

Background

This article provides an analysis of the quarterly statistics on CPF contributions and withdrawals. It also examines how the contributions and withdrawals are affected amidst the policy changes and events in the global financial and economic market.

Sharp dip in Singapore's growth rate...

Singapore's economy was in good shape from 2004 to 2007, enjoying GDP growth rates of between 7% and 9%, peaking at 9% for the year 2004. The growth rate for 2003 was expectedly subdued at 3.8% due to the outbreak of SARS and the Gulf War. In 2008, amidst the worsening of the sub-prime mortgage crisis and the subsequent financial meltdown, the growth rate¹ was only 1.1% (**Chart 1**). The growth rate for 2009¹ is expected to contract between 4.0% and 6.0%.

The growth rate for 2008 reached a low of 1.1% and is expected to be negative for 2009

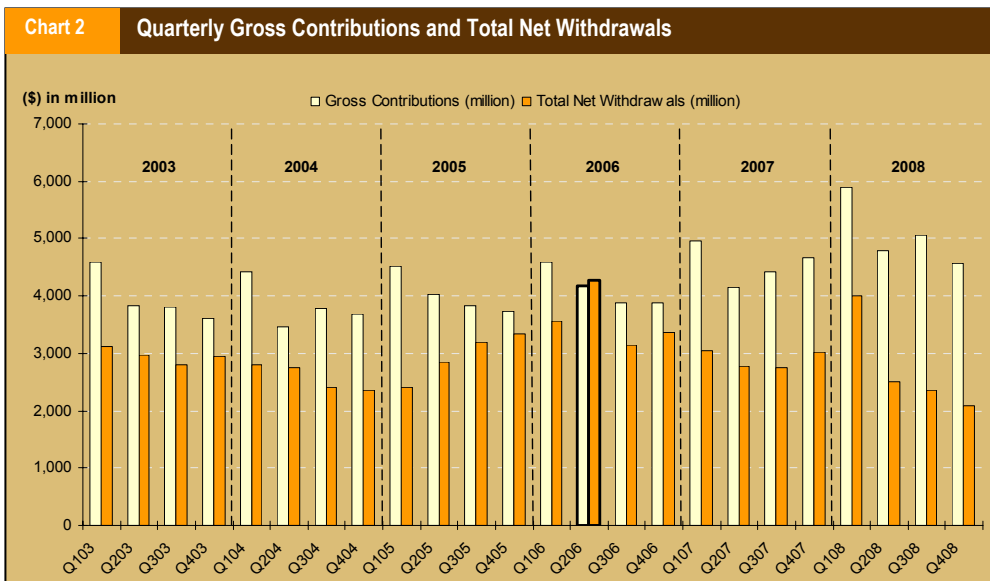


¹ Figures from Department of Statistics (Ministry of Trade and Industry) viewed 14 July 09 (<http://www.singstat.gov.sg/news/news/advgrp2q2009.pdf>)

Contributions exceed withdrawals...

For most of the quarters spanning 2003 to end-2008, gross contributions have exceeded total net withdrawals (more inflows than outflows), with the exception of the 2nd quarter of 2006 (**Chart 2**). The spike in withdrawals in the 2nd quarter of 2006 was likely due to an increase in withdrawals for capital repayments under the Residential Properties Scheme (RPS), and an increase in withdrawals for investments. Contributions and withdrawals seem to mirror each other for most of the quarters, except for the year 2005 where they have an inverse relationship.

