

Introduction

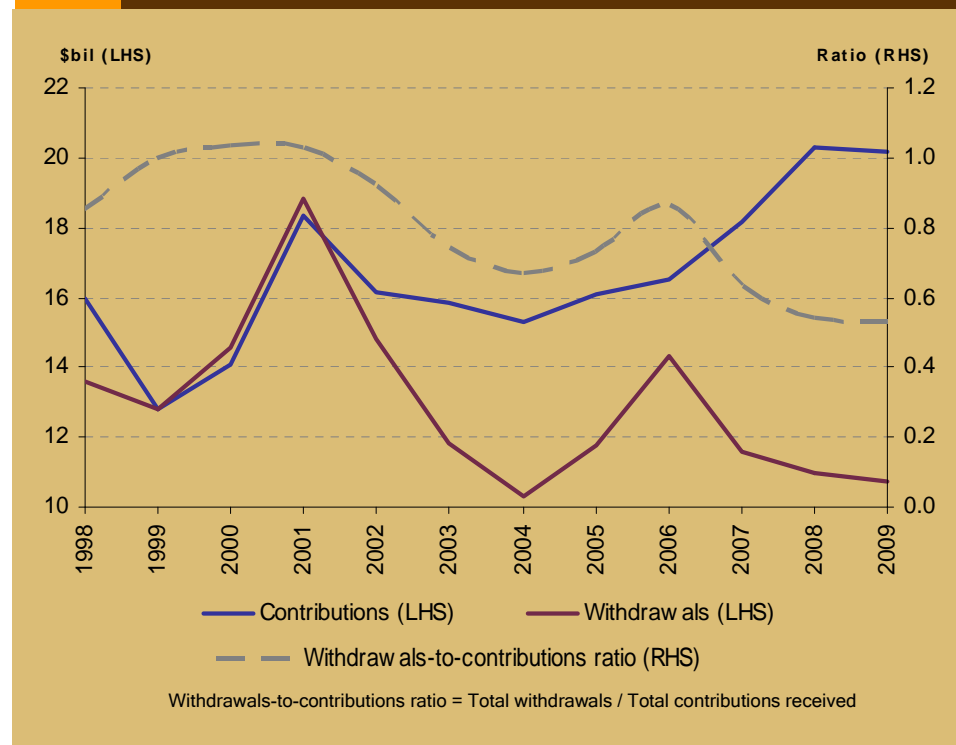
Singapore citizens and permanent residents who work in Singapore make mandatory contributions to the Central Provident Fund (CPF). Their CPF contributions are allocated to individual Ordinary, Special and Medisave accounts according to age-relevant allocation percentages. CPF members can withdraw their CPF savings for various approved purposes such as retirement, housing, healthcare, education, investment and payment for selected insurance premiums. This article examines the growth in aggregate CPF contributions, withdrawals and balances¹ from 1998 to 2009.

Contributions on the rise while withdrawals are generally down

CPF contributions have generally been on an uptrend, increasing from \$16.0 billion in 1998 to \$20.2 billion in 2009 (Chart 1). However, year-to-year fluctuations in the contribution amounts can be observed. For instance, CPF contributions fell sharply in 1999 due to the 10 percentage-point reduction in the CPF contribution rate from 40% to 30% in 1999 for employees aged 55 and below. From 2000, the amount of contributions started to pick up, possibly due to the progressive adjustment of the CPF contribution rate to 36% in 2001², leading contribution levels to hit \$18.3 billion in 2001. Thereafter, CPF contributions increased gradually to exceed \$20 billion in 2008.

CPF contributions grew from \$16.0 billion in 1998 to \$20.2 billion in 2009

Chart 1 Annual Contributions and Withdrawals from 1998 to 2009



1. CPF balances refer to the sum of all CPF members' Ordinary, Special, Medisave and Retirement Account balances.

2. The CPF contribution rate dropped from 40% in 1998 to 30% in 1999 for employees aged 55 and below. The contribution rate picked up gradually to 32% and 36% in 2000 and 2001 respectively.

Contributions received exceeded withdrawals for most of the years

CPF withdrawals, on the other hand, have decreased over the years - declining from \$13.6 billion in 1998 to \$10.7 billion in 2009.

For most years, contributions received exceeded withdrawals. However, in 2000 and 2001, CPF withdrawals exceeded contributions, resulting in a withdrawals-to-contributions ratio of more than one. This occurrence coincided with the introduction of the CPF Investment Scheme - Special Account (CPFIS-SA) in 2001 when members were allowed to withdraw monies from the Special Account for investment in approved products. It is likely that the introduction of this scheme had contributed to the increase in member withdrawals.

