lee from Great Malaysia Textile Investments (fourth from left), speaking to then-Deputy Director of NTUC Mr Ng Pock Too (third from left), as then-Secretary-General of NTUC Mr Ong Teng Cheong (fifth from left) observes workers at the factory. Mr Lee recalled how the CPF contribution rate cut proved a lifesaver for his company. (Source: Ministry of Information and the Arts Collection, courtesy of National Archives of Singapore) was deeply attuned to these trends. After all, the industry was worth a whopping S$1 billion in Singapore alone.[9]

But as the 1985 recession heaped pressure on his bottom line, the CPF contribution rate cut of 15 percentage points proved a lifesaver.

"It (the CPF contribution rate cut) was an instant help," said Mr Lee, who had more than a thousand workers under him. "Labour was easily the largest operating cost, aside from material costs."

The cut rescued many companies from the brink of closure. "I remember at the time all the employers heaved a big sigh of relief," said Mr Lee, who was also President of Singapore National Employers Federation (SNEF) from 1988 to 2014.



Mr Stephen Lee, former President of SNEF, said the CPF contribution rate cut in the mid-1980s provided relief for many employers. (Source: Singapore National Employers Federation)

Mr Bob Tan, former Vice-President of SNEF, believes having money in their CPF accounts gives workers more comfort in their expenditure. (Source: Singapore National Employers Federation)

The country's swift and decisive move to help businesses overcome the recession enhanced its reputation in the business world, said SNEF's Mr Bob Tan.

"It sent a clear signal to the global business economy and investors that with the support of the tripartite partners, we were able to respond to changing economic conditions, even to the extent of cutting wages across the board to keep businesses in Singapore competitive," said Mr Tan.

BLUNT INSTRUMENT

CPF contribution rate cuts, however, also reduced employer contributions for unaffected industries, particularly the healthcare sector.

Ms K Thanaletchimi, who entered the workforce as a pharmacy assistant in 1987 when jobs were scarce, learnt from her father the pain of such cuts and the challenges that it could pose. But it was not until the Asian Financial Crisis more than 10 years later that she had to rally her peers to accept the cuts.

As she had just been elected as President of the then-National University Hospital Employees' Union, she recalled having to explain the CPF contribution rate cut to workers despite the healthcare industry not being affected by retrenchments during the economic downturn, as it was actually recruiting more workers.

"In fact, there were more patients and an increase in workload during bad times," she quipped.

"The workers had to make some sacrifices, but it was based on trust that all parties (such as the Government and employers) were committed to restoring the CPF contribution rates when times are good," she said.

Calling the CPF contribution rate cut an instrument of last resort, Ms Thanaletchimi, who is now President of National Trades Union Congress (NTUC) and Healthcare Services Employees' Union (HSEU), said the creation of a more flexible wage system then and now, has minimised the use of CPF as a macroeconomic tool.

"(The CPF contribution rate cuts) were a bitter medicine to swallow for workers, but we could do it because of the trust and our spirit of tripartism. Solidarity was important and we firmly stood by it," she said.

When asked if CPF can still be used as a macroeconomic tool today, Mr Lim Swee Say, former Minister for Manpower and former labour chief, did not rule it out.

"But such a move should not be the first and only move, bearing in mind both the near- and longer-term implications on our workers in meeting their housing, medical and retirement needs," he said in an interview for this book.

In fact, even during the depths of economic disruptions in 2020 during the COVID-19 pandemic, the CPF contribution rates remained untouched. Instead, the Government provided $28.1 billion of wage subsidies under the Jobs Support Scheme to help companies survive and retain their local employees.[10]

▶ Ms K Thanaletchimi, President of NTUC, said the creation of a more flexible wage system has minimised the use of CPF as a macroeconomic tool. (Source: National Trades Union Congress)

The objective was to develop a wage system that would enable companies to adjust wage costs, without having to resort to a CPF cut," said former labour chief Mr Lim, who also held the portfolio as Minister in the Prime Minister's Office. Among the new moves were annual bonuses dependent on company profitability, and monthly variable components which could be quickly adjusted.

With greater wage flexibility, the next economic downturn during the Asian Financial Crisis in 1997/98 saw a reduced CPF contribution rate cut. It was snipped by 10 percentage points in January 1999, as there was also an awareness that any deeper cuts would be unsustainable. Many members depended on their CPF to pay their monthly mortgage.

THE AGEING CHALLENGE

Shortly after the CPF cuts in the mid-1980s, another landmark decision was made: The introduction of the Minimum Sum Scheme. It had its roots in a report which caused some concern.

The document was released in February 1984 and was meant to be like any other Government report. But the Report of the Committee on the Problems of the Aged had unwittingly fanned flames among the citizens.

The main reason was in a Singapore Monitor headline the very afternoon the report was published: "CPF WITHDRAWAL: PROPOSAL TO UP AGE TO 60."[11] Among the recommendations in the 54-page document was to raise the age at which CPF members could withdraw their savings, from 55 to 60 and then to 65 years old, in light of an ageing population.

It drew an unprecedented backlash, with calls from angry Singaporeans jamming *The Straits Times*' hotline after it had covered the recommendations. There were even accusations that the Government wanted to withhold money to finance the national rail project.

The report, more commonly referred to as the "Howe Yoon Chong report," named after the

Then-Health Minister Mr Howe Yoon Chong chaired a committee that released a 1984 report on addressing Singapore's ageing population. Among its recommendations was raising the CPF withdrawal age, which proved deeply unpopular with the public. (Source: Ministry of Information and the Arts Collection, courtesy of National Archives of Singapore)

The Minimum Sum Scheme was introduced in 1987, helping members spread out their savings over retirement by providing monthly payouts.

late Health Minister who chaired the committee, had damaging consequences. It was blamed for the ruling People's Action Party's 12 percentage point drop in votes at the general election that year.