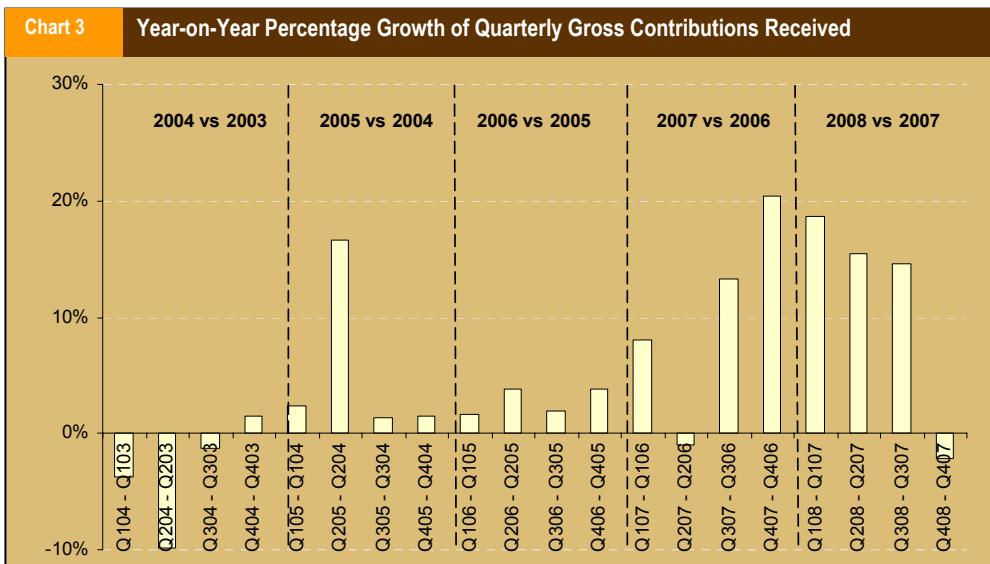
Total withdrawals exceed gross contributions only in Q2 2006 arising from an increase in capital repayments under RPS



Rising Contributions and their likely causes...

Contributions remained rather steady from 2003 to 2006 before trending upwards from 2007. It is also noted that contributions are usually the highest in the 1st quarter of each year compared to other quarters of the same year as companies make contributions for their employees based on the previous year's December wage (which includes year-end bonuses) (**Chart 2**). Gross contributions for each quarter are mostly higher compared to the same quarter of the preceding year, with the most drastic increase being observed from the 3rd quarter of 2007 onwards (**Chart 2 & 3**).

Contributions are usually highest in the 1st quarter of each year due to bonuses being included in the December wages



An increase in employer contribution rate from July 2007 could have driven contributions upwards

From 2003 to 2006, the amount of contributions for each quarter ranged from around \$3 billion to \$5 billion. The amount of contributions started to pick up from 2007 onwards and subsequently exceeded the \$4 billion mark. This is possibly due to the adjustment of the employer contribution rate in July 2007 from 13% to 14.5%.

It is also observed that the higher year-on-year increase in contributions for the 2nd quarter of 2005 was due to the much lower contributions for the quarters of 2004 (the overall contribution rate for those up to 55 years old was 36% before October 2003 and subsequently dropped to 33% from 1 October 2003 till 31 December 2005).

Higher unemployment rate and higher retrenchments in Q4 2008 were likely to have caused a drop in contributions

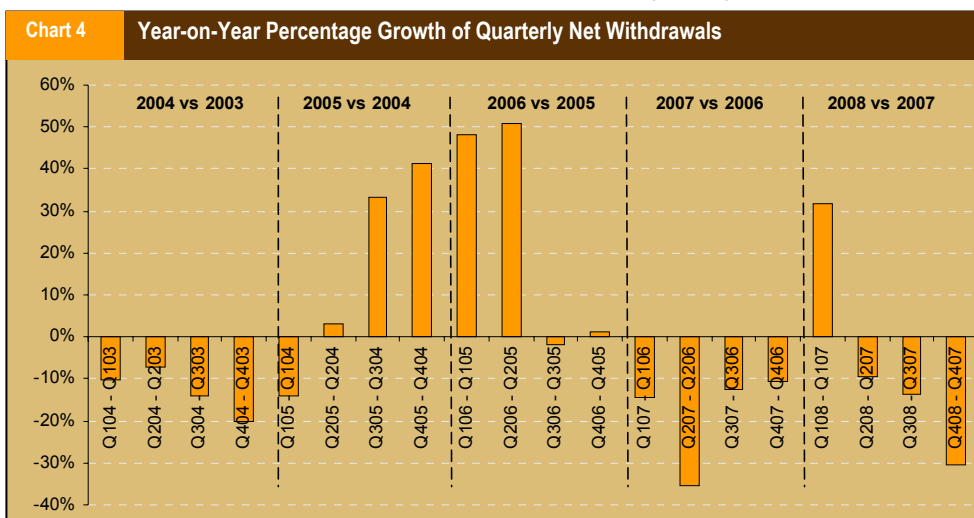
The 3rd quarter of 2008 marked the deepening of the sub-prime mortgage crisis as stock markets worldwide crashed and a considerable number of banks, mortgage lenders and insurance companies failed. Resident unemployment figures² in the 4th quarter of 2008 jumped to 3.6% from 2.4% for the same period in 2007. Retrenchment figures² also reached a record high of 7,500 workers, more than a three-fold increase compared to about 2,000 workers in the same period last year. This is expected to account for the dip in contributions for the 4th quarter of 2008 (**Chart 3**).