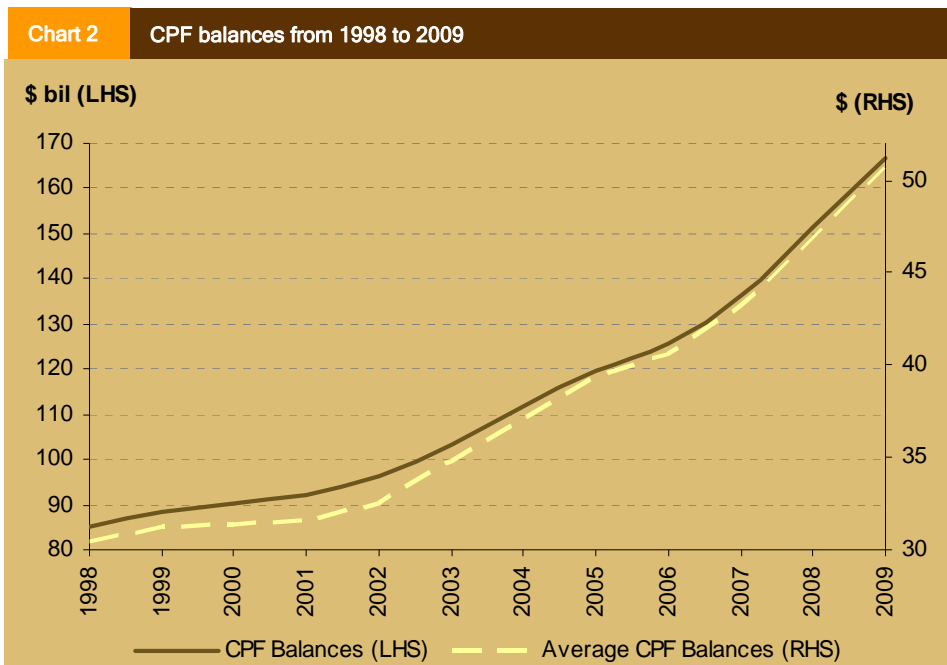
After 2001, withdrawals declined to a low of \$10.3 billion in 2004. The sharp drop in withdrawals was likely due to the combined effects of the dot.com bubble burst in 2001, the Gulf war and Severe Acute Respiratory Syndrome in 2003. These events would probably have led CPF members to exercise caution in withdrawing monies for housing and investment. Consequently, the gap between withdrawals and contributions widened, leading to a decline in the withdrawals-to-contributions ratio from 2001 to 2004. Thereafter, the withdrawals-to-contributions ratio climbed, peaking in 2006 at a ratio of 0.87. The rise in the ratio in 2006 was likely due to higher withdrawals made by members to make capital repayments for their housing loans under the Residential Properties Scheme and an increase in withdrawals for investments.

A decrease in withdrawals was observed after 2006. This could have been due to the uncertainty in the global economy and members may again have been more cautious in withdrawing their CPF savings during this period. Corresponding to the fall in withdrawals, the withdrawals-to-contributions ratio declined steadily after 2006 to 0.53 in 2009. This was the lowest level recorded since 1998.

Steady growth in CPF balances

Average CPF balance increased over the years

The trend of contributions generally growing faster than withdrawals has led to a steady increase in CPF balances from \$85.3 billion in 1998 to \$166.8 billion in 2009 (Chart 2). The average CPF balance per member has also increased from \$30,400 in 1998 to \$50,700 in 2009.



We observed that the rate of increase in the average CPF balance was slower from 1998 to 2001 compared to the rest of the period under study, due to the high withdrawals-to-contributions ratio observed during the former period. After 2001, average CPF balances grew rapidly as the withdrawals-to-contributions ratio fell.

The strong growth in the CPF balances can be attributed to the generally robust performance of the Singapore economy during the period under study, observed wage increases and specific increases in the CPF contribution rate from 33% in 2003 to 34.5%³ in 2009. The increase in CPF membership⁴ could also be one of the reasons for the increase in CPF balances.

Summary

As indicated in this article, CPF contributions and withdrawals are largely affected by policy changes and the economic environment. It is observed that during the 1998 to 2009 period, CPF contributions have exceeded withdrawals for most years, contributing to the steady growth of aggregate CPF balances and average CPF balance per member. Notwithstanding this healthy trend, CPF members need to continue to be prudent in the use of their CPF funds to ensure sufficient savings for their retirement.

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.

3. This rate is applicable to employees aged 55 and below.

4. CPF membership increased about 18% from 2.8 million members in 1998 to 3.3 million in 2009.