

Allocation of CPF Contribution Rates

The Central Provident Fund (CPF) was set up in 1955 with the aim of providing financial security to all Singaporeans in their golden years of retirement. Every month, employees and employers make contributions to the CPF. The contributions collected are allocated to Ordinary Account (OA)^[1], Medisave Account (MA)^[2] and Special Account (SA)^[3] according to contribution rates. Since the inception of CPF, the contribution rates have undergone a series of changes.

Changes in Contribution Rates

The following illustrates the various changes in contribution rates over the years:

• Single account for contributions (1955-1976)

Between 1955 and 1976, CPF contributions for an individual employee were deposited into a single account.

• Duo accounts for contributions (1977-1983)

During the period, CPF contributions were deposited into 2 accounts – OA, SA.

• Setting up of MA (1984)

In Apr 1984, the MA was set up and the balance in SA was transferred to MA.

• Uniform contribution rates for all age groups (1955-1987)

Notwithstanding that the contributions were deposited into more than one account from 1977, contribution rates for all age groups were the same until Jun 1988.

• 15 percentage-point cut in employers' contribution (1986)

In 1985, Singapore experienced a negative growth. As a result, OA contribution rate was reduced from 40% to 29%, and SA was temporarily suspended from 1 Apr 1986.

[1] Savings in Ordinary Account (OA) can be used to buy a home, pay for CPF insurance, investment and education.

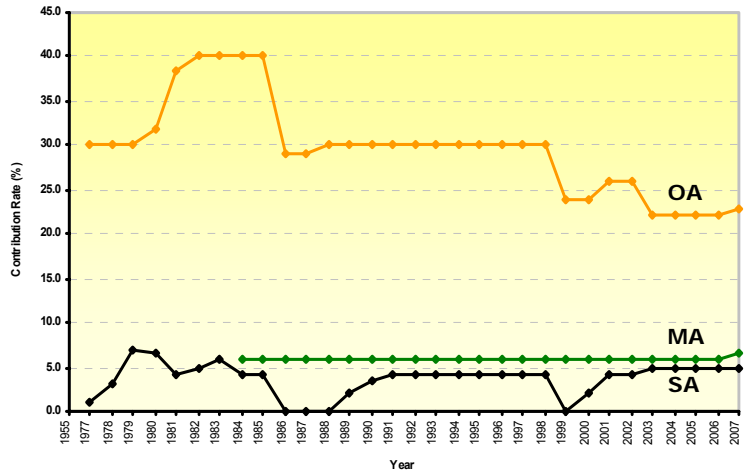
[2] Savings in Medisave Account (MA) can be used for hospitalization expenses and approved medical insurance.

[3] Savings in Special Account (SA) can be used for old age, contingency purposes and investment in retirement-related financial products.

- **Different contribution rates for different age groups (1988)**

With effect from Jul 1988, new contribution rates linking to age were introduced (see Chart 1). In addition, restoration of contributions was progressively carried out, in tandem with the nation's economic performance. Benefiting were employees aged 55 years and below, whose OA contributions were increased from 29% to 30% (see Charts 2 & 3).

Chart 1. Contribution Rate (Private Sector) for employees ≤35 yrs by type of account



On the reverse, OA contribution rates for employees above 55 years old were lowered, along with the Government's plans to raise retirement age. SA was still suspended till Jun 1989.

- **Reduced OA & increased MA contributions for those above 55 (1989-1992)**

During the period from 1989 to 1992, progressive restoration of contributions through SA for employees aged 55 years and below was noted (see Charts 4 & 5). For older workers, the MA contribution rates were raised from 6% to 7% in 1992 (see Charts 6 & 7). However, their OA contribution rates were progressively reduced during the period.

- **Recession: Cut in employers' contribution rates (1999)**

Between 1993 and 1998, there were no changes to the accounts' contribution rates across all age groups. However, in 1999, in order to regain our cost competitiveness and preserve jobs after a year of recession, a 10 percentage-point reduction of employers' contribution rates was imposed on employees aged 55 years and below. To minimize the impact of reduction of CPF contribution rates on home-owners who were servicing their mortgage loans, 6 percentage points came from OA, and the remaining from SA (SA was then suspended). In view of members' and their families' needs to utilize their Medisave for medical expenses even in an economic downturn, MA contribution rates were not reduced.

