Increases in Singapore's retirement age and social security contribution rates

March 2021

- *The Singapore Government has increased the minimum retirement and re-employment ages from 62 to 65 and 67 to 70 respectively, along with increases to the contribution rates for those aged between 55 and 70.*
- *This note provides more information on the changes that were announced and developments since then.*

Background

The Singapore government announced in August 2019 that the statutory retirement and re-employment age will increase, as well as contribution rates to the Central Provident Fund (CPF) for older employees. These changes were recommended in the Report of the Tripartite Workgroup on Older Workers[1] in light of the demographic trends seen in Singapore. With Singaporeans living longer and healthier lives, the employment rates at older ages have been rising significantly.

Josephine Teo, the Minister of Manpower believes successful implementation of these changes will strengthen Singapore's businesses' foundations for older worker employment and allow older workers to contribute actively while earning and saving more for a better retirement.

The increase in CPF rates was initially set to take place on 1 January 2021 but was deferred to 1 January 2022 to help employers manage cost due to the coronavirus pandemic. The changes are expected to continue as planned to reach targeted outcomes over the rest of the decade.

Retirement and re-employment age

- Currently, the minimum retirement age is 62 years before which a company cannot ask an employee to retire (Retirement and Re-employment Act[2]). After attaining the minimum retirement age, an employee can be re-contracted on a yearly basis up to age 67 (re-employment age).
- The Singapore government intends to increase the statutory retirement age from 62 to 63 by July 2022 and eventually to age 65 by 2030 (by small step increases with sufficient lead time for each move). The statutory re-employment age will see a similar increase from 67 to 68 in 2022 and will further be increased to age 70 by 2030.
- Those born on or after 1 Jul 1960, will benefit from the higher retirement age of 63 in 2022, while the first tweak in the re-employment age to 68 will apply to those born on or after 1 Jul 1955, according to the Ministry of Manpower.

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[1] https://www.mom.gov.sg/-/media/mom/documents/press-releases/2019/0819-tripartite-workgroup-on-older-workers-report.pdf

[2] https://sso.agc.gov.sg/Act/RRA1993

- As a major employer, the public sector has committed to increase the retirement and re-employment ages one year ahead of the nation-wide implementation of the first step increase. The retirement age and re-employment age of public officers will be raised to 63 and 68 respectively from July 2021.

- The exact timing of future moves will be decided later, but the full increase of three years in each of the retirement and re-employment ages should be completed by the end of the next decade (i.e. by 2030). These proposed changes are expected to coincide with a decade of significant demographic shifts in Singapore where the number of citizens aged 65 and over is projected to almost double reaching 900,000 by 2030.

CPF contribution rates for older employees

- With boosting retirement adequacy in mind, the Report of the Tripartite Workgroup on Older Workers, proposed a change in contribution rates for workers aged '*Above 55 - 60*' to target the current aged *'55 & below'* rates i.e. increase from *26% to 37%* over the next decade (depending on economic conditions). For workers aged '*Above 60 - 65*', rates will be increased from *16.5% to 26%* and workers aged *'Above 65 - 70'* rates will be increased from *12.5% to 16.5%*. Rates for those aged *'Above 70'* will remain unchanged at 12.5%.

- The report proposed for the increase in contribution rates to be allocated to the Special Account which accrues higher interest and may lead to higher CPF LIFE pay-outs later in retirement (compared to interest rates accrued in the Ordinary Account).

- The following table illustrates the target contribution rates by 2030 for all age groups:

Age bands	Today	Target
55 & below	37%	37% (unchanged)
Above 55 – 60	26%	37% (+11%-pts)
Above 60 – 65	16.5%	26% (+9.5%-pts)
Above 65 – 70	12.5%	16.5% (+4%-pts)
Above 70*	12.5%	12.5% (unchanged)

*New age band.

- The recommended pace of change is gradual with an increase of either 0.5% or 1% in each of the employer and employee contribution rates for those aged above 55, initially effective 1 Jan 2021. However, to assist employers with costs during the pandemic, this was postponed to an effective date of 1 Jan 2022.

- This would increase the total contribution rate from *26% to 28%* for those '*Above 55-60'* and from *16.5% to 18.5%* for those '*Above 60-65'*, as illustrated in the Workgroup's recommended contribution rates table below:

Age bands	Today	1 Jan 2022	Long Term Target*
55 and below	37% (no change)		
Above 55-60	26%	28%	37%
Above 60-65	16.5%	18.5%	26%
Above 65-70	12.5%	14%	16.5%
Above 70	12.5% (no change)		

* Full increase to be completed within a decade as far as possible, depending on the economic conditions

- The Singapore Government has adopted this recommendation in part with long term CPF rates being level for employees aged below 60, taper down from 61 to 70 and level at above 70.

- The CPF Transition Offset scheme, announced in the Feb 2020 Budget speech as part of the pandemic support packages, was also deferred to 1 Jan 2022. The offset scheme covers half of the increase in employer CPF contribution rates for one year and will be calculated based on employees' incomes paid up to the CPF salary ceiling of S$6,000 per month in 2022.

Impact of the new policy on employers and employees

Retirement and re-employment ages:

- The Singapore Government has urged non-government enterprises to also consider raising the company-specific retirement and re-employment ages before the new law comes into effect in July 2022. Several organisations have supported this idea and have adopted a partial or full increase in retirement and re-employment ages.
- Employers should consider reviewing HR policies and employee contracts before July 2022 to ensure compliance with legislation.

CPF contribution rates for older employees:

- There are a pros and cons[3] in increasing the **CPF contribution rate** for older workers (citizens and permanent residents):

  Pros:
  - Employees are encouraged to remain in the workforce, accumulate higher retirement savings and ease long-term mortgage payments
  - Employers can benefit from experienced workforce during tight labour market conditions/who may otherwise retire prematurely

  Cons:
  - An increase in costs for employers (S$43-240 per month per employee depending on monthly wage for those '*Above 55 - 60*') *and*
  - Reduced disposable income for employees (S$76-420 per month per employee depending on monthly wage for those *'Above 55 – 60'*). A phased approach towards increasing contribution rates will aid in preparing for this change.

Over 2020, Singaporeans' overall financial wellness declined[4] where signs of increased financial stress have increased, yet it remains important to save for longer term needs. Business leaders are concerned about employee mental health and are looking to reduce the increased financial stress resulting from the pandemic and improve employees' overall wellbeing including financial resilience - recognising that human capital represents a key source of commercial advantage.

Generally, employers that seek to be viewed as differentiators should consider the impact of these changes on their employee benefit and supplementary retirement policies and processes.

Areas to consider include:

- **Monitoring the planned changes** as further information becomes available to ensure employers are sufficiently prepared to implement changes.
- **Assessing the impact on costs** following the increased contribution rates.
- Provide **wider support and effective communication to employees** (as part of a financial wellbeing and/or education program) to ultimately improve employees' financial resilience and productivity. Review internal HR policies to ensure **fair treatment of employees** irrespective of residency status. This may also impact supplementary retirement plans already in place or being developed to meet **retirement adequacy** aims.
- For example, recently a prominent insurance company[5] announced early adoption of the full CPF contribution rates for employees above age 55 (i.e. 37% total contribution rate regardless of age). For the older employees, the increased contribution rates are voluntary with the employer's contribution rate increasing if the employee chooses to increase theirs too.

[3] From the Institute of Policy Studies policy brief titled 'Improving Retirement Adequacy by Restoring Older Worker CPF Rates' in June 2019
[4] OCBC Financial Wellness Index 2020
[5] https://www.prudential.com.sg/company/newsroom/2019/20190807

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