

Proposed CPF changes – Questions you want answered (English)

Q1. Why do we need to make changes to the CPF system?

Today, many retirees rely on their children to support them in their old age. But more people are living longer, remaining single or having fewer children. Future retirees will have to depend more on CPF savings for their retirement needs. We must start improving the CPF system gradually to prepare for these upcoming challenges. Singaporeans will be given adequate time to adjust to the changes.

Q2. Why do we need to raise the Minimum Sum and increase the SA contribution rates?

As the economy grows and wages increase, Singaporeans will have higher expectations of what is adequate for their basic retirement needs. The current Minimum Sum of \$80,000 will not be enough. At the same time the SA contribution rate needs to be increased, to help more Singaporeans attain the Minimum Sum. These moves will ensure that Singaporeans put aside enough to retire comfortably.

Q3. Will I have enough money in my OA to pay for my mortgage loans?

Yes, most CPF members would have a higher OA contribution rate than what they receive now, when the employer's CPF contribution is fully restored. They would still be able to afford to pay their mortgage loans.

[For more information on the changes to the CPF contribution rates, visit the ERC website at www.erc.gov.sg.]

Q4. Why do we need to cut the total CPF contribution rate for older workers aged 50 – 55 to 32% (16% contribution by employers and 16% contribution by employees)?

Under our seniority-based wage system, mature workers cost employers more than younger workers with the same skills. They are thus at greater risk when companies downsize. And if they are retrenched, they find it more difficult to secure re-employment. The 40% CPF contribution rate for workers aged 50 – 55 adds to this problem, because it discourages employers from taking on older workers, and older employees from working for lower take-home pay. Reducing the total CPF contribution rate for this group to 32% will help them to keep their jobs, and improve their chances of finding new jobs if they are retrenched.

Q5: Will an overall contribution rate of 32% cause workers aged 50 – 55 to run into problems servicing their housing mortgages?

Younger employees will have time to adjust, and are unlikely to run into such problems by the time they reach the 50 – 55 age bracket. Some workers in the age group now may, but we expect the number to be small. This is because the reduction in employee CPF contribution to 16% will mean more take-home pay for workers aged 50 – 55. Employers are also encouraged, as a transitional measure, to reward deserving workers in this age group through bonuses or the monthly variable component (MVC), as the CPF is restored for the others. The workers can thus use their increased cash wages to pay for part of their mortgages. To help affected workers better adjust to these changes, the ERC has also proposed that the

government allow them to draw on their Special Account savings to meet their shortfall in their mortgage repayments until they reached 55.

Q6. Why does the ERC want to lower the salary ceiling for CPF contributions from \$6,000 to \$5,000?

Higher-income earners have more cash savings and can look after their own financial affairs. Lowering the salary ceiling to \$5,000 will reduce their compulsory savings, and allow them to take more responsibility for themselves, including planning for their retirement needs.

Q7. How will lower-income workers be affected by the proposal to raise the salary floor range for employee's CPF contributions to \$500 - \$750?

Workers earning between \$500 and \$750 will need to put less of their salary into their CPF savings. They will thus get more take-home pay for their day-to-day living expenses.

Q8. How will I benefit from the proposal for CPF to facilitate investment in private pension funds?

Private pension plans are investment plans that offer the advantages of professional management, lower cost, and better diversification. If you decide to invest your CPF savings in such a plan, you can expect better returns over the long term, than say if you buy shares on your own.

Q9. How will the proposed limit on use of CPF for housing affect my ability to buy property or my ability to service my mortgage?

Affordability of home ownership will not be affected. If you are buying an HDB flat with a subsidised loan from HDB, the limit will not apply to you. If you have already bought a flat, the limit will not apply to you either. The limit will apply to new homebuyers, but even for them it will be generous. Homebuyers will be able to pay for their mortgage instalments using only CPF for around 20 years, before they have to start using any cash to service their instalments.