For those above 55 years old, their OA contribution rates fell between 2 and 5.5 percentage points. MA contribution rate for those above 65 years old was also cut from 8% to 7%.

Chart 2. Ordinary Account Contribution Rate for Private Sector Employees by Age Group

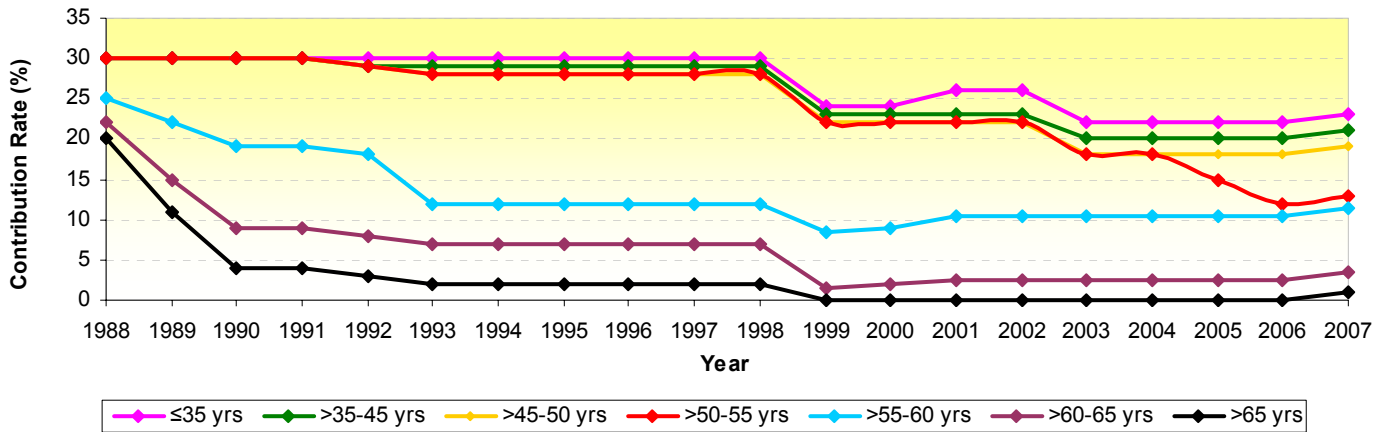
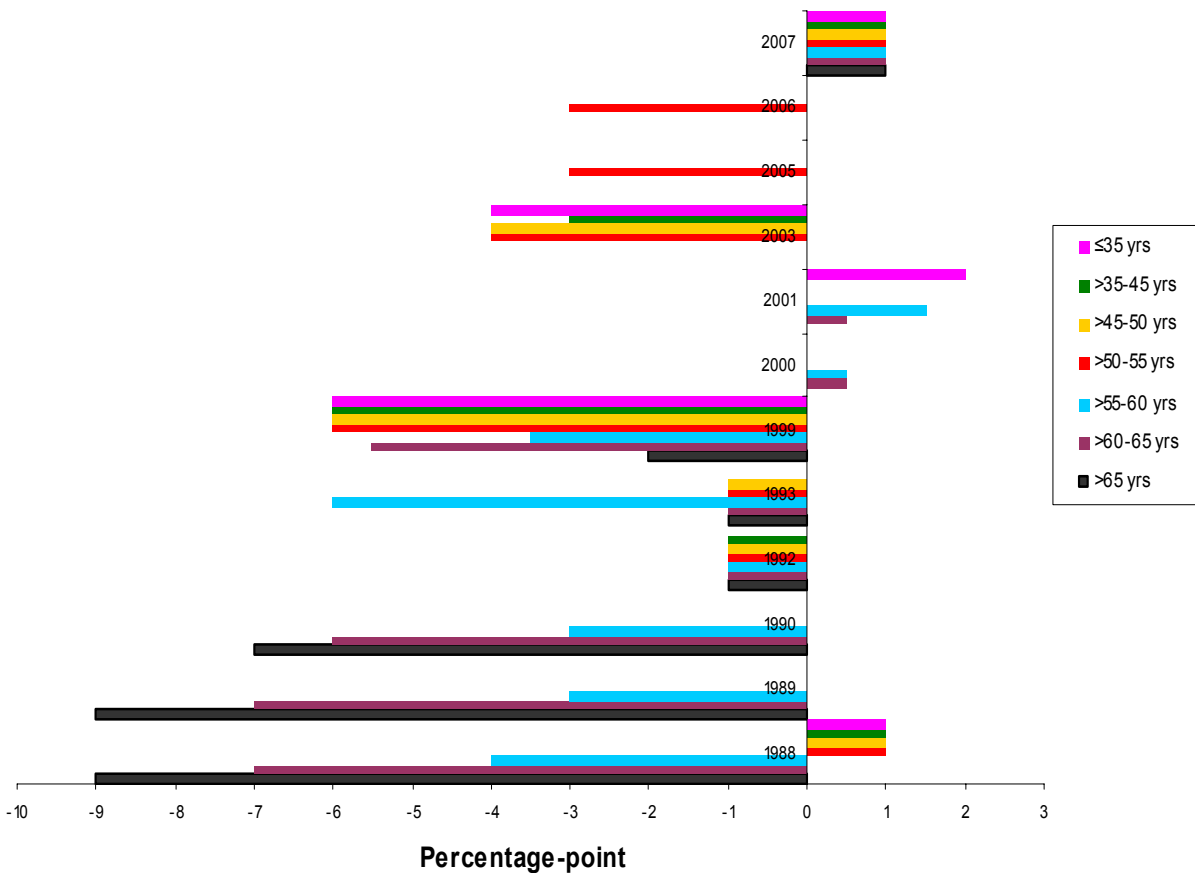


