

**MINISTERIAL STATEMENT BY PRIME MINISTER GOH CHOK TONG
IN PARLIAMENT ON THURSDAY, 28 AUGUST 2003, AT 3.00 PM**

RETUNING THE CPF

Introduction

1. From time to time, a nation comes to a crossroads. The people must then decide which road to take, to continue the journey. One road may lead them up to the sunny highlands. The other road may go deeper into the gloomy valley.
2. Singapore is at such a crossroads.
3. Down one road, the view is familiar. We continue with our present policies and practices, and preserve our wage and CPF systems. This is the easiest road to take. Politically too, it is the most convenient.
4. But maintaining the status quo means carrying a heavy load of costs, and relying on outdated models of economic growth. This will weigh us down. We will descend into the gloomy valley.
5. To take the second road, which leads to the highlands, we will have to shed some of our load, through wage and CPF reforms and other measures. We will then be able to travel lighter, and move more nimbly.
6. But shedding our load will involve sacrifice and pain. We may have to adjust our aspirations and lifestyles. Moreover, there is no guarantee of success. How we progress will also depend on what our competitors do, and the state of the world economy.
7. This second road of reform and restructuring is unpaved and difficult to travel. It will be an uncomfortable journey, even painful at times.

8. But I know that taking the first road will lead us deeper and deeper into the gloom.

9. This is why I want Singaporeans to come along with me on the road of reform and restructuring. On this road, we stand a much better chance of economic recovery and sustained growth.

10. Why are we in this tough spot? The reason is globalisation. Products and services, capital, investments, companies and people are moving across borders more and more freely.

11. Globalisation has benefited Singapore immensely. We have attracted many MNCs to Singapore, created many jobs, and sold our products and services to the rest of the world.

12. But these same forces of globalisation can also work against us. Globalisation is not just about exports. It is also about producing goods and services wherever in the world it can be done most cheaply and efficiently. So when lower-cost players emerge, and we are not competitive, investments will flow to these places rather than to Singapore.

13. The re-organisation of the global economy has been going on for some time. But the process has accelerated in recent years. Jobs are migrating from developed countries to emerging economies faster than ever.

14. Singapore too, has been affected. Maxtor, a disk drive manufacturer, will be reducing its Singapore workforce once its China plant comes on-line in 2005. Maxtor will produce entry-level disk drives in the China plant, while keeping its production of high-capacity drives here. Maxtor's competitors, Seagate and Western Digital, have also reduced their presence in Singapore. Seagate has shifted its manufacture of low-end drives to China. Over the last five years, its Singapore workforce has been reduced from a high of 25,000 workers to 9,000 workers today. Western Digital shifted 2,500 jobs to Malaysia in 1998.

15. It is not just blue-collar jobs that are moving offshore. White-collar jobs are also migrating to lower-cost countries like the Philippines, Thailand and India. Our graduates and yuppies are feeling the heat. Last year, for the first time, more professionals, managers, executives and technicians (PMETs) were laid off, compared to production and

related workers. PMETs formed 43 percent of all local workers retrenched. Production and related workers formed 34 percent, while clerical, sales and service workers made up the remaining 23 percent.

16. The migration of white-collar jobs will pick up speed in the coming years. Analysts expect many jobs in data entry, data reconciliation, call centres and other back-end functions to move to lower-cost locations.

17. As you can see, our economy is restructuring rapidly, whether we like it or not, whether we are ready or not. It is, therefore, important for us to have some levers to pull, to influence the pace and direction of this restructuring. Then we can minimise the negative impact on Singaporeans.

18. These levers include reforming our tax regime, moderating our land prices and rentals, investing in education and skills-training, moving into research and development, constructing the Biopolis to nurture the life sciences and pharmaceutical industries, and developing other growth sectors like medical and educational services.

19. But these changes will not be enough to stem the outflow of jobs. We will also have to keep our wage costs competitive, and not too far out of line with those in the region. Presently, for every manufacturing worker in Singapore, a company can hire 13 in China and 18 in India. For every accountant in Singapore, a firm can hire 2 in Malaysia and 6 in Thailand. The large wage differential will push jobs out of Singapore, and discourage new investments from coming in.

20. This is why we must go beyond the recommendations of the Economic Review Committee (ERC), and make further changes to the CPF scheme.

