Remarks by Dr Ng Eng Hen, Minister for Manpower and Second Minister for Defence at the Press Briefing on CPF Reforms and Other Measures to Help Older Singaporeans Improve Retirement Adequacy and Work Longer, 21 August 2007, 11am

Introduction

Many significant changes to the CPF system have been announced. Today, I will reiterate and clarify changes and answer queries but more importantly, I wish to explain how the changes will help elderly Singaporeans. The MOM and CPFB will continue to reach out to members to explain these changes in simple and understandable ways. We will use public ads, set up call lines, and work with the grassroot advisors and MPs. I will also make a Ministerial Statement in Parliament in September.

2. Five key changes were announced by PM Lee in his National Day Rally Speech on 19 August 2007. The **sum effect of the changes will** have a big impact on all Singaporeans to **better prepare us for an ageing population**:

(i) The changes will tilt the playing field to benefit older workers – for employers to hire them and for older workers to work longer.

(ii) Over the medium and long term, these changes will ensure that CPF members will not outlive their retirement sums.

Need for changes

3. The cumulative impact of three fundamental shifts – falling fertility, increasing longevity and smaller family size – will mean that individual members will have to rely on their own savings and work for longer to fund their retirement periods.

4. We have to update our CPF to adjust to these changes. Life expectancy was 61 when CPF was introduced in 1955 – it is now 80. Total fertility rate is currently 1.26, among the lowest in the world. In 1960, there were 23 residents aged 15 to 64 (economically active) to support one resident above 65 years. There are now only 8 residents. In 2020 it will drop to 5 and 2030 to 4. This means there will be fewer young to support the old. It also means that each of us has to work and save for our own retirement.

5. Other countries are changing also – extending work and delaying retirement and pensions. For instance, Italy's state pension fund will shortly have to pay out to retirees more than it receives each year in contributions from an ever decreasing national workforce. Last month (July), they decided to raise the official retirement age (55 for women and 57 for men) progressively each year until 2014. In March, the German parliament voted to raise the retirement age from 65 to 67 as part of a reform programme aimed at tackling rapid population ageing and spiralling pension costs. In Denmark, there is broad political consensus that the retirement age must be raised. An ageing Danish population and the rise in life expectancy means there will be more elderly who need care and fewer hands to give it. Last year, the Danish Parliament decided to raise the retirement age from 65 to 67. Spain's pension system is currently studying incentives to encourage people to work beyond the current retirement age of 65. (Source: BBC News, Guide to Europe's pension woes, 17 August 2007)

6. Five key changes along two thrusts were announced by PM Lee in his National Day Rally Speech on 19 August 2007. Let me elaborate on them.

First and most important, helping Singaporeans work longer – the major focus of our efforts

7. Our previous efforts to help older workers are working - the employment rate for residents aged 55-64 stood at a record high of 53.7% in 2006, a significant 6.7%-points higher than that in 2004. See Annex A for details.

8. However, the employment rate for residents declines sharply after age 55 and we need to do better.

Table 1: Resident Employment Rate (%) by Age

	Employment rate (%)		
Age	2003	2004	2006
55 – 59	54.5	55.9	60.6
60 – 64	33.1	33.6	41.9
55 – 64	45.2	47.0	53.7

Source: Labour Force Survey, MOM

9. Since the employment rate for women has been lower traditionally, I will use data for men to illustrate. Now, 8 out of 10 men are working at age 55 to 59, but only 6 out of 10 at age 60 to 64, and 3 out of 10 at age 65 to 69. Put simply, our first challenge is to stop those two men from dropping out of the workforce after age 60. This means 21,000 males currently aged 55-59 who stop working when they turn 60-64 in 5 years' time. Within the next 5 years, we will work hard to keep at least half of them still working. This means that we will add 10,000 residents to the workforce but if our economy continues to grow and create about 180,000 jobs last - as it did last year - we can absorb them.

10. For women, the base is lower, but more effort will be needed to keep them in employment and to attract them to rejoin the labour force.

11. The Government will help decisively by introducing the following:

I. Institute Re-employment Legislation

12. By 2012, we will require employers to offer re-employment to workers reaching 62, up to age 65, and eventually to 67. This change will precede the raising of the Draw Down Age (DDA). By 2012, employers will be required to offer re-employment up to age 65 but the DDA to 65 will only be effected in 2018 – a significant time lag to help workers and employers adjust.