Chart 3. Changes* in Ordinary Account Contribution Rate



*Note: Years with no changes in contribution rates are not reflected in the graph.

Chart 4. Special Account Contribution Rate for Private Sector Employees by Age Group

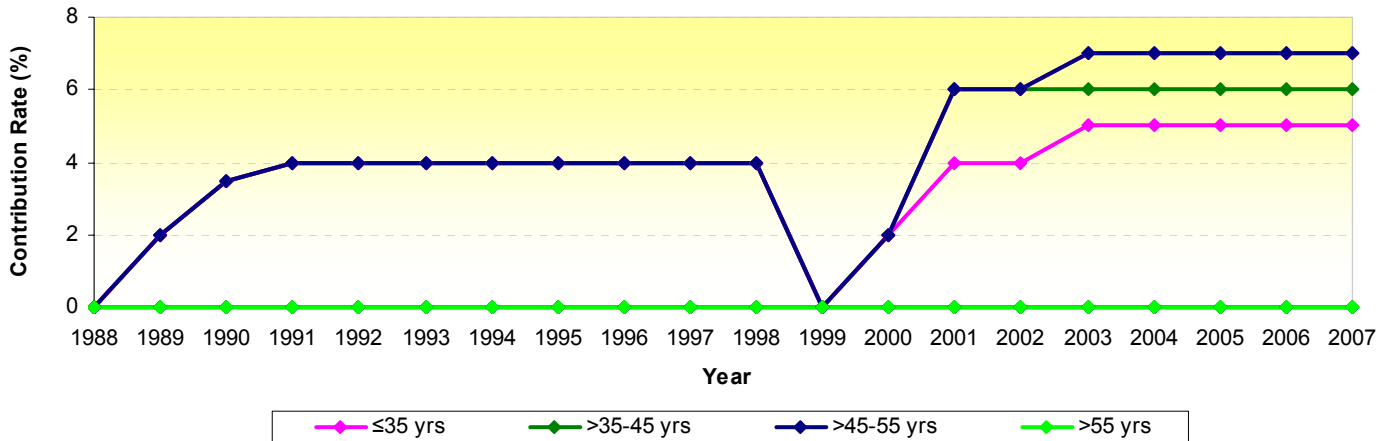
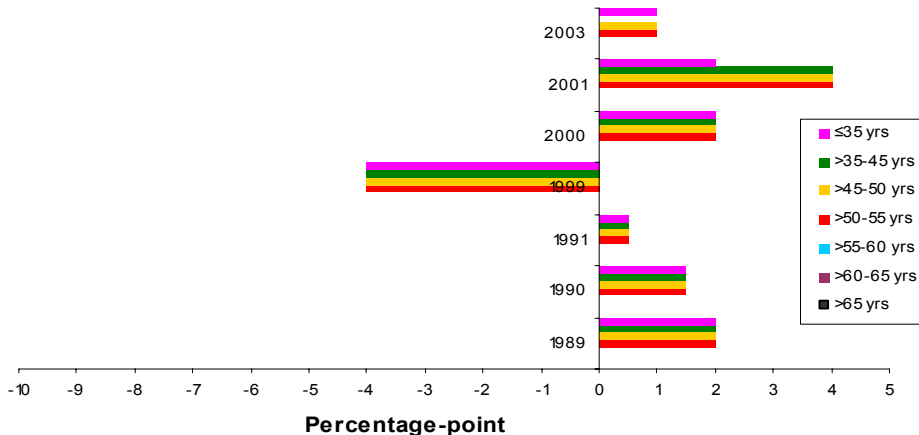