21. The CPF retuning will affect all Singapore workers. It will be painful. I have therefore decided to present the CPF changes myself. At the National Day Rally, I outlined the changes. Today, I will lay out the details.

Social Objectives

22. The CPF is Singapore's most important social safety net. Its first and principal objective is to provide for the retirement needs of Singaporeans. Later, we added other social objectives, like saving for home ownership and healthcare.

23. These objectives remain valid today. In fact, the needs have grown.

24. For instance, retirement expenses will go up because people are living longer. An article in The New York Times talked about the possibility of living to 600 years old, because of the promises of genetic medicine. It explained that our organs might break down. But scientists were now breeding special animals that could grow replacement human hearts and lungs. Scientists have also found a chemical in red wine which may slow down ageing. And gene therapy will allow us to conquer many previously incurable diseases.

25. I do not think many people relish the idea of living to 600. Can you imagine having to face your enemy for 600 years? But I think most people would not mind living to 100. In fact, a good number of Singaporeans are already living to near a century. Today, 40,000 Singaporeans are over 80 years old. Of these, 5,000 are over 90!

26. Prolonging lives will lead to new social problems, and certainly, a need to save more for a longer old age and higher medical expenses.

27. So from the social perspective, the higher the CPF contribution rate, the better.

Economic Concerns

28. But increasingly, we must also consider the impact of the CPF on our cost competitiveness.

29. In the 70s, 80s and 90s, cost competitiveness was not an overriding concern. We had good growth year after year. During those 30 years, we grew by 8 percent annually. Our salaries too, rose by an average of 8 percent every year. We could afford to put a lot into the CPF.

30. Our business costs then were lower than those in developed countries. And we faced limited competition. Many of today's emerging economies were under communist regimes at that time. Others were highly regulated and protectionist. China and India, for instance, were not open and attractive to foreign investments. Singapore, in fact, was one of the earlier and more ardent advocates of an open, MNC-based economy.

31. But times have changed. China and India, with a combined population of more than two billion people, have entered the economic race. So too have many other countries, like in Central and Eastern Europe. They are following our MNC-based strategy for economic growth. Their low cost of doing business is extremely attractive to investors.

32. On the other hand, the cost of doing business in Singapore has reached First World levels, as has our standard of living. Cost competitiveness is a key worry for Singapore today.

33. Therefore, from the economic perspective, we should keep the CPF contribution rate as low as possible. The lower we go, the less the pressure on companies to move out because of high wage costs. Wages account for as much as 20 to 30 percent of total business costs in certain industries.

A New Balance is Needed

34. This is why we need to retune our CPF scheme - to strike a better balance between our social objectives and our economic concerns.

35. We will need to address four aspects of the CPF system: the contribution rates, the salary ceiling, the CPF and Medisave Minimum Sums, and the withdrawal rule at age 55.

CPF Contribution Rates

36. First, the CPF contribution rate.

37. The CPF rate is currently 36 percent: 20 percent from the employee, and 16 percent from the employer. The Government had intended to restore the CPF rate to 40 percent when economic conditions permit.

38. But looking forward to the future competitive environment, this is no longer advisable. It would price us out of the market. We would lose more jobs. We should give up the 40 percent target, to save jobs.

39. The Government did not rush into this decision. We struggled between our commitment to restore the CPF rate to 40 percent, and the economic reality. You see, the trust between the people and the Government is paramount. It is the basis upon which we have carried

out many tough but necessary measures to improve the lives of our people. It is therefore not an easy decision for the Government to give up a commitment it has made. It risks breaking the trust between the people and the Government.

40. But we have no choice. If investors think that we are going to restore the 40 percent rate in the future, they will factor this into their cost calculations. They may not come. Even those who are here may make plans to move out to cheaper locations.

41. I hope Singaporeans understand why we are not restoring the 40 percent contribution rate. Our priority must be to save jobs for the people.

Long Term Variable Rate of 30-36%

42. The question is: what CPF contribution rate is appropriate?

43. Nowadays, the world economy changes rapidly. It is not practical to try to identify a single number as the long-term rate. No one can be sure how the competitive situation will evolve. We must also expect our economy to run into rough weather from time to time. We should thus make our system flexible, so that we can put more into the CPF in good years, and cut the rate in bad years. This will give us room to respond quickly to the changing economic environment.

