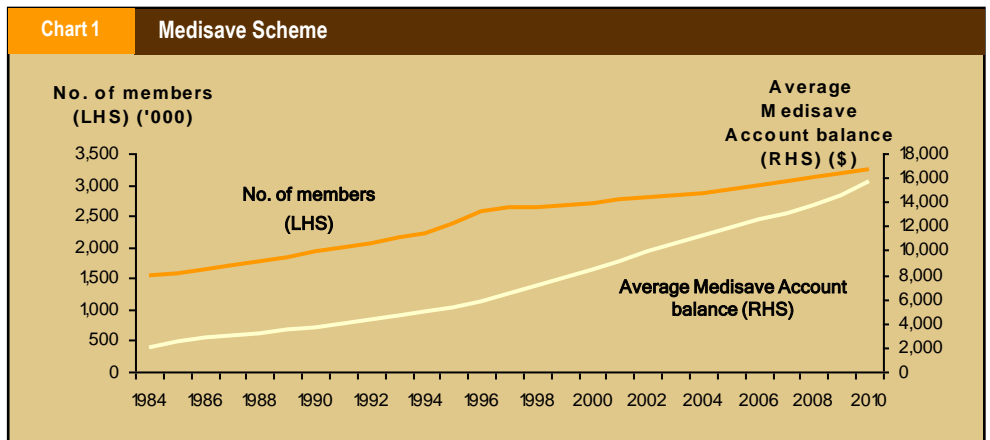


Background

Medisave is a national savings scheme introduced in April 1984 to help members set aside part of their earnings in their Medisave Accounts to meet their personal or dependants¹ hospitalisation expenses.

Over the years, Medisave has grown to become an important feature in the Singapore healthcare system. The number of members with positive Medisave Account balances has grown at a steady rate since the scheme's inception, from 1.5 million members with an average balance of \$2,000, to the current 3.2 million members with an average balance of about \$15,690 (Chart 1).



Medisave Minimum Sum raised to \$34,500 with effect from 1 July 2010

The Medisave Scheme has two key features; namely, the Medisave Minimum Sum (MMS) and the Medisave Contribution Ceiling (MCC). When the scheme was first started, members were required to set aside the MMS of \$5,000 before they could withdraw their savings at age 55. The MMS has since been adjusted yearly for healthcare inflation to ensure that members have sufficient Medisave monies to meet their healthcare needs during retirement. The MMS currently stands at \$34,500 (Table 1).

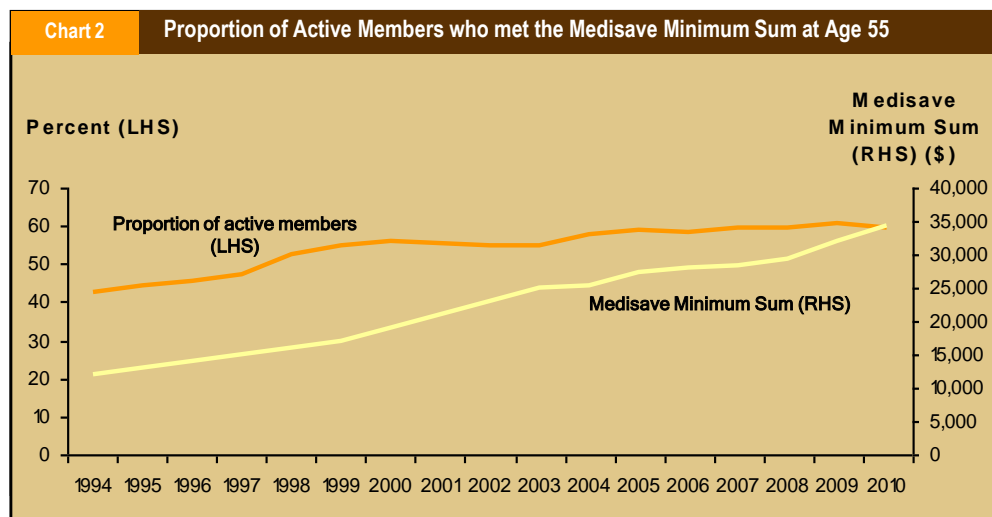
Period	Medisave Minimum Sum	Medisave Contribution Ceiling	Period	Medisave Minimum Sum	Medisave Contribution Ceiling
From 1 Apr 1984	\$5,000	-	From 1 Jul 1998	\$16,000	\$21,000
From 1 Apr 1985	\$5,500	-	From 1 Jul 1999	\$17,000	\$22,000
From 1 Apr 1986	\$6,000	\$15,000	From 1 Jul 2000	\$19,000	\$24,000
From 1 Apr 1987	\$6,500	\$15,000	From 1 Jul 2001	\$21,000	\$26,000
From 1 Apr 1988	\$7,000	\$15,000	From 1 Jul 2002	\$23,000	\$28,000
From 1 Apr 1989	\$7,500	\$15,000	From 1 Jul 2003	\$25,000	\$30,000
From 1 Apr 1990	\$8,000	\$15,000	From 1 Jul 2004	\$25,500	\$30,500
From 1 Apr 1991	\$9,000	\$15,000	From 1 Jul 2005	\$27,500	\$32,500
From 1 Apr 1992	\$10,000	\$15,000	From 1 Jul 2006	\$28,000	\$33,000
From 1 Apr 1993	\$11,000	\$16,000	From 1 Jul 2007	\$28,500	\$33,500
From 1 Apr 1994	\$12,000	\$17,000	From 1 Jul 2008	\$29,500	\$34,500
From 1 Apr 1995	\$13,000	\$18,000	From 1 Jul 2009	\$32,000	\$37,000
From 1 Apr 1996	\$14,000	\$19,000	From 1 Jul 2010	\$34,500	\$39,500
From 1 Apr 1997	\$15,000	\$20,000			