Withdrawals generally down...

Withdrawals were lower in 2003 arising from an outbreak of SARS and the Gulf War

As observed earlier in Chart 2, withdrawals continued to suffer a downward trend from 2003 to 2004 due to the after effects of the economic slowdown (from bursting of dot.com bubble in 2001) and poor consumer sentiments arising from the outbreak of SARS and Gulf war in 2003. It started to pick up in 2005 and 2006, but started trending downwards again from 2007.

Looking at the year-on-year growth of total net withdrawals, the amount declined for most quarters compared to the same quarter of the preceding year. The only exceptions were seen in the second half of 2005, the first half of 2006, as well as the 1st quarter of 2008 (**Chart 4**).



Composition of Withdrawals...

CPF members can withdraw their CPF savings under the following circumstances:

- For housing - Public Housing Schemes (PHS) and Private Residential Housing Schemes (RPS)
- For investment - CPF Investment Scheme using Ordinary Account balances and CPF Investment Scheme using Special Account balances (CPFIS)

² Quarterly figures from the Ministry of Manpower viewed 30 April 09

(<http://www.mom.gov.sg/publish/momportal/en/communities/others/mrds/statistics/Unemployment.html>) & retrenchment

(http://www.mom.gov.sg/publish/momportal/en/communities/others/mrds/statistics/Retrenchment_and_Redundancy.html)

- For healthcare - Medisave Scheme, Medshield Scheme, Private Medical Insurance Scheme (allows CPF members to use their Medisave savings to buy Medisave-approved Integrated Shield Plans) and Eldershield Scheme

- For other CPF schemes³ - Home Protection Scheme, Dependants' Protection Scheme, Education Scheme, Special Discounted Shares Scheme, Minimum Sum Scheme

