CPF Contribution Rates

Background

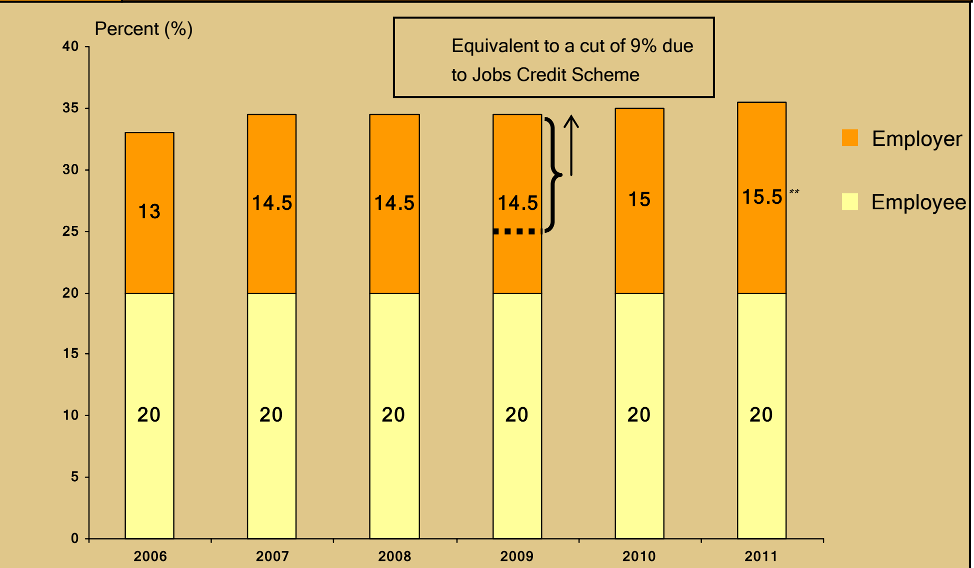
The Central Provident Fund (CPF) is a comprehensive savings scheme fully funded by contributions from both employees and employers. The CPF contributions are allocated to an individual's Ordinary Account (OA), Medisave Account (MA) and Special Account (SA) according to age-relevant allocation percentages.

Since the inception of CPF, contribution rates have been revised from time to time. This article examines the changes in the contribution rates between 2006 and 2011 and the reasons for these revisions.

Employers' contributions raised by 1.5 percentage points in 2007

In 2006, the Singapore economy registered a growth of 7.9%[1]. In tandem with a growing economy and a positive outlook for 2007, employers' contributions were uniformly raised by 1.5 percentage points from 13% to 14.5% in 2007 (**Chart 1**). This was split into a one percentage point increase to the OA to boost CPF members' OA savings and ease their mortgage repayments, and half a percentage point to the MA to help members cope with increasing healthcare costs.

Chart 1 CPF contribution rates* (Private Sector) by Employers and Employees, 2006 - 2011



*For persons aged 35 and below[2]

**To take effect from March 2011

The increase in contribution rates was applicable to all except for those who were above 35 years old and earned $1,500 or less monthly. Changes affecting this specific group of workers are elaborated in the following paragraphs.

Older low-wage workers tend to be the most adversely affected by the changes in the economy. Instead of raising employer CPF contribution rates for this group of workers, it was decided that employer contributions would be reduced to improve the workers' employability. In addition, employees' contributions for those who earned $1,500 or less per month would be reduced to increase their take home pay[3].

[1] Source: *http://app.mti.gov.sg/data/article/7062/doc/ESS_2006Ann_FullReport.pdf*

[2] For full contribution table, please visit www.cpf.gov.sg

[3] For full contribution table for older low-wage workers. please see http://mycpf.cpf.gov.sg/NR/rdonlyres/9F114FAD-9ED0-479E-BC80-875DEBFA37DB/0/AnnexB.pdf

WIS introduced in 2007 to supplement wages and savings

To supplement the wages and savings of older low-wage workers, the Workfare Income Supplement (WIS) scheme was introduced, with Workfare payouts given to eligible workers in the cash-to-CPF ratio of 1:2.5. WIS was designed to complement the CPF changes for the older low-wage workers, and would more than offset the reduction in CPF contributions for older low-wage workers - resulting in higher take-home pay as well as more monies in their CPF accounts.

JCS introduced in 2009 to preserve jobs during the downturn

In late 2008, a severe global recession was experienced, and Singapore was not spared. A reduction in employer CPF contribution was considered but the Government eventually decided against it. This was because the fundamental cause of the recession was not wage competitiveness but a slump in global demand. Thus cuts in employers' contribution might not be effective. Instead, a Resilience Package was introduced to help businesses and Singaporeans tide over this difficult period. Under the Jobs Credit Scheme (JCS) which was part of the Resilience Package, employers would receive a 12% cash grant[4] on the first $2,500 of each month's wages for each employee on their payroll. This Jobs Credit was equivalent to a nine percentage point cut in CPF contributions and gave employers more incentive to retain low and middle-income workers compared to a direct CPF contribution rate cut. With the economic recovery in 2010, the JCS was ceased and the final payment was made in June 2010.

Increase in employer's contribution rates in 2010

In line with the strong economic recovery, the government announced in 2010 that it would raise employers' contribution by one percentage point, to help Singaporeans save more for their medical and retirement needs. The increase is being done in two phases to give companies time to adjust to the higher rate. In September 2010, half a percentage point went into the MA to help members cope with rising healthcare costs. Another half a percentage point will go into the SA in March 2011 to help members save for their retirement. This latest round of rate increase will bring employers' contribution rate to 15.5% and an overall contribution rate of 35.5%.

Summary

CPF contribution rates have gone through a series of revisions in the last few years due to changing economic conditions and/or to effect policy decisions. Overall, CPF contribution rates have gradually increased from 33% in 2006 to 35.5% in 2011 despite the recent economic downturn experienced globally. Instead of cutting CPF contribution rates, the government used various measures to encourage businesses to preserve jobs, thus seeking to strike an optimal balance between meeting business costs and securing members' retirement adequacy.

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.

[4] The JCS was subsequently extended from one year by another half year at stepped-down rates of 6% and 3% of wages in March and June 2010 respectively.