II. Increase Workfare Income Supplement (WIS) for Older Workers

13. Higher WIS payout will be given for those aged above 55 and above 60 as an added incentive for these groups to continue working:

a. The payout will be up to twice the current maximum.

b. Thus, a worker aged 62 earning $1,000 a month who now gets $100 a month from WIS will now get $200 a month.

14. The higher WIS for older workers will cost the Government an additional $83million a year bringing the total WIS budget to $432million.

15. The CPF changes in July this year, the new WIS Scheme and re-employment legislation will make older workers more employable and encourage them to stay employed, or re-join the workforce.

Example

The CPF contribution rates are already lower for older, low-wage workers to improve their employability:

The employer needs to pay $117 for a young worker aged 45 earning $1,000. But he pays only $34 for an older worker aged 61 earning the same amount.

The older low-wage worker will not lose out on his CPF as Workfare will top up. For example, an older worker aged 61, earning $1,000 per month, (40th percentile worker for those aged 60 and above) will get $200 per month of WIS of which $143 will go to his CPF and $57 to increase his take home pay.

16. I am confident that we can succeed for a few reasons. Most important is we have tripartite consensus. Unions have told me that workers are willing to be flexible on wages and job scope for re-employment - not necessary to be re-employed on the same job or pay. Employers have told me that the market is on the worker's side. They need workers. Government will also step up its schemes.

17. Basically, we have to help older workers remain productive even as they grow older. We cannot approach this as a primarily social mission but as an economic one - to help older workers remain economically productive. We should aim to have age-neutral workplaces i.e. where productivity can be the same regardless of age of the worker. If we can succeed in doing this, all employers will want to keep older workers. We must use technology and processes to achieve this. For instance, for those who are long sighted, use TV screens and, increase automation to make up for loss of physical strength.

18. We have committed $30million to the ADVANTAGE scheme to incentivise. We will spend more if need be to transform the workplace. Just as it is WDA's mission to help transform and upgrade our workforce, we also need to work with employers and unions to transform and develop our workplaces to make them age-neutral and friendly for older workers. We must help older workers play to their strengths. Businesses have noticed this too – e.g. at check-out counters. Customers have given feedback that older workers make it a more pleasant experience because they are more personable. The tripartite partners have their work cut out for them in the next few years to make legislation work.

Second major change will make sure older workers have enough CPF savings to last their life expectancy

III. Improve the returns on CPF savings

19. To help workers save more, the Government will modify the CPF interest rates framework where the Government will still bear most of the risk but pay higher than current rates.

a. 1% additional bonus interest will be paid on the first $60,000 in a CPF member's combined accounts, with not more than $20,000 from the OA accounts. This will enhance CPF's existing risk-free framework.

b. **We will also re-peg the SMRA rates to an appropriate long term bond rate. This will be pegged to market and so fluctuations would be expected – but not as volatile as equities. The new SMRA rate will be a little lower at the beginning, but over time should do better than 4%.**

c. The changes to the CPF interest rates will be effective in 2008. This increase will cost the Government $700 million a year initially.

d. The HDB loan rate formula of 0.1% above OA rate remains unchanged.

IV. Make savings last life expectancy

20. While our employment rates are among the highest in the world, our residents are also among the longest living. The present DDA of 62 years is hence too early and results in the majority of members prematurely depleting their savings. Thus, we will do the following:

a. progressively raise draw down age

b. study and introduce longevity protection schemes

21. There are no changes to CPF withdrawal rules at age 55.

V. Study Annuities For Younger CPF Members

22. Even after changes to DDA, there will be those who live longer than 85. We want to ensure that they have a stream of income for life.

23. The Government will therefore be looking at making annuities compulsory for members to protect them against outliving their retirement savings.