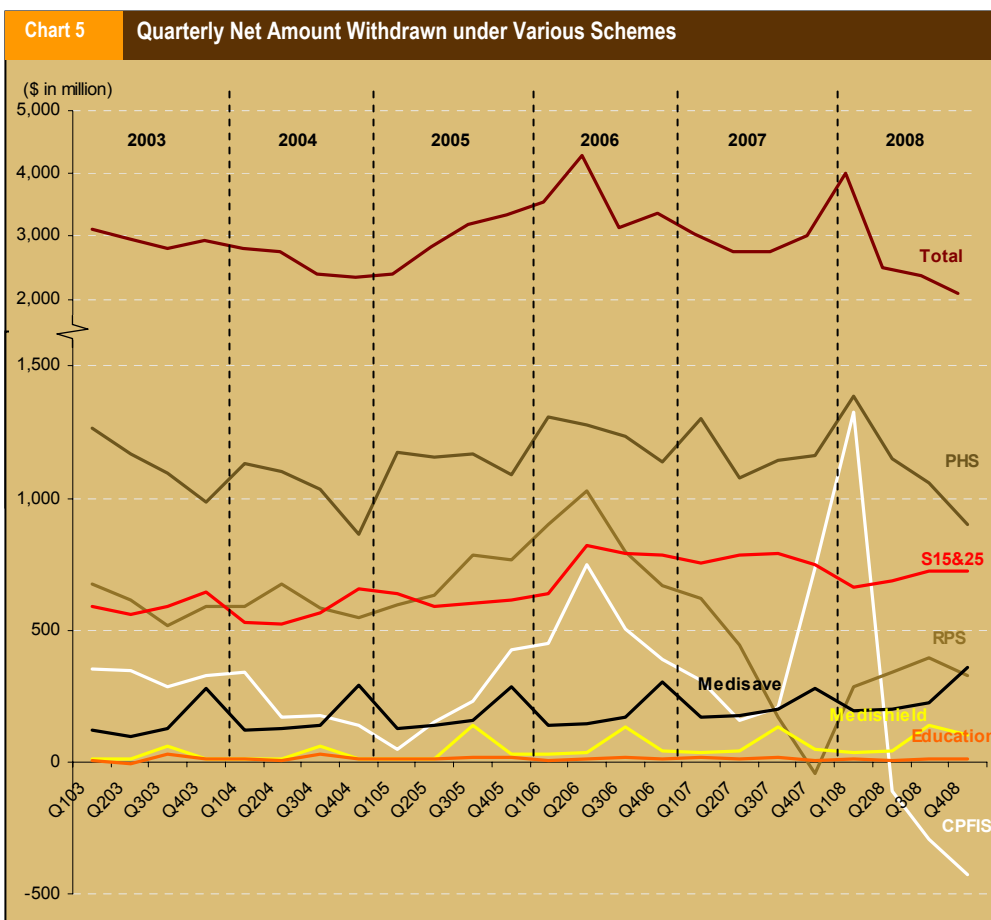
- For Withdrawals under Section 15 and 25 of the CPF Act - Withdrawal at Age 55, under non-retirement grounds and upon death

Housing forms the bulk of withdrawals

We note that housing forms the bulk of total withdrawals. Other schemes that represent a significant portion of net amount withdrawn are withdrawals made under the CPFIS as well as those made at age 55, non-retirement grounds (such as leaving Singapore and West Malaysia, physical incapacity, unsound mind and Malaysian Citizen leaving Singapore) and upon death.

Total net withdrawals peaked in Q2 2006 as withdrawals for housing, withdrawals at age 55 and non-retirement grounds surged

For the 2nd quarter of 2006, a spike in withdrawals under housing was due to more members withdrawing for capital repayments for private properties under the RPS. An increase in the net amount withdrawn at age 55 and under non-retirement grounds also occurred due to the higher number of withdrawals from the Government Progress Package⁴. Together with a higher net amount withdrawn for investment-linked products, the total net withdrawals increased (Chart 5).



³ Non-Residential Properties Scheme was phased out on 1 July 2006. Delgro Shares Scheme ceased to operate since 15 February 2004 upon the shares being integrated into the CPFIS.

⁴ The Progress Package was a surplus sharing initiative that consists of growth dividends, workfare bonus, rebates (for utilities, service and conservancy charges and rental), top-ups to CPF Special/Retirement & Medisave Accounts, and National Service Bonus.

Net withdrawals in 2007 were lower because of higher refunds from private property en-bloc sales

Withdrawals under Housing...

We also observed a high increase in withdrawals for housing from the 3rd quarter of 2005 to the 2nd quarter of 2006. This was likely due to a revision of the housing loan limit for HDB loans from July 2005 onwards, with the loan to value limit of 80% being adjusted to 90%. For private properties, the cash requirement was lowered from 10% to 5%. Members can pay the rest of the cash requirement using CPF, and this is a probable cause for the increase in CPF withdrawals.

Comparing quarterly withdrawals under the RPS in 2006 to that in 2007, withdrawals under RPS declined not because of any market slowdown but due to a much higher refund of CPF savings, powered by a record number of private property en-bloc sales and higher resale price index.

Withdrawals under PHS slowed down from 2008 onwards

Withdrawals and refunds made under the PHS also slowed down from the 1st quarter of 2008 onwards, due to less withdrawals made and an increase in refunds from the sale of HDB flats, as well as higher refunds from higher selling price of HDB flats.

Withdrawals under Investment...