44. I feel, therefore, that it is better to set an upper limit and a lower limit for the CPF contribution rate for the long-term, instead of a single rate.

45. We propose that this range of rates be from 30 percent to 36 percent. The employee contribution will be fixed at 20 percent. The employer contribution will vary between 10 and 16 percent.

46. We will not have any formula to decide what the actual CPF rate should be at any point in time. We will look at the prevailing economic conditions, and assess accordingly. If there is to be a rise or cut in the rate, we will give as much notice as possible, to allow for advance planning. I do not envisage fine-tuning the rate every year. We will only adjust it from time to time, when conditions have changed significantly.

47. Our analysis shows that even at a 30 percent contribution rate, the large majority of Singaporeans will still be able to save enough for

their retirement needs, healthcare expenses and housing. For instance, a worker earning a 50th percentile income, or \$2,000, will be able to purchase a 5-room HDB flat. This is provided we tighten the withdrawal rule at age 55, as I will explain later.

Long-Term Variable Rate of 24-30% for Workers Aged Above 50 to 55

48. For older workers, we will set a lower range of rates.

49. Last year, the ERC established the principle that the CPF contribution rate for older workers should be lower than that for younger workers. This is to help older workers keep their jobs, and for those who are unemployed, help them find new jobs.

50. For those aged 50 to 55, we will set the long-term range for the CPF rate at 24 percent to 30 percent. The employee contribution will be 18 percent. The employer contribution will vary between 6 and 12 percent.

No Change in CPF Rates for Workers Above 55

51. We will not change the CPF rates for workers above age 55. The rates are already low. They are 18.5 percent for those aged 55 to 60; 11 percent for those aged 60 to 65; and 8.5 percent for those above 65 years old.

Table 1: Long-Term Target CPF Contribution Rates

Age	Total	Employee	Employer
50 and Below	30 – 36 %	20%	10 – 16 %
Above 50 to 55	24 – 30 %	18%	6 – 12 %
Above 55 to 60	18.5%	12.5%	6%
Above 60 to 65	11%	7.5%	3.5%
Above 65	8.5%	5%	3.5%

Immediate Cut of 3% in Employer Rate

52. Having looked at the long-term CPF rates, let us look at our immediate situation. Is our current CPF rate of 36 percent appropriate? If not, what should it be? The Cabinet spent more than two months grappling with this question. We also brainstormed with the PAP Members of Parliament.

53. Some Ministers and MPs felt that the current CPF rate of 36 percent should remain. They were of the view that the external outlook was brightening. Singapore companies were feeling more upbeat.

54. Moreover, a cut in the CPF would not solve our immediate problem, which was the lack of demand. On the contrary, it would dampen domestic demand further. It might also have a negative effect on property prices.

55. A second group of Ministers and MPs argued that our economic difficulties had dragged on for far too long. The competitive landscape had changed fundamentally. Our costs were now much higher than our competitors. Singapore needed to respond quickly and decisively.

56. These Ministers were also worried that if our wage costs were too high, we might see a jobless recovery, like in the US. This is a situation where the economy grows, but few jobs are created.

57. This second group of Ministers and MPs felt, therefore, that we should cut the CPF rate immediately to 30 percent. It would save many companies from going under, in particular, SMEs. It would draw in more investments. It would spur job creation.

58. A third group of Ministers and MPs agreed that demand was the immediate problem. But they argued that cost competitiveness was a problem that we must also start to fix now. They felt that we should bring the CPF rate down to 33 percent, and even lower later, if necessary.

59. After a vigorous debate, the Cabinet decided that the best way forward was a moderate cut to the CPF. It should be enough to help companies save costs, but not so drastic as to puncture domestic consumption. The Cabinet concluded that the more immediate problem was a lack of demand for our goods and services. But cost competitiveness was also a problem, and it would get worse in the coming years.

60. With effect from 1 October 2003, the CPF rate will be lowered from 36 percent currently to 33 percent. Employees will continue to contribute 20 percent. Employers will contribute 13 percent, 3 percentage points less than now.