24. **We will consult widely**, but it would be useful to set out parameters now. Only **part of the Minimum Sum** (MS) will be put into compulsory annuities. The **major portion of the MS can still be drawn down by members at the DDA**. The basic idea is to insure members who live longer than expected. The least costly option is to insure members only for this tail end, i.e. after 85 years (or later if life expectancy further increases). The member pays a basic premium of X dollars which goes into the pool that starts paying after age 85 years to support you for the rest of your life. However, if you live less than 85 years, then $X goes towards supporting others in the pool who are still alive. When we start, we do not want to insure for large payouts after 85 years because this will mean much smaller payouts from DDA. We aim for subsistence payout first.

25. Some members do not like the idea of their premium going to others. A more costly option is to allow some or all of the unused premium to be returned to a CPF member's family instead if the member has a shorter life than expected, and not to the pool. But this means higher premiums for the same payout after 85 years.

26. Many CPF members may be concerned and are unsure what annuities mean. We have some time to introduce this for those aged 50 and below today. I would like to reassure members that we will take the time to educate and inform members, and to take in their feedback when devising schemes that meet the needs of members.

Impact of the changes

27. The combined effects of higher WIS, working longer, later DDA and higher CPF returns will make a big difference on young workers because of the many years of extra interest. But it will also help older workers now. Together with annuitisation, this will ensure that CPF members have more to spend in their retirement years, and will not outlive their savings.

Example 1 – 45-year-old CPF member

For the first $60,000, an extra 1% means about 30%[1] more in interest payments each year.

Consider a worker aged 45 today with $60,000 in his combined CPF accounts - $20,000 from the Ordinary Account. Compared to the current system, that $60,000 will earn $6,600 more in 10 years and $16,000 more in 20 years[2].

The total at age 65 will actually be more, because we have not factored in the CPF contributions and interests after age 45.

Example 2 – 57-year-old worker

Consider a worker who is now 57 years old - first cohort to be affected by the increase in DDA from 62 to 63 in 2012.

Assuming he currently earns $1,200[3], and stops work at age 62, he will have an RA (Retirement Account) balance of about $44,000. He can receive a payout of $320 per month for 17 years till age 79 under the current rules. Please see Scenario 1 in Table 2.

With the re-employment legislation and later DDA, what are the effects? Let's say he is re-employed at a lower salary $1,000 a month. Although his salary is lower his situation will improve as follows:

Works till 63, DDA at 63. He will enjoy both WIS payouts and an additional year of higher interest rates. This will bring his balance up to $49,000 – an extra $5,000 from an extra year's work. He will get $340 per month for 19 years till age 82, three years longer (two from longer payout, and one from delayed DDA) than before. Please see Scenario 2 in Table 2.

Works till 65, DDA at 65. The member will have $59,000 when he turns 65 – an extra $15,000 from 3 years' work. He will receive higher monthly income of $390 for 20 years until he turns 85 – six more years of higher payouts compared to if he had stopped at age 62. Please see Scenario 3 in Table 2.

In this example, we have not included the additional Deferment Bonus (D- Bonus) and Voluntary Deferment Bonus (V-Bonus) which we will announce later. When these are included, the member's income will be even higher than that shown below.

Table 2: Effect of working and delaying DDA

	Age at which		CPF Balance (Start of year)		Monthly income*			Age at which payout ends
	Payout starts	Work stops	At 62yrs	At 65yrs	62 yrs	63-64yrs	From 65yrs	
1	**62**	**62**	$44,000	$39,000	$320	$320	$320	79
2	**63**	**63**	$44,000	$46,000	$990	$340	$340	82
3	**65**	**65**	$44,000	$59,000	$990	$990	$390	85

* Monthly income is the sum of take-home pay plus WIS cash if applicable.

Conclusion

28. These changes will help Singaporeans work longer, save more and give them peace of mind for their golden years. It will significantly strengthen our economic and social systems to better address the challenges of an ageing population.

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[1] If the sums are at the maximum of $20,000 in OA and $40,000 in SMRA, then the increase is 29%. An account consisting with OA up to $20,000 and no money in SMRA will experience an increase of up to 40% whereas an account consisting of up to $40,000 in SMRA with no money in the OA will experience an increase of up to 25%.
[2] The increase in interest is calculated by comparing a lump sum of $20,000 in OA and $40,000 in SMRA under the new and current interest rates, over 10 and 20 years respectively.
[3] 40th percentile wage of all residents aged 55 and above.