Withdrawals under the CPFIS also experienced some fluctuations due to the prevailing market conditions as well as policy changes.

The net amount withdrawn reached one of its lowest point in the 1st quarter of 2005 as members liquidated their investments. From the 3rd quarter of 2005, withdrawals started to pick up from higher investments in unit trust and insurance (**Chart 5**).

Promotional interest rates for fixed deposits in 2006 attracted more withdrawals for investment

In the 1st quarter of 2006, investments in fixed deposits (FDs) rose as banks offered higher promotional interest rates. Withdrawals in the 2nd quarter continued to trend upwards with more members investing in investment-linked products. However, in the 3rd quarter of 2006, withdrawals dropped as there were fewer banks offering promotional interest rates for FDs.

Q2 2007 saw a new ruling which presumably led to a drop in withdrawals under investment

The 2nd quarter of 2007 saw the introduction of a new rule where agent banks were not allowed to accept members' CPF FD placements if their existing fixed deposit rate could not match the minimum interest rate offered by CPFIB. Consequently, withdrawals dropped as there were more refunds from matured FDs. Refunds were also higher as higher share prices led to more investments being sold.

A surge in withdrawals for Q4 2007 and Q1 2008 occurred as members rushed to invest their CPF savings before the new ruling comes into effect from April 2008

The surge in withdrawals for the 4th quarter of 2007 and the 1st quarter of 2008 was likely due to the introduction of a 3% limit on sales charges, and agents pushing members to invest their monies before the introduction of more stringent criteria under the CPFIS. Under the new ruling which took effect from 1 April 2008, members will not be able to invest the first \$20,000 in their Ordinary Account and the first \$20,000 in their Special Account⁵. From the 2nd quarter of 2008 onwards, withdrawals fell as refunds surged from more members liquidating their investments. Poor market sentiment also resulted in less new investments made by members.

⁵ From 1 May 2009, CPF members must first set aside \$30,000 in their Special Account (SA) before they can invest their SA monies under CPFIS.

Rise in withdrawals were mainly due to withdrawals made from government top-up schemes

Withdrawals at age 55, under non-retirement grounds and upon death...

Withdrawals at age 55, under non-retirement grounds and upon death, have remained rather stable from 2003 to 2005. The peak in 2nd quarter of 2006 was likely the result of a higher number of withdrawals made from the Progress Package in 2006.

Medisave withdrawals are usually higher in Q4 of each year as Eldershield premiums are due in the month of October

Withdrawals under Other Schemes...

The net amount withdrawn under Medisave (which includes those under Eldershield and Private Medical Insurance Schemes) has been showing a slight upward trend. Net amounts withdrawn are usually the highest in the 4th quarter of each year as premium deductions for Eldershield are made in the month of October. Starting from year 2005, the second highest amount withdrawn often occurs in the 3rd quarter of each year, as members withdraw for the renewal of their private medical insurance schemes which is usually due in the 3rd quarter. However, in the 3rd quarter of 2006, the rise was due to more medical institutions being accredited under the Medisave scheme.

Medishield premiums are usually due in Q3 of each year

Withdrawals for Medishield were similarly largely affected by the timing for payment of premiums. Withdrawals for Medshield showed a consistently higher amount in the 3rd quarter of each year as the majority of Medishield members withdraw to renew their covers due in the 3rd quarter.

Withdrawals for education formed only a small proportion of total withdrawals

Withdrawals under the Education Scheme remained rather constant and formed only a small proportion of total net withdrawals. Such withdrawals are usually the highest in the 3rd quarter as university tuition fees are higher than those for polytechnic (usually due in the 2nd quarter).

Summary...

Gross contributions are largely affected by market sentiments and CPF policy changes. Although net withdrawals are similarly affected by the above factors, withdrawals tend to fluctuate more due to refunds and the varied uses under the CPF schemes.

About CPF Trends

CPF Trends is a regular series of papers produced by the Management Information Department to disseminate analyses of statistical data and trends on CPF related issues. These papers are generally brief and aimed at a broad audience interested in CPF related issues.