Table 2: CPF Contribution Rates for Workers Aged 50 and Below

Date	Total	Employee	Employer
1 Oct 03	33%	20%	13%

For older workers aged 50 to 55, we will bring the CPF rate down to 27 percent. But to cushion the impact, we will not do it immediately. Their CPF rate will come down to 33 percent on 1 October 2003, the same as for younger workers. On 1 January 2005, it will be reduced further to 30 percent: employee contribution will be cut by one point to 19 percent, and employer contribution by 2 points to 11 percent. On 1 January 2006, the contribution rate will be reduced by a further three percentage points: again, one point from employees and two from employers. This will bring the CPF contribution rate to 27 percent: 18 percent for employees and 9 percent for employers.

Table 3: CPF Contribution Rates for Workers Aged Above 50 to 55

Date	Total	Employee	Employer
1 Oct 2003	33%	20%	13%
1 Jan 2005	30%	19%	11%
1 Jan 2006	27%	18%	9%

The cut in CPF rate will save employers \$1.3 billion a year. It will boost our efforts to draw in investments, and create jobs.

Revise Special and Medisave Accounts Contribution Rates

63. Next, the contribution rates for the Special and Medisave Accounts.

64. The ERC had earlier recommended higher Special Account rates for CPF members. The proposal was 5 percent for CPF members aged 35 and below, 7 percent for those aged 35 to 45 years, and 9 percent for those aged 45 to 55 years. This was to help members set aside more cash savings for their retirement. Higher rates are needed if we allow members to withdraw 50 percent of the Ordinary and Special Accounts at age 55.

65. However, if we change the policy on CPF withdrawal at age 55, as I will explain later, we can

afford to have the Special Account rates lower than the ERC target rates. The new target Special Account contribution rates will therefore be 5 percent for members aged 35 and below, 6 percent for those aged 35 to 45 years, and 7 percent for those aged 45 to 55 years.

Table 4: Special Account Target Contribution Rates

	35 and Below	Above 35 to 45	Above 45 to 55
Old ¹	5%	7%	9%
New	5%	6%	7%

The Medisave Account contribution rates will remain at 6 percent for CPF members aged 35 and below, 7 percent for those aged 35 to 45, and 8 percent for those above 45 years old. We had earlier planned to increase Medisave Account contributions, up to the ERC target rates of 7, 8 and 9 percent, but we will now defer this move.

Table 5: Medisave Account Target Contribution Rates

	35 and Below	Above 35 to 45	Above 45
Old ²	7%	8%	9%
New	6%	7%	8%

CPF Salary Ceiling

67. Let me move on to the CPF salary ceiling.

68. The ERC established the principle that the CPF scheme should focus on workers earning between the 10th and 80th percentile incomes.

69. The lowest 10 percent of wage earners cannot rely on the CPF alone for their retirement needs. They will need other social support schemes. On the other hand, the top 20 percent of wage earners should be able to look after themselves. If they want to save more for

¹ Existing contribution rates are 4%, 6%, 6% for respective age groups. The Government had earlier accepted the ERC recommendation to change to target rates of 5%, 7%, 9%.

² Existing contribution rates are 6%, 7%, 8% for respective age groups. The Government had earlier accepted the ERC recommendation to change to target rates of 7%, 8%, 9%.

their old age, they should do so on their own. We should not make it compulsory through the CPF scheme. Otherwise, it will add rigidities to our wage system, and impose additional cost burden on businesses.

Lower Salary Ceiling to \$4,500

70. Following the ERC review last year, we had already decided to reduce the CPF salary ceiling in two steps. First, from a monthly salary of \$6,000 to \$5,500 on 1 January 2004. Second, from \$5,500 to \$5,000 on 1 January 2005.

71. However, \$5,000 is still higher than the 80th percentile monthly salary, which is currently \$3,700. We will, therefore, lower the salary ceiling further from \$5,000 to \$4,500 on 1 January 2006. Assuming a reasonable rate of wage increase and inflation, by then, \$4,500 will be just a little above the 80th percentile income.

Table 6: CPF Salary Ceiling

Current	\$6,000
1 Jan 2004	\$5,500
1 Jan 2005	\$5,000
1 Jan 2006	\$4,500

The salary ceiling for additional wages, consisting typically of bonuses, will be adjusted proportionately.

73. Pensionable civil servants have lower CPF rates and a higher salary ceiling than non-pensionable workers. Their salary ceiling will also be adjusted.

74. The original plan to reduce the CPF salary ceiling from \$6,000 to \$5,000 will save businesses \$262 million a year. The additional reduction to \$4,500 will save businesses another \$137 million. In total, our businesses will save \$400 million in wage costs annually, come 1 January 2006.