¹ Dependents refer to children, parents and grandparents. Grandparents must be Singaporeans or Singapore Permanent Residents.

The MCC, which was implemented on 1 April 1986, serves as the limit to which members can contribute to their Medisave Account at any one point of time. Any monies in the Medisave account that are in excess of the MCC will be transferred to the Special Account, if the member is less than 55 years old, or to the Retirement Account if they are aged 55 and above. The MCC has been progressively raised to \$39,500 with effect from 1 July 2010.

The proportion of active members² with at least the MMS at age 55 (i.e. MMS attainment rate) has increased steadily from 42.7% in 1994 to 59.3% in 2010 (Chart 2), despite the progressive increase of the MMS.

About six in ten active members met the Medisave Minimum Sum at age 55 in 2010



* From 2002 onwards, figures refer to Singaporeans and Singapore Permanent Residents only.

This increase in the MMS attainment rate may be attributed to a combination of factors. These include (i) a growing economy in recent years which has had a positive influence on wage growth and thus CPF contributions, (ii) an additional 1.5% p.a. interest rates earned by Medisave Account balances since 1 October 2001³ as well as an extra interest of 1% paid on the first \$60,000 of members' balances since 1 January 2008, (iii) no cuts in Medisave Account contribution rates when overall CPF contribution rates were cut in 1999 and 2003⁴, (iv) a longer runway for younger members to accumulate Medisave balances, since the inception of the Medisave scheme in 1984. The MMS attainment rate can be expected to be further enhanced, given a 0.5 percentage point increase in the Medisave Account contribution rate with effect from September 2010, which was implemented to help members cope with increasing healthcare costs.

- 2 Active members refer to persons who have at least one CPF employment contribution paid for them for any of the four months preceding the members' birth month.
- 3 The interest rate earned by Medisave Account balances was raised to 4% per annum on 1 October 2001, from the interest rate of 2.5% per annum since 1 July 1999.
- 4 When overall CPF contribution rates were cut by 10 percentage points to 30% in January 1999, and by 3 percentage points to 33% in October 2003, Medisave Account contribution rates remained the same for all age groups, except for those above 65 years old who had their rate reduced by one-percentage point in January 1999.

Summary

With an ageing population and rising healthcare costs, members are encouraged to use their Medisave monies prudently to retain sufficient savings for their healthcare needs during retirement. They are also encouraged to purchase Medishield insurance coverage for themselves and their dependants to protect against the costs of large medical bills. The insurance payouts will help to pay a portion of the large hospitalisation bills for serious illnesses or prolonged hospitalizations which may otherwise wipe out their Medisave savings.

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.