

Press Statement: CPF Proposals Enhance Retirement Needs and Increase Wage Flexibility

1. The ERC Sub-Committee on Policies related to Taxation, the CPF system, Wages and Land has proposed a wide-ranging set of changes to the CPF system to enhance retirement needs and increase wage flexibility. These include:
 - a. increasing the target contribution rate to the Special Account by a further 1%-point, as the CPF contribution rate is restored to 40%. (See table below);

Table 1: Special Account Contribution Rates

Age of Member	Current Rate (%)	Announced Rate upon CPF Restoration (%)	Recommended Rate upon CPF Restoration (%)
35 years and below	4	4	5
Above 35 and up to 45 years	6	6	7
Above 45 and up to 55 years	6	8	9

- b. limiting CPF withdrawals for housing to 150% of the value of the property, and bringing the limit down to 120% over 5 years. This will apply to CPF members who take up new mortgages or re-finance their existing mortgages, and will cover private property loans and HDB market-rate loans. It will not affect existing housing loans, and purchases of HDB flats on subsidised HDB mortgages; and
 - c. facilitating investment by CPF members in private pension plans to help CPF members better achieve a balanced mix of risk and returns.
2. To increase the flexibility of the labour market, the Sub-Committee has proposed that the Government raise the monthly salary floor range for employee's CPF contributions to \$500 - \$750, from the current range of \$200 - \$363. Workers earning below \$750 will need to put less of their salary into their CPF savings, and will get more take-home pay for their day-to-day living expenses.
3. At the high end of the income spectrum, the salary ceiling for CPF contributions will be lowered from \$6,000 to \$5,000, to reduce compulsory savings for higher income Singaporeans, and allow them to take more responsibility for their own financial needs, including planning for their retirement. Employers are encouraged to make appropriate adjustments to salary packages to offset the CPF reduction and to reflect employees' market value.
4. The Sub-Committee has also recommended lower CPF contributions for workers aged 50-55, to enhance their employability. This group of older workers will be the most vulnerable to competitive pressures in the future. The Sub-Committee has proposed lowering the total contribution for workers aged 50 – 55 to 32%. The employer's contribution should be kept at the present rate of 16%, while the employee's contribution would be gradually lowered to 16% from the present 20%. The Sub-Committee also encourages employers to pass on part of their cost savings to deserving workers in this age group through the variable component of their wages, depending on the circumstances of each company and the contribution of each worker. The recommendations will contribute to greater wage flexibility, and help preserve jobs for older workers.
5. Taken in totality, the ERC's proposals seek to strike a balance between the competing priorities of enhancing retirement security, providing for home ownership, and increasing economic flexibility. The Sub-Committee recognised that CPF members have made long-term commitments based on the current framework. It has recommended that its proposals be implemented gradually, to give Singaporeans ample time to adjust to the changes.

6. Government will respond to the Sub-Committee's recommendations in Parliament on 22 July 2002.

The full report is available at the ERC website www.erc.gov.sg

**ERC Sub-Committee on Policies Related to Taxation, the CPF system, Wages and Land.
15 July 2002**