Reward Workers through Variable Pay

75. Even in this difficult economic environment, some companies are doing well. The cut in the CPF rates and the lowering of the salary ceiling will give them windfall savings. I urge these companies to use the savings to reward their workers through the variable pay

component. This could be in higher performance bonuses or monthly variable components.

CPF and Medisave Minimum Sums

76. The changes to the CPF rate and salary ceiling will give employers substantial wage savings. But they will mean less CPF savings for workers. This makes it even more important that the savings be used only for housing, healthcare and retirement expenses. To ensure that members have enough for healthcare and retirement, we must adjust the CPF and Medisave Minimum Sums, and tighten up the withdrawal rules at age 55. These are the third and fourth areas of change.

Raise CPF Minimum Sum to \$120,000

77. The CPF Minimum Sum gives CPF members a monthly payment after their retirement at age 62. It is the nest egg that will see them through their old age.

78. The current Minimum Sum is \$80,000. Half of this can be in a property pledge. So most CPF members have only \$40,000 in cash in the Minimum Sum. This will fund a monthly payment of only \$252 from age 62 to 80. It is a small fraction of most workers' last drawn pay, and is not enough for their basic needs.

79. We will, therefore, increase the Minimum Sum to \$120,000 in today's dollars. As before, half of this can be in a property pledge. The other \$60,000 in cash will yield a monthly payment of \$378. This is still not much, but more adequate than \$252 presently.

80. The CPF Minimum Sum will be raised by \$4,000 a year, and adjusted for inflation, starting 1 July 2004. It will reach \$120,000 (today's dollars) by 2013.

81. Today, the life expectancy of Singaporeans is about 80 years. We will, therefore, adjust the monthly payment amounts, to make the Minimum Sum savings last around 18 years for most members, from retirement at age 62 until they are 80 years old.

Table 7: CPF Minimum Sum (in today's dollars)

Current	\$80,000
1 Jul 2004	\$84,000
1 Jul 2005	\$88,000
1 Jul 2006	\$92,000
1 Jul 2007	\$96,000
1 Jul 2008	\$100,000
1 Jul 2009	\$104,000
1 Jul 2010	\$108,000
1 Jul 2011	\$112,000
1 Jul 2012	\$116,000
1 Jul 2013	\$120,000

Maintain Purchasing Power of Medisave Minimum Sum

82. Besides the CPF Minimum Sum, there is also a Medisave Minimum Sum. This is currently \$25,000. Minister Khaw Boon Wan will do his best to keep healthcare costs reasonable. But we should still expect costs to increase over the years. We will, therefore, adjust the Medisave Minimum Sum every year to take into account inflation of healthcare costs. This will preserve its purchasing power.

Enforce Medisave Minimum Sum

83. Next, under current rules, a CPF member who has less than \$25,000 in his Medisave Account is not required to top it up to \$25,000. This is the case even if he has excess balances in his Ordinary and Special Accounts which he can withdraw at age 55.

84. The purpose of the Medisave Minimum Sum is to make sure that we have enough money set aside to meet healthcare expenses in our older years. As life expectancy increases, Singaporeans will spend more on healthcare. Furthermore, on average, someone aged 80 spends three to five times more on healthcare than someone aged 62. Each additional year of life adds considerably to healthcare expenses.

85. It is, therefore, unsatisfactory to allow CPF members with excess balances in the Ordinary and Special Accounts to withdraw the money at age 55 without topping up the Medisave Minimum Sum. We will progressively require them to do so.

86. From 1 January 2004, we will require CPF members to top up their Medisave Minimum Sum to \$2,500, before they make any CPF withdrawal at age 55. Over the next ten years, we will increase the top-up requirement by \$2,500 every year, adjusted for inflation. In other words, on 1 January 2005, Singaporeans must top up their Medisave Minimum Sum to \$5,000; on 1 January 2006, it will be \$7,500; and so on. By 1 January 2013, CPF members will have to top up their Medisave Minimum Sum to \$25,000 (today's dollars), before making their CPF withdrawal.