Chart 5. Changes* in Special Account Contribution Rate



*Note: Years with no changes in contribution rates are not reflected in the graph.

Chart 6. Medisave Account Contribution Rate for Private Sector Employees by Age Group

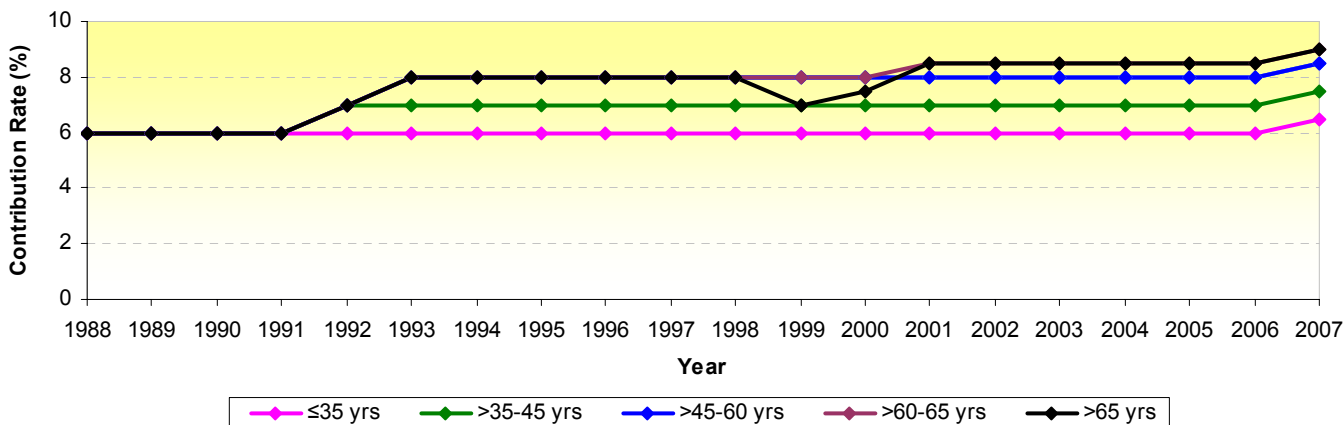
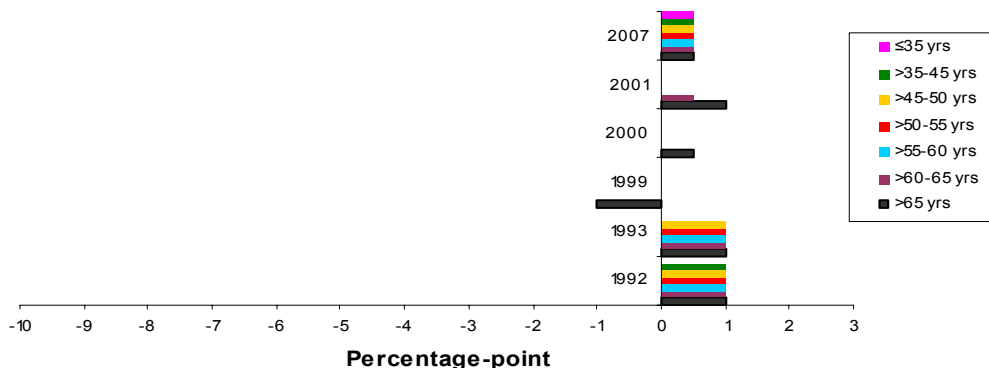


Chart 7. Changes* in Medisave Account Contribution Rate



*Note: Years with no changes in contribution rates are not reflected in the graph.