It was perceived as a debacle. But the report, which was commissioned by the Government, was a timely study of a growing challenge – Singapore's rapidly ageing population and retirement adequacy.

"Following the Howe Yoon Chong report on ageing, it was recognised that with longer life spans, and people staying healthy and fit longer, CPF savings would not be enough for people to live on in a longer period of retirement," said Mr Lim Boon Heng.

Despite the report's negative reception, it brought home the point that the CPF is never based on a static reality. A complicated and often unpredictable mix of demographics and economics means there has to be constant evolution and calibration of CPF policies.

MAXIMISING SAVINGS WITH A MINIMUM SUM

With rising life expectancy and the threat of inflation, how could Singapore create a long-term safeguard for members in the 1980s? A solution was keeping a minimum amount in their CPF savings for basic retirement needs in the long term, which would then be disbursed as a steady income stream after retirement.

Within weeks of the fateful Howe Yoon Chong report, the concept of a "minimum sum", created by then-Minister for Labour Mr S. Jayakumar, was suggested as an alternative move. This meant that people could withdraw part of their CPF savings at age 55, with the rest being subject to staggered withdrawals.

Explaining the idea, former Prime Minister Mr Goh said it departed from the recommendation of the report, which he called "overly protective" and gave a person a standard of living beyond the minimum required.[12] There were other things to consider as well in determining the sum, such as the value of a member's house.

After much deliberation, the Minimum Sum Scheme was introduced in 1987, helping members spread out their savings over retirement by providing monthly payouts.

From age 60, the Payout Eligibility Age (previously known as the Draw Down Age) would provide the retiree with about $230 per month for about 20 years, depending on the interest rate, said then-Acting Minister for Labour Mr Lee Yock Suan. "The Minimum Sum Scheme improves on the existing CPF scheme by making it more complete," he said of the move.[13]

Another way to ensure people have enough for retirement is to give them the option of working longer. In the late 1980s, the Government worked on collective agreements with unions to raise the retirement age from 55 to 60, before it was legislated in 1993.

In 2019, then-Prime Minister Mr Lee Hsien Loong announced that the retirement age would be raised from 63 in 2022 to 65 by 2030. "Many of us want to build up bigger nest eggs for when we eventually retire," he said.[14]

Another sign of how CPF policies are constantly reviewed and adjusted is the change in CPF contribution rates for older workers above age 55. To alleviate employer burdens, they were reduced in 1988, then in 1993 and 1999.[15] However, they were raised in 2019 to enable older workers to save more.

To help more members save more for their retirement, the total contribution rates for senior workers aged above 55 to 70 were further increased from 2022 till 2025. From 2026, the CPF contribution rates for senior workers aged above 55 to 65 will be increased by another 1.5 percentage points.[16]

CPF's role as a steward of Singaporeans' nest eggs will continue to evolve, adapting to economic conditions, life expectancies, and demographics. The next big step was securing Singapore's newest social security pillar: healthcare expenses.

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We want all our seniors to have a secure retirement and a good quality of life. That is why we have introduced various support schemes – from the Pioneer and Merdeka Generation Packages to the Silver Support Scheme and Matched Retirement Savings Scheme.

But young seniors are in a unique situation. The cohort is in their 50s and early 60s, and they sometimes joke that they are the “almost generation”. Our children are almost graduating or almost ready to move out. We are almost ready for retirement. For those who are fortunate enough, with living parents, their parents are in their later years and need more of their care and attention. So, many are juggling ageing parents, families, and retirement planning – all at the same time.

They also had fewer opportunities when they were growing up. That age group from 1960 to 1973 had much lower cohort participation rates in the universities. Today, over 40 per cent of each cohort earns a degree.

For people in this generation, wages were lower when they were building (their) careers, and they didn’t have the same runway to benefit from the CPF enhancements made over the years to build up their retirement savings. That’s why we introduced the Majulah Package – to give young seniors a boost so that more can reach their Basic Retirement Sum, or even the Full Retirement Sum.”

Dr Tan See Leng
Minister for Manpower

RETIREMENT SUM MILESTONES

The Retirement Sum (previously known as the Minimum Sum) and the Payout Eligibility Age have continued to keep pace with increasing longevity and cost of living.

"The evolution of the CPF is a continuous process to ensure that it remains relevant and responsive to the needs of its members and changes in our society," said then-Labour Minister Mr Lee Boon Yang in 1994.[17]

"For those with less savings, there is all the more reason for them to safeguard their savings to last them 20 years in retirement. Otherwise, they will encounter financial problems in old age."

1994 – It was announced that the Minimum Sum would increase by $5,000 every year.

2003 – Then-Prime Minister Mr Goh Chok Tong announced that the sum would be raised by $4,000 a year, and adjusted for inflation, to reach $120,000 (in 2003 dollars) by 2013.[18]

2013 – Due to the high inflation in 2012, the Government decided to spread out the remaining hikes until 2015.[19]

2015 – The Minimum Sum was increased to $161,000.[20]

2016 – The Minimum Sum was replaced with the Retirement Sum, which is a reference point that provides an indication of how much you need to save for your desired monthly payouts. The three tiers of retirement sums were intended to provide members with options to decide how much they want to save for their retirement:[21]

- Basic Retirement Sum (BRS)
- Full Retirement Sum (2x BRS)
- Enhanced Retirement Sum (3x BRS)

2025 – The Enhanced Retirement Sum was raised to four times the BRS to enable members to voluntarily save more to enjoy even higher monthly payouts in retirement.