Table 8: Medisave Minimum Sum to be Topped Up Before CPF Withdrawal at Age 55 (in today's dollars)

Current	\$0
1 Jan 2004	\$2,500
1 Jan 2005	\$5,000
1 Jan 2006	\$7,500
1 Jan 2007	\$10,000
1 Jan 2008	\$12,500
1 Jan 2009	\$15,000
1 Jan 2010	\$17,500
1 Jan 2011	\$20,000
1 Jan 2012	\$22,500
1 Jan 2013	\$25,000

Withdrawal Rule at Age 55

87. The final area of change is the CPF withdrawal rule when a member turns 55. This is to ensure that Singaporeans will have enough for their retirement, healthcare and housing expenses, despite the lower CPF rate.

Meeting Minimum Sums Before Cash Withdrawal

88. Presently, at age 55, CPF members can withdraw 50 percent of their combined Ordinary and Special Accounts balances. They can do so even if this leaves them with less than \$40,000 in the CPF, which is supposed to be the cash portion of the current CPF Minimum Sum.

89. The 50 percent withdrawal rule will leave many members with insufficient CPF balances to see them through their old age. Now that we have to lower the CPF contribution rate, the problem will be even more acute.

90. We will amend this rule. We will still allow members to withdraw their CPF at age 55, but only after they meet the CPF and Medisave Minimum Sums requirements.

91. However, CPF members will continue to be able to withdraw the first \$5,000 in their CPF accounts, as is the case now, even if they have not met the Minimum Sums requirements.

No Change for Next 5 Years

92. I know that the changes to the CPF withdrawal rule will upset many plans. Older Singaporeans are looking forward to a tidy sum of money at 55, to do what they have yearned for a long time. Some will use it to pay off outstanding mortgages, or their debts. Others will use it to go on a holiday, or to invest in business ventures.

93. Therefore, we will not make any changes to the withdrawal rule for the next five years. We will not upset the plans of those who are over 50 today.

Phase out 50% Withdrawal by 2013

94. We will start to phase out the 50 percent withdrawal rule only from 1 January 2009, and then do so over a further period of five years. From 1 January 2009, members turning 55 can only withdraw 40 percent of their Ordinary and Special Accounts, and then the remaining balances, if any, after they have met the CPF Minimum Sum and the Medisave Minimum Sum requirements. This percentage of withdrawal will go down by 10 percentage points each year. In other words, 30 percent in 2010, 20 percent in 2011 and so on.

95. Come 1 January 2013, CPF members who reach 55 can withdraw the balances in their Ordinary and Special Accounts only after setting aside the CPF Minimum Sum and the Medisave Minimum Sum. This means that the first group of Singaporeans to be fully subject to the new rule will be those who turn 45 on 1 January 2004.

Table 9: Withdrawal of OA and SA Balances at Age 55

Until 31 Dec 08	50% (unchanged)
2009	40%

2010	30%
2011	20%
2012	10%
From 1 Jan 2013	0%

Help Measures

96. I understand the worries of Singaporeans. From feedback, I know that they have been anxiously re-looking their finances since I announced the changes at the National Day Rally. Most Singaporeans will be able to cope. But many may have to do some belt tightening.

97. The Government will help ease their adjustment pain. We have put together an assistance package. It will include measures to help homeowners cope with their loan repayment, which may be affected by the cut in CPF. The package will also contain further measures to help the low income and unemployed, and tide businesses over this period of slow economic growth. DPM Lee will announce the details later in the debate.

98. There has been speculation whether the Government will postpone the implementation of the one-percent increase in GST scheduled for 1 January 2004.

99. No, we will not. We will be proceeding as planned. We have delayed it by one year already. We should not delay the increase any further. The GST increase is part of our economic restructuring. It is to make up for the loss of revenue from our lowering of income taxes. The Economic Restructuring Shares will enable Singaporeans to offset the GST increase for several years.

Conclusion – Teamwork

100. Let me conclude.

101. The changes I have announced are the most drastic we have ever made to the CPF system. They are necessary because we are seeing the most drastic changes yet in our external environment. China and India especially, pose formidable competition, with their abundant, skilled and low-cost manpower. We have to lower our costs to remain attractive to investors, even as we embark on a wider exercise to lift our economy to a higher plane.

102. I know that Singaporeans are worried about the future. They wonder whether we can ever return to sunny days, given the strong competition.