• Progressive restoration of contributions (2000)

The economy underwent a V-shaped recovery after hitting the bottom. To help Singaporeans build up their savings for old age, housing and medical needs, employers' contributions for employees aged 55 years and below were restored by 2 percentage points to 12%. This accounted for 2 percentage-point increment in SA contribution rate. The OA contribution rates for employees aged above 55 to 65 were raised marginally by half a percentage point. For those above 65 years old, their MA contribution rate was increased by half a percentage point instead.

• Employers' contributions up by 4% (2001)

Backed by 2000's strong growth, employers' contributions were restored by a sizeable 4 percentage points for employees aged 55 years and below. The additional contributions were distributed to OA and/or SA. The priority of restoration of various accounts' contributions was in this order - SA, MA and OA. This was in line with the recommendation of the Inter-Ministerial Committee on Ageing Population (IMC) to step up SA to help members build up more cash savings for old age.

Similarly for employees above 55 years old, their employers' contribution rates were raised between 1 and 1.5 percentage points and credited to OA. The OA contributions for employees aged above 55 to 60 years increased from 9% to 10.5%. For employees aged above 60 to 65 years old, both OA and MA contributions increased by half a percentage point each. As for those above 65 years old, MA contribution went up from 7.5% to 8.5%.

- **Economic restructure: Cut in employers' contributions (2003)**

While there was no change in contributions for various accounts and age groups in 2002, 2003 proved yet to be another difficult year. After 11 Sep 2001, Singapore's economic outlook remained uncertain. Our economy and labour market were adversely affected by slow down in external demand. The Economic Review Committee (ERC) was then established to review Singapore's economy strategy and formulate a blue print to restructure the economy, with the aim of striking balance between retirement security, home ownership and healthcare.

Based on ERC's recommendation, employers' contributions for employees aged 55 years and below were reduced from 16% to 13%. The cut was to help reduce business costs, and improve cost competitiveness of our labour force. The reductions, in turn, accounted for 3 to 4 percentage-point reductions in OA contributions. SA contributions, however, for this group of workers (except those aged above 35 to 45 years), increased by 1 percentage point. This enabled those aged 50 to 55 years to increase their savings for old age and healthcare needs. Employers' contributions for employees above 55 years old were unaffected as their rates were already low.

- **Reduced contributions for employees aged above 50 to 55 years (2005)**

In 2004, our economy showed signs of recovery. However it was still too early to implement any change in the contribution rates. As such, the contribution rates remained unchanged.

In 2005, there was a moderation of our seniority-based wage structure by phasing in a reduction of contribution rates for workers aged above 50 to 55 years over a 2-year period. In the first year of reduction, employers' and employees' contribution rates fell by 2 and 1 percentage points respectively. These, in turn, led to a 3 percentage-point reduction in OA contributions.

- **Further reduction in contributions for older workers (2006)**

In 2006, to enhance employability of employees aged above 50 to 55 years, contribution rates for this group was further lowered from 30% to 27% - 2 percentage points on employers' contribution and 1 percentage point on employees' contribution. As a result, OA contribution rate decreased by 3 percentage points, from 15% to 12%.

- **Increase in employers' contributions by 1.5 percentage points (2007)**

In 2007, employers' contributions were uniformly raised by 1.5 percentage points for all age groups. The increase was split into 1 percentage-point increment for OA and half a percentage-point for MA.

Conclusion

In summary, there is a gradual reduction in CPF contribution rate as an employee gets older. A higher contribution rate for a younger employee allows him to accumulate savings for his retirement and other needs. When he grows older, his contribution rate decreases. His OA contribution rate also drops and more contributions are allocated towards MA and SA to meet his medical and old age needs. For an employee above 55 years old, no contributions are allocated to his SA.

Compared to SA and MA contribution rates, OA contribution rate fluctuates the most over the years. This is followed by SA and MA contribution rates. Fluctuations in the contribution rates of various accounts represent the striking of an optimal balance between meeting business costs and the adequacy of CPF savings to meet the basic old age, medical and housing objectives of CPF.