103. But remember, we transformed ourselves from Third World to First in just 38 years, against all odds. We have developed many strengths and advantages along the way – the common use of English, the rule of law, harmonious labour relations, excellent infrastructure, and a good reputation. These strengths will continue to stand us in good stead as we face stronger competition.

104. Most importantly, we have a strong team, working together for the success of Singapore.

105. For example, our workforce is first class. We have established companies that are well-run, financially sound and expanding. At the same time, we have entrepreneurs that are starting a variety of businesses and venturing beyond Singapore. Our grassroots and community leaders help keep our nation united. And our media plays a constructive role in helping our people understand our surroundings and challenges better.

106. We owe our past success to teamwork - the people, the employers and the Government working hand in hand. As a team, we have won many matches for Singapore. If we continue to pull together as a team, we will also triumph over the upcoming challenge.

107. But we must also alter our strategy and improve our capabilities, because the competition has become stronger. If we do not, we will surely not reach the highlands.

108. In this regard, the changes to the CPF scheme are an important component of our wider re-strategising for the economy. They will go a long way to improve our cost competitiveness. We must implement the changes, and at the same time, help those who are affected to adjust.

109. With the changes and your co-operation, I am confident that we will not revert to being a Third World country again. On the contrary, we will strengthen our position in the First World.

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SUMMARY OF CPF CHANGES

Table 1: Long-Term Target CPF Contribution Rates

Age	Total	Employee	Employer
50 and Below	30 – 36 %	20%	10 – 16 %
Above 50 to 55	24 – 30 %	18%	6 – 12 %
Above 55 to 60	18.5%	12.5%	6%
Above 60 to 65	11%	7.5%	3.5%
Above 65	8.5%	5%	3.5%

Table 2: CPF Contribution Rates for Workers Aged 50 and Below

Date	Total	Employee	Employer
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Table 3: CPF Contribution Rates for Workers Aged Above 50 to 55

Date	Total	Employee	Employer
1 Oct 2003	33%	20%	13%
1 Jan 2005	30%	19%	11%
1 Jan 2006	27%	18%	9%

NB: No change in contribution rates for workers above age 55.

Table 4: Special Account Target Contribution Rates

	35 and Below	Above 35 to 45	Above 45 to 55
Old *	5%	7%	9%
New	5%	6%	7%

NB: * Existing contribution rates are 4%, 6%, 6% for respective age groups. Government had accepted ERC recommendation to change to target rates of 5%, 7%, 9%.

Table 5: Medisave Account Target Contribution Rates

	35 and Below	Above 35 to 45	Above 45
Old ^	7%	8%	9%
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Table 6: CPF Salary Ceiling

Current	\$6,000
1 Jan 2004	\$5,500
1 Jan 2005	\$5,000
1 Jan 2006	\$4,500

Table 7: CPF Minimum Sum (in today's dollars)

Current	\$80,000
1 Jul 2004	\$84,000
1 Jul 2005	\$88,000
1 Jul 2006	\$92,000
1 Jul 2007	\$96,000
1 Jul 2008	\$100,000
1 Jul 2009	\$104,000
1 Jul 2010	\$108,000
1 Jul 2011	\$112,000
1 Jul 2012	\$116,000
1 Jul 2013	\$120,000

As CPF Minimum Sum is raised, amount of monthly payout will be adjusted so that Minimum Sum can last about 18 years for most members.

Table 8: Medisave Minimum Sum to be Topped Up Before CPF Withdrawal at Age 55 (in today's dollars)

Current	\$0
1 Jan 2004	\$2,500
1 Jan 2005	\$5,000
1 Jan 2006	\$7,500
1 Jan 2007	\$10,000
1 Jan 2008	\$12,500
1 Jan 2009	\$15,000
1 Jan 2010	\$17,500
1 Jan 2011	\$20,000
1 Jan 2012	\$22,500
1 Jan 2013	\$25,000

Table 9: Withdrawal of OA and SA Balances at Age 55

Until 31 Dec 2008	50% (unchanged)
2009	40%
2010	30%
2011	20%
2012	10%
From 1 Jan 2013	0%

1. From 1 Jan 2013, CPF members must meet the CPF and Medisave Minimum Sums requirements before withdrawing their remaining Ordinary and Special Accounts balances.
2. All CPF members can continue to withdraw the first \$5,000 in their CPF accounts, even if they have not met the Minimum